



# GFOAT Governmental Accounting Academy *Overview*

DEBBIE REID, CPA

DIRECTOR OF FINANCE – CITY OF AMARILLO TX

# Government Finance and Fund Accounting

How many had a full class on governmental and non-profit fund accounting in college?

How many entered the world of government finance after a few years in the private sector?

How many have moved from a small government entity to a large government entity?

# Why Attend the Governmental Accounting Academy?

**Accountants and auditors new to the public sector must immediately face the daunting challenge of familiarizing themselves with the highly specialized rules, guidelines, and practices applicable to state and local governments.**

**This intensive three-day workshop, intended for those who already possess at least a basic knowledge of private-sector accounting, combines lecture, discussion, and exercises to help newcomers make this difficult, but essential, transition.**

# Governmental Accounting Academy Objectives

- ▶ **Those who successfully complete the GAA should obtain a solid basic understanding of...**
  - The unique environmental factors that have led to specialized accounting and financial reporting for state and local governments;
  - Fund accounting;
  - Government-wide financial reporting;
  - How to categorize and measure transactions and events;
  - Budgetary reporting;
  - Elements of an annual comprehensive financial report (ACFR);
  - How to interpret state and local government financial statements;
  - Specialized applications (pensions, other postemployment benefits, termination benefits, government combinations, service concession arrangements, capital assets); and
  - Internal control and auditing in the public sector.

## Government Finance Moments...

**Share a story of your transition into the world of government finance and the challenges you faced.**

# GAA Overview

## GAAP for State and Local Govt

- ▶ Generally Accepted Accounting Principles
- ▶ Nationally recognized
- ▶ Govern general purpose Financial reporting
- ▶ Covers both Private and Public sectors
- ▶ GASB, FASB, FASAB

## Government Environment

- ▶ Management, Independent External Auditors, Governing Body
- ▶ Different financial objectives
  - ▶ Governmental (tax supported)
  - ▶ Business-type
- ▶ Ultimate goal of accounting = demonstrate accountability

# GAA Overview - *continued*

## Funds and Fund Types

- ▶ Fund Accounting
- ▶ Focus on accountability
- ▶ Limitations on resources
- ▶ Helps to accommodate differences in measurement focus

## Measurement Focus & Basis of Accounting

- ▶ More than one measurement focus
  - ▶ Government operations
  - ▶ Business-type operations
- ▶ Measurement focus = **WHAT** to measure and report
- ▶ Basis of accounting = **WHEN** to measure and report

# FUND ACCOUNTING

ACCOUNTING ENTITY WITH A SET OF SELF-BALANCING ACCOUNTS THAT RECORD CASH AND OTHER FINANCIAL RESOURCES TOGETHER WITH THEIR RELATED LIABILITIES AND RESIDUAL BALANCES, AND THEIR CHANGES. THEY ARE SEGREGATED FOR THE PURPOSE OF CARRYING ON SPECIFIC ACTIVITIES OR ATTAINING CERTAIN OBJECTIVES.

*(NCGA STATEMENT 1)*



# CATEGORIES & TYPES OF FUNDS

## Governmental funds

- ▶ General
- ▶ Special Revenue
- ▶ Debt Service
- ▶ Capital Projects
- ▶ Permanent

## Proprietary funds

- ▶ Enterprise
- ▶ Internal Service

## Fiduciary funds

- ▶ Private-purpose trust
- ▶ Pension
- ▶ Investment trust
- ▶ Custodial

# MEASUREMENT FOCUS

- ▶ Business-type operations
  - ▶ All permanent accounts
    - ▶ Difference = *net position*
  - ▶ All changes affecting *net position*
- ▶ Governmental operations
  - ▶ Only permanent accounts relevant to near-term liquidity
    - ▶ Difference = *fund balance*
  - ▶ Only changes affecting *fund balance*

# BASIS OF ACCOUNTING

## ▶ Two extremes

### ▶ Accrual basis

- ▶ Transactions and events are recognized when they occur, *regardless of when cash is received or disbursed*
  - ▶ Recognize revenue when earned and measurable
  - ▶ Recognize expense when liability is incurred

### ▶ Cash basis

- ▶ Transactions and events recognized *only when related cash flows occurs*
  - ▶ Recognize revenue when cash is received
  - ▶ Recognize disbursements when cash is spent

