

Introduction to Government Accounting



THE CITY OF
COLUMBUS
OFFICE OF MEGAN N. KILGORE,
CITY AUDITOR



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Slide 2

Overview

- Financial statement users
- Why governmental accounting is different
- Reporting model
- Measurement focus and basis of accounting
- Financial reporting entity
- Comprehensive annual financial report

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Slide 3

Financial Statement Users

- Taxpayers
- Citizens
- Oversight & legislative bodies
- Investors & creditors
- Management

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Slide 4

Why Governmental Accounting is Different

Accounting for Governments

- Focus on continuing ability to fund and provide goods and services
- No profit motive

Types of activities

- Business type activities
 - Provide services or goods to users for fees
- General governmental activities
 - Provide services or goods to citizens without regard for ability to pay
 - Contributors of resources do not receive proportional share of the benefit

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Slide 5

Environmental Differences

- **Provision of Services**
 - Private Sector: means to an end (profit motive)
 - Public Sector: end in itself (service motive)
- **Amount charged**
 - Private sector: Dependent on services received
 - Public sector: Often unrelated to services received by individual
- **Opportunity to recover cost**
 - Private sector: Limited to Point-of sale
 - Public sector: Possible in future periods

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Slide 6

Environmental Differences, Cont.

- **Management ability to apply resources:**
 - Private sector: Essentially unlimited
 - Public sector: Severely limited
 - Restriction by grantors
 - Restriction by lenders
 - Legal budget limitations

- **Different financial objectives for different activities**
 - Business-type activities
 - Are revenues sufficient to recover costs
 - Governmental activities
 - Are near-term inflows sufficient to cover near-term outflows (liquidity)

- **Heightened focus on accountability**

Other Differences

- Owned by constituents
- Popular election of governing board
- Decisions are made at public meetings
- Power to enact and enforce a tax levy
- Ability to issue tax-exempt debt

Types of Activities

Government Activities

- Purpose is to provide goods and services that all constituents need regardless of ability to pay
- Sources of financial resources:
 - Taxes: Property, sales and income
 - Licenses and permits
 - Debt proceeds
 - Grants & revenue sharing
 - Fines and forfeitures

Business-type Activities

- Purpose is to provide same types of services found in private sector
- Sources of financial resources
 - Charge fee for service
- Separate, self-sufficient operations

What does This Mean for Financial Reporting?

- Fund Accounting
- Different financial statements measure different things
- Budgetary reporting



Fund Accounting

Each fund has

- Self-balancing set of accounts
- Focus on **financial accountability** and making budgetary decisions
 - Balanced budget is based on near-term liquidity
 - Will existing resources + inflows be sufficient to cover outflows?
- Residual balance is Fund balance

Categories of funds

- Tax-Supported activities → Governmental funds
- Business-type activities → Proprietary funds
- Resources held as an agent or trustee → Fiduciary

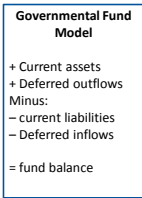
Governmental Type Funds – Basis of Accounting

- Use to account for sources, uses, and balances of general government resources
- Modified accrual basis of accounting
- Focus on flow of current **financial resources**
- Focus on operational accountability
 - Does management efficiently use resources in providing services
 - Don't tax me until you need money to pay the bills
- Current assets and current liabilities
- Funds are measurable and available > near term liquidity
 - *Not more than 60 days*



Governmental Type Funds – Basis of Accounting, Cont.

- Revenues recognized only if available to make payments soon after year end
- Expenditures recorded when a liability is incurred if payments normally are made during the period or soon after year end
- Excludes capital assets and long term debt (added to Government-Wide Statements)
- More aggressive than cash basis, but less aggressive than accrual basis



Governmental Fund Types

- General fund
 - Working capital available for general governmental use (main operating fund)
 - *Governmental offices, police, fire, library*
- Special revenue funds
 - General governmental financial resources restricted for specific purposes
- Capital projects funds
 - Resources used to construct or acquire major governmental fixed assets
- Debt service funds
 - Resources to be used to pay principle, interest and charges on long term debt
- Permanent funds
 - Resources are restricted but earnings benefit government or citizens - Example, Endowments

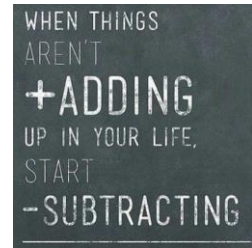
Proprietary & Fiduciary Type Funds – Basis of Accounting

- Accounting is similar to business enterprises.
- Accrual basis of accounting
- Focus on **economic resources**
- Recognize all assets (current and non-current) and all liabilities (current and non-current)
- Recognize revenues when earned and expenses when incurred, regardless of the timing of related cash flows.



Proprietary Fund Model

- + Current assets
 - + Noncurrent assets
 - + Deferred outflows
- Minus:
- Current liabilities
 - Noncurrent liabilities
 - Deferred inflows
- = net position



Proprietary Fund Types

- Internal service funds
 - Provide goods or services on a business type basis primarily for internal customers
 - *For departments and agencies of that government*
 - *Motor pools, central printing*
- Enterprise funds
 - Provide goods or services on a business type basis primarily for external customers
 - *For citizens and others*
 - *Utilities, trash service, mass transit*

Fiduciary Fund Types

Assets held are not for government's own use

- Trust funds:
 - Pension trust funds
 - Investment trust funds
 - Private-purpose trust funds
- Custodial funds (used to be agency funds before GASB 84)

Question 1

Questions

In accounting for state and local governments, the modified accrual basis is required for:

- A. Proprietary and fiduciary funds.
- B. Governmental funds only.
- C. Proprietary funds only.
- D. All funds.

Question 2

Questions

Which of the following is a fiduciary fund?

- A. Investment trust fund.
- B. Special revenue fund.
- C. Debt service fund.
- D. Enterprise fund.

Question 3

Questions

Which of the following funds would be most appropriate for accounting for an activity that provides goods or services to the public for a fee that is intended to make the activity self-supporting?

- A. Investment trust fund.
- B. Enterprise fund.
- C. Internal service fund.
- D. Special revenue fund.

Question 4

Questions

Which of the following funds would be used to account for an activity that provides centralized purchasing and sales of goods or services to other departments or agencies of the governmental, or to other governments, on a cost-reimbursement basis?

- A. Enterprise fund.
- B. Fiduciary fund.
- C. Internal service fund.
- D. Permanent fund.

Government-wide Financial Reporting

- Complementary to fund accounting
- Operational accountability
 - Big picture
 - Long-term
- Includes Governmental and Proprietary funds
- Excludes Fiduciary funds
- Residual balance = Net Position

Government-wide Financial Reporting, Cont.

Measurement focus

- Economic resources
 - Transactions and events recognized when they occur, regardless of when cash is received or disbursed
 - Revenue when earned
 - Expense when liability incurred
 - All assets, liabilities and deferred amounts
 - Change in net position during the period
- **Four Main Differences:**
 - Issuance of long-term debt
 - Capital outlay
 - Repayment of principal of Long-term debt
 - Depreciation

Measurement and Basis of Accounting

	Measurement Focus	Basis of Accounting
Government-wide statements	Economic resources	Accrual
Governmental fund statements	Current financial resources	Modified accrual
Proprietary fund statements	Economic resources	Accrual
Fiduciary fund statements	Economic resources	Accrual

Economic or Current Financial Resources?

Item	Economic resources?	Current financial resources
Issuance of long-term debt	No	Yes
Repayment of the principal of long-term debt	No	Yes
Capital outlay	No	Yes
Depreciation/amortization	Yes	No

Is your head spinning yet?



Terminology

- Increases:
 - Economic resources
 - Revenues/gains
 - Current financial resources
 - Revenues/other financing sources
- Decrease:
 - Economic resources
 - Expenses/losses
 - Current financial resources
 - Expenditures/other financing uses

Revenue Recognition

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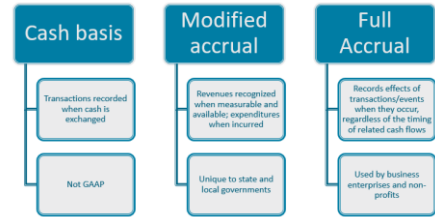
Expenditure Recognition

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Summary of Methods

- Current financial resources > modified accrual
 - Governmental fund financial statements
- Economic resources > accrual
 - Government-wide financial statements
 - Proprietary fund financial statements
 - Trust fund financial statements