# MIDDLE WAY: Modified Accrual Basis

- ▶ Starting point = Accrual
  - ▶ When the underlying transaction or event occurs
- ▶ Modify only to the extent that near-term liquidity is affected
  - ▶ Revenue recognized only if available to make payments soon after year-end
  - ▶ Expenditures recognized only if payments normally are made during the period or soon after year-end
- ▶ Practical result
  - ▶ Less aggressive recognition than accrual basis
  - ▶ More aggressive recognition than cash basis

# GAA Overview - continued

## Financial Statement Elements

- ▶ Assets
- ▶ Deferred outflow of resources
- ▶ Liabilities
- ▶ Deferred inflow of resources
- ▶ Equity/Net Position/Fund Balance

$$\left[ \begin{array}{l} \text{Assets} \\ \text{Deferred Outflows} \end{array} \right] - \left[ \begin{array}{l} \text{Liabilities} \\ \text{Deferred Inflows} \end{array} \right] = \text{Net Position or Fund Balance}$$

## Categories of Transactions & Events

- ▶ Interfund Activity – between funds of the primary government
- ▶ Transactions
  - ▶ Primary government and outside parties
  - ▶ Primary government and discretely presented component units
  - ▶ Between discretely presented component units

# GAA Overview - *continued*

## Governmental Funds – revenues & expenditures

- ▶ Basic rule = modified accrual basis
- ▶ Criteria for revenue recognition
- ▶ Categories and types of revenues
- ▶ Criteria for expenditure recognition
- ▶ Exceptions to both
- ▶ Other financing sources and uses

## Governmental Funds Financial Statements

- ▶ Basic financial statements
  - ▶ Balance sheet
  - ▶ Statement of revenues, expenditures, and changes in fund balance
- ▶ Focus of reporting
  - ▶ Major funds / Non-major funds
  - ▶ Calculation and audit implications

# IDENTIFYING MAJOR FUNDS

- ▶ General fund will always be a major fund
- ▶ Criteria for other governmental funds
  - ▶ Based on quantitative factors
    - ▶ Relative size
  - ▶ Based on qualitative factors
    - ▶ Heightened interest
    - ▶ Consistency

# BALANCE SHEET

- ▶ Distinguish
  - ▶ Assets from deferred outflows of resources
  - ▶ Liabilities from deferred inflows of resources
- ▶ No need for a classified presentation
  - ▶ Practical result of current financial resources measurement focus
- ▶ Categories of Fund Balance
  - ▶ Nonspendable
  - ▶ Restricted
  - ▶ Committed
  - ▶ Assigned
  - ▶ Unassigned



# Statement of Revenues, Expenditures and Changes in Fund Balance

## Revenues

- Expenditures

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= Excess (deficiency) of revenues over expenditures

+/- Other financing sources and uses (including transfers)

+/- Special and extraordinary items

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= Net change in fund balance

+ Fund balance at beginning of year

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= Fund balance at end of year

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# Government Finance Moments...

**What are some of the challenges you have faced as a government finance professional?**

**Who has been in government finance the longest? Over 20 years?**

# GAA Overview - *continued*

## Proprietary Funds

- ▶ Operate many ways like private-sector business
- ▶ Accrual basis of accounting
- ▶ Enterprise funds
  - ▶ Differences from private sector
  - ▶ Situations unique to public sector
- ▶ Internal Service funds

## Proprietary Funds Financial Statements

- ▶ Statement of net position
- ▶ Statement of revenues, expenses and changes in net position
- ▶ Statement of cash flows
- ▶ Major fund reporting only for Enterprise funds
- ▶ Internal service funds reported in single column

# STATEMENT OF NET POSITION

- ▶ Net position format (preferred)
  - ▶  $[\text{Assets} + \text{Deferred Outflows}] - [\text{Liabilities} + \text{Deferred Inflows}] = \text{Net Position}$
  - ▶ Balance sheet format is an option
    - ▶  $[\text{Assets} + \text{Deferred Outflows}] = [\text{Liabilities} + \text{Deferred Inflows} + \text{Net Position}]$
- ▶ Regardless of format, title should be “Statement of Net Position”

# CLASSIFIED PRESENTATION

- ▶ Required, regardless of format used
- ▶ Current assets
  - ▶ Reasonably expected to be realized in cash within one year or sold or consumed within a year
    - ▶ Exclude restricted assets not available to liquidate current liabilities
- ▶ Current liabilities
  - ▶ Liquidation reasonably expected to require the use of current assets, or the creation of other current liabilities
    - ▶ Includes liabilities ordinarily liquidated within 12 months

# COMPONENTS OF NET POSITION

- ▶ Private sector focus on capital maintenance
  - ▶ Preservation of invested capital
    - ▶ Separate reporting for *retained earnings*
- ▶ Public sector focus on accessibility and the government's control, from most restrictive to least restrictive
  - ▶ Net investment in capital assets – **Not spendable**
  - ▶ Restricted net position – **Externally enforceable limitation on use**
  - ▶ Unrestricted net position – **Available for spending; residual category**

# Statement of Revenues, Expenditures and Changes in Net Position

- ▶ Operating vs. nonoperating
  - ▶ Operating expense
    - ▶ Costs of goods sold and services provided
  - ▶ Operating revenue
    - ▶ Amounts charged to customers
  - ▶ Nonoperating examples
    - ▶ Taxes, interest, contributions, appropriations
- ▶ Purpose of distinction
  - ▶ To demonstrate the degree to which a fund is able to recoup the cost of the goods and services from customers

# GAA Overview - *continued*

## Component Units

- ▶ Identifying component units
- ▶ Financial accountability
- ▶ Misleading to exclude
- ▶ Fiduciary component units
- ▶ Pathway to determining financial accountability

## Fiduciary Fund Accounting

- ▶ Fiduciary activities
- ▶ Four paths to identifying
- ▶ Fiduciary fund types
  - ▶ Pension (and other employee benefit) trust fund
  - ▶ Investment trust fund
  - ▶ Private-purpose trust fund
  - ▶ Custodial fund
- ▶ Fiduciary fund financial statements



# Funds, Component Units and Government Wide Reporting

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

### **FUND FINANCIAL STATEMENTS**

Governmental funds

Proprietary funds

Fiduciary funds

### **DISCLOSURES**

Summary of significant  
accounting policies  
(SSAP)

Note disclosures to the  
financial statements

# Government-Wide Financial Statements

## GOVERNMENTAL

- Governmental Fund Financial Statements
- Internal Service Funds that primarily serve Governmental Funds

## BUSINESS-TYPE

- Enterprise Fund Financial Statements
- Internal Service Funds that primarily serve Enterprise Funds

## FIDUCIARY

- Not Reported

**WHAT TO DO WITH INTERFUND ACTIVITY**

# Government Finance Moments...

**How many are complete an annual comprehensive financial report?**

**How many apply for the GFOA Certificate of Achievement for Excellence in Financial Reporting?**

# Overview of Annual Comprehensive Financial Report (ACFR)

- ▶ Provides users of the government's financial statements with important additional information
  - ▶ Profile of the government
  - ▶ Information on individual funds
  - ▶ Demonstrating compliance
  - ▶ Context for analysis
  - ▶ Subjective analysis
- ▶ Authoritative accounting and financial reporting standards *encourage* governments to prepare an ACFR, but *it is not required*

# Overview of Annual Comprehensive Financial Report (ACFR)

## Introductory Section

- Table of Contents
- Letter of Transmittal
- Organizational Chart
- List of Principal Officials
- Certificate of Achievement for Excellence in Financial Reporting

## Financial Section

- Auditor's Report
- Management's Discussion & Analysis
- Basic Financial Statements & Notes
- RSI
- Combining Statements
- Individual Fund Statements

## Statistical Section

- Financial Trends
- Revenue Capacity
- Debt Capacity/Limitations
- Demographic/Economic Information
- Operating Information

# ANNUAL FINANCIAL STATEMENT AUDIT

Item	Status	Responsibility
Introductory Section (including letter of transmittal)	Unaudited	Read for consistency
Management's discussion and analysis (MD&A)	Required Supplementary Information	Conduct limited procedures (i.e., inquiries and comparisons)
Basic financial statements (including notes)	Audited	Render an opinion on fair presentation
Required supplementary information (other than MD&A)	Required Supplementary Information	Conduct limited procedures (i.e., inquiries and comparisons)
Combining statements and individual fund financial statements and schedules	Option 1: Audited Option 2: Other supplementary information	Option 1: Render an opinion on fair presentation Option 2: Render an opinion on fair presentation <i>in relation to</i> the basic financial statements
Other financial schedules	Other Supplementary information	Render an opinion on fair presentation <i>in relation to</i> the basic financial statements
Statistical section	Unaudited	Read for consistency

- GAAS and GAGAS
- Materiality
- Audit Findings
- Annual Audit Procurement

# When is the next GFOAT Government Accounting Academy?



## GFOAT GOVERNMENTAL ACCOUNTING ACADEMY

*24 Hours CPE*

December 8 – 10, 2021 \* AUSTIN

## Government Finance Moments...

**What other topics related to government finance would you like to see more training available?**