Another View



Financial Reporting Entity

Financial accountability traceable to elected officials

- Primary government
 - General purpose government > City, town, state
 - Special purpose government
 - Water district, hospital, transit authority
 - Treated as primary government
 - Separately elected body, legally separate, fiscally independent
- Component unit
 - Financially accountable
 - Fiscal dependence + Financial benefit or burden relationship
 - Board appointment (voting majority) + Financial benefit or burden relationship
 - Board appointment (voting majority) + Ability to impose will
 - Misleading to exclude

Types of Component Units

- Types of Component units
 - Blended
 - Acts like a department of a government, but it is legally separate
 - Treat like funds of the primary government
 - Discretely presented
 - Substantial autonomy
 - Present data as one or more separate columns following the primary government total column

Basic Financial Statements

- Management Discussion & Analysis (MD&A)
- Government-wide Statements
- Fund Statements
- Reconciliation between Government-Wide and Fund Statements
- Footnotes
- RSI
 - Pensions
 - OPEB
 - Budget to Actual

MD&A

What MD&A Isn't

- The external auditor's responsibility
- Replacement for transmittal letter
- Graphics only
- Free for all
- Boilerplate discussion

What it is

- Analysis and explanations
 - Answer the "Why" questions

Government-wide Financial Statements

- **Statement of Net Position**
 - Governmental Activities
 - Business-Type Activities
 - Total
 - Discretely presented Component Units
 - Note: Internal service is incorporated into each column based on where their services were consumed
 - Net position components:
 - Net investment in capital assets
 - Capital assets, net of accumulated depreciation
 - Reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement to asset
 - Restricted
 - Limitations from either enabling legislation or external restrictions from creditors, grantors, laws or regulations
 - Unrestricted

Statement of Net Position Example

Name of Government Statement of Net Position June 30, 2012			
ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Investments	\$ 18,745,183	\$ 3,699,844	\$ 22,445,027
Cash and cash equivalents	21,119,677	2,136,642	23,256,319
NET POSITION			
Net investment in capital assets	205,692,289	29,056,307	234,748,596
Restricted for:			
Capital projects	338,917	-	338,917
Debt service	852,903	-	852,903
Housing services	625,881	-	625,881
Law enforcement	376,200	-	376,200
Community redevelopment:			
Expendable	4,514,328	-	4,514,328
Nonexpendable	10,000	-	10,000
Other purposes	53,573	-	53,573
Unrestricted	9,599,114	6,262,266	15,861,380
Total Net Position	\$ 222,063,209	\$ 35,318,573	\$ 257,381,779

Government-wide Financial Statements, Cont.

- **Statement of Activities**
 - Focuses on net cost of program
 - Start with program expenses
 - Deduct program revenue to calculate net cost of program (how did we pay for it)
 - Charges for services
 - Operating & capital grants
 - Add General Revenues at bottom of statement

Statement of Activities Example

Expenses	Program Revenues			Net (Program) Revenue and Changes in Net Position		
	Operating Services	Grants and Contributions	Capital Contributions	Governmental Activities	Business-Type Activities	Total
Business/Program Expenses						
General government						
Governmental activities						
General government	\$ 21,987,879	\$ 7,677,780	\$ -	\$ 24,967,440	\$ -	\$ (24,967,440)
Public safety	40,388,737	13,577,429	5,366,530	59,332,706	(61,495,294)	(18,162,588)
Highways and streets	27,059,520	9,306,281	678,885	37,044,686	(39,306,489)	(2,261,803)
Sanitation	10,573,340	2,482,231	-	12,855,571	(7,899,343)	(4,956,228)
Cultural and recreation	24,714,398	3,626,303	7,830,627	36,171,328	(42,044,046)	(5,872,718)
Interest	3,320,318	-	-	3,320,318	-	(3,320,318)
Total governmental activities	118,074,292	33,663,024	14,076,042	145,813,358	(151,159,473)	(5,346,115)
Business-type activities						
Water	4,445,428	4,497,450	80,647	9,023,525	(888,148)	8,135,377
Waste	1,474,834	493,113	86,474	1,654,421	(1,479,028)	175,393
Total business-type activities	5,920,262	4,990,563	167,121	11,077,946	(1,497,076)	9,580,870
Total business/program expenses	\$ 124,004,554	\$ 41,153,607	\$ 142,843,263	\$ 156,891,304	\$ (142,656,499)	\$ 14,234,805
General government	\$ 118,074,292	\$ 33,663,024	\$ 14,076,042	\$ 145,813,358	\$ (151,159,473)	\$ (5,346,115)

Statement of Activities Example, Cont.

General revenues:			
Property taxes	45,060,305	-	45,060,305
Sales taxes	44,368,865	-	44,368,865
Franchise taxes	1,537,833	-	1,537,833
Grants and contributions not restricted to specific programs	1,753,982	-	1,753,982
Unrestricted investment earnings	3,440,740	264,891	3,705,636
Gain on sale of capital assets	22,376	-	22,376
Miscellaneous	2,322,567	-	2,322,567
Transfers	(3,728,209)	3,728,209	-
Total general revenues and transfers	98,779,364	3,993,100	98,779,364
Change in net position	(18,357,293)	1,534,424	(16,822,869)
Net position - beginning	240,420,498	33,784,149	274,204,647
Net position - ending	\$ 222,063,205	\$ 35,318,573	\$ 257,381,779

Fund Statements

- List each major fund in a separate column (10/5 rule)
 - Governmental funds
 - General Fund is always a major fund
 - Enterprise funds
 - Single column for all Internal Service funds (not included in major fund calculation)
- All others are aggregated in one column

Major Fund Calculation

- 10/5 rule -
 - Total assets + deferred outflows or
 - Total liabilities + deferred inflows or
 - Revenues or expenditures
 - Are at least 10% of the corresponding total for all funds in that category
 - Are at least 5% of the corresponding total for all governmental and enterprise funds combined
 - Other funds not passing test can be reported as major at the option of the government

Fund Financial Statements

- Balance sheet – Governmental funds (GF)
 - Reconciliation of balance sheet to the statement of net position
- Statement of revenues, expenditures, and changes in fund balance – GF
 - Reconciliation of statement of revenues, expenditures, and changes in fund balances to the statement of activities
- Statement of net position– Proprietary funds (PF)
- Statement of revenues, expenses and changes in net position– PF and similar trust funds
- Statement of cash flows – PF and similar trust funds
- Fiduciary statements

Reconciling Items

Do you remember the top four?

- Capital additions
- Depreciation
- Long-term liabilities
 - Net pension liability
 - Debt
- Other items not available and measurable

Reporting Capital Assets

- Modified accrual
 - Debit Capital Outlay
 - Credit Cash/AP
- Accrual
 - Debit PP&E
 - Credit Cash/AP
 - Debit depreciation expense
 - Credit accumulated depreciation
- Convert to Accrual
 - Debit PP&E
 - Credit Capital Outlay

Reporting Long-term Debt

- Issuance of debt
 - Modified accrual
 - Debit cash
 - Credit other financing sources - debt issued
 - Accrual
 - Debit cash
 - Credit long-term debt payable
 - Convert to Accrual
 - Debit other financing sources- debt issued
 - Credit long-term debt payable

Reporting Long-term Debt, Cont.

- Recording long-term debt payments
 - Modified accrual
 - Debit principal expenditures
 - Debit interest expenditures
 - Credit cash
 - Accrual
 - Debit debt payable
 - Debit interest expense
 - Credit cash
 - Convert to Accrual
 - Debit debt payable
 - Credit principal expenditures
 - Credit interest expenditures

Congratulations for making it this far

- This is what government accountants look like in high school.



Components of Fund Balance

- Non-spendable
 - In form > Permanently or Temporarily
 - Inventory and prepaid items
 - Legally
- Restricted
 - Externally enforceable legal limitation
- Committed
 - Self-imposed legal limitation at highest level of decision making and binding unless removed by the same manner
 - Action must be taken before year end

Components of Fund Balance, Cont.

- Assigned ("committed light")
 - Intended use or resources established by governing body
 - Can't create deficit
 - Action must be taken before year end
 - Example - Encumbrances
- Unassigned
 - Everything else
 - Can only be positive in General Fund because other funds are restricted in nature

Other Financing Sources/Uses

- Other Financing Sources
 - Debt issued
 - Premium on debt issued
 - Interfund transfers
 - Sale of capital assets
- Other Financing Uses
 - Interfund transfers
 - Payment to refunding bond escrow agent
 - Discount on debt issued

Balance Sheet Example

	General Fund	Special Income Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents:				
Cash and investments with treasurer	\$ 176,017	\$ 198,443	\$ 561,122	\$ 935,582

	General Fund	Special Income Tax Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES				
Restricted	-	-	504,580	504,580
Committed	6,106	200,425	49,107	255,638
Assigned	21,820	-	-	21,820
Unassigned	122,781	-	(4,865)	117,916
Total fund balances	<u>150,707</u>	<u>200,425</u>	<u>548,822</u>	<u>899,954</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 318,212</u>	<u>\$ 225,470</u>	<u>\$ 670,961</u>	<u>\$ 1,214,643</u>

Statement of Revenues, Expenditures and Change in Fund Balance Example

	General Fund	Special Income Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Income taxes	\$ 657,229	\$ 219,076	\$ 5	\$ 876,310
Property taxes	45,552	-	-	45,552
Capital Outlay	7,693	-	275,871	283,564
Debt Service:				
Principal retirement	-	129,123	11,645	140,768
Interest and fiscal charges	-	56,622	4,078	60,700
Total Expenditures	<u>872,831</u>	<u>186,149</u>	<u>573,587</u>	<u>1,632,567</u>
Excess (deficiency) of revenues over (under) expenditures	(20,311)	34,540	(204,134)	(189,905)
OTHER FINANCING SOURCES (USES)				
Transfers in	33,807	1,258	28,371	63,436
Transfers out	(1,424)	(44,291)	(21,861)	(67,576)
Issuance of debt	-	-	176,290	176,290
Refunding bonds issued	-	65,365	-	65,365
Payment to refunded bond escrow agent	-	(77,048)	-	(77,048)
Premium on bonds issued	-	28,622	-	28,622
Total other financing sources (uses)	<u>32,383</u>	<u>(26,694)</u>	<u>182,800</u>	<u>188,489</u>
Net change in fund balances	12,072	7,846	(21,334)	(1,416)
Fund balances - beginning of year	138,635	192,579	570,156	901,370
Fund balances - end of year	<u>\$ 150,707</u>	<u>\$ 200,425</u>	<u>\$ 548,822</u>	<u>\$ 899,954</u>

Statement of Cash Flows

- Proprietary Funds
- Where did the cash flow and how was it used:
 - Operating activities
 - Noncapital financing activities
 - Capital and related financing activities
 - Investing activities

Notes to the Financial Statements

- Provides text behind the numbers
- Summary of significant accounting policies
- Commitments and Contingencies
- Summary of each main category
- Requirements issued by the Governmental Accounting Standards Board (GASB)

Required Supplementary Information

- Budgetary Comparison Schedule – General Fund
- Schedule of Net Pension Liability
- Schedule of Contributions to Pension Fund
- Notes to RSI

Comprehensive Annual Financial Report

- Three Sections:
 - Introductory Section
 - Table of contents
 - Letter of transmittal
 - Principal officers
 - Organizational chart
 - Financial Section
 - Basic Financial Statements
 - Supplementary Information
 - Statistical Section

Statistical Section

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information
- Comparative, multi-period
- Accounting and non-accounting data

Budget Reporting

When approved by the legislative body, the budget for expenditures becomes a spending ordinance that has the force of law. An approved revenue plan also has the force of law.

- Appropriations
- Approved or authorized expenditures
- Allotment
- Appropriation for a specific time period

Budget Main Features

- Approved by ordinance as required by charter or code
- Starts with Estimating revenues
- Must be balanced
- Legal level of budgetary control
- Budgetary basis
 - Expenditures and encumbrances
- Encumbrances
 - Budgetary tool to control spending
 - Purchase commitments
 - Lapse vs. re-appropriation

Which Statement Uses Full Accrual Accounting?

1. Government-wide Statement of Net Position
2. Balance Sheet – Governmental Funds
3. Statement of Revenues, Expenditures, and Changes in Fund Balances
4. Budgetary Comparison Schedule

Which CAFR Section is not part of the basic financial statements?

1. MD&A
2. Balance Sheet – Governmental Funds
3. Statistical Section
4. Footnotes

The End!

Thank you for making it to the end!

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