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FOUNDATIONS OF GOVERNMENTAL ACCOUNTING- PART 1 GOVERNMENT FINANCE OFFICERS ASSOCIATION - PENNSYLVANIA

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April 27, 2025

Sources

- ❑ GFOA, Governmental Accounting, Auditing, and Financial Reporting, 2024 edition
- ❑ PPC, Guide to Preparing Governmental Financial Statements
- ❑ GASB Standards, Interpretations, and Implementation Guides

Agenda

- ❑ What is a governmental unit?
- ❑ What rules are you to follow and where do you find them?
- ❑ Are you required to have an audit?
- ❑ What is a fund and what do I record in it?
- ❑ What is basis of accounting?
- ❑ How is fund balance reported?
- ❑ What is the basic accounting equation?
- ❑ Part 2 session: What are some of the complicated entries to complete your financial statements?

What Is A Governmental Unit?

- AICPA Audit and Accounting Guide
 - Public corporations and bodies corporate and political
 - Other entities if they have one or more of the following:
 - Popular election of officers or appointment (or approval) of control for a majority of the members of the organization's governing body by officials of one or more state or local governments
 - The potential for unilateral dissolution by a government with the net position reverting to a government; or
 - The power to enact and enforce a tax levy

What Is A Governmental Unit?

- Related Organizations
 - Component Units
 - Units for which the primary government is financially accountable
 - Units that must be included to keep the financial statements from being misleading because of the nature or significance of their relationships with the primary government



Who Creates the Rules?

- Who is GASB (Government Accounting Standards Board)?
 - Organized in 1984 to establish standards of financial accounting for state and local government entities
 - GASB.org
 - 104 standards
 - 6 interpretations
 - Implementation guides

Who Creates the Rules?

□ GASB

- Standards must be followed by governmental entities
- Auditors ensure that standards are followed
- Guides presentation of external financial reports
- Covers all governments, school districts, authorities.....

- ❑ Governmental Accounting Research System
- ❑ Access to all GAAP
- ❑ <https://gars.gasb.org/Home>

GARS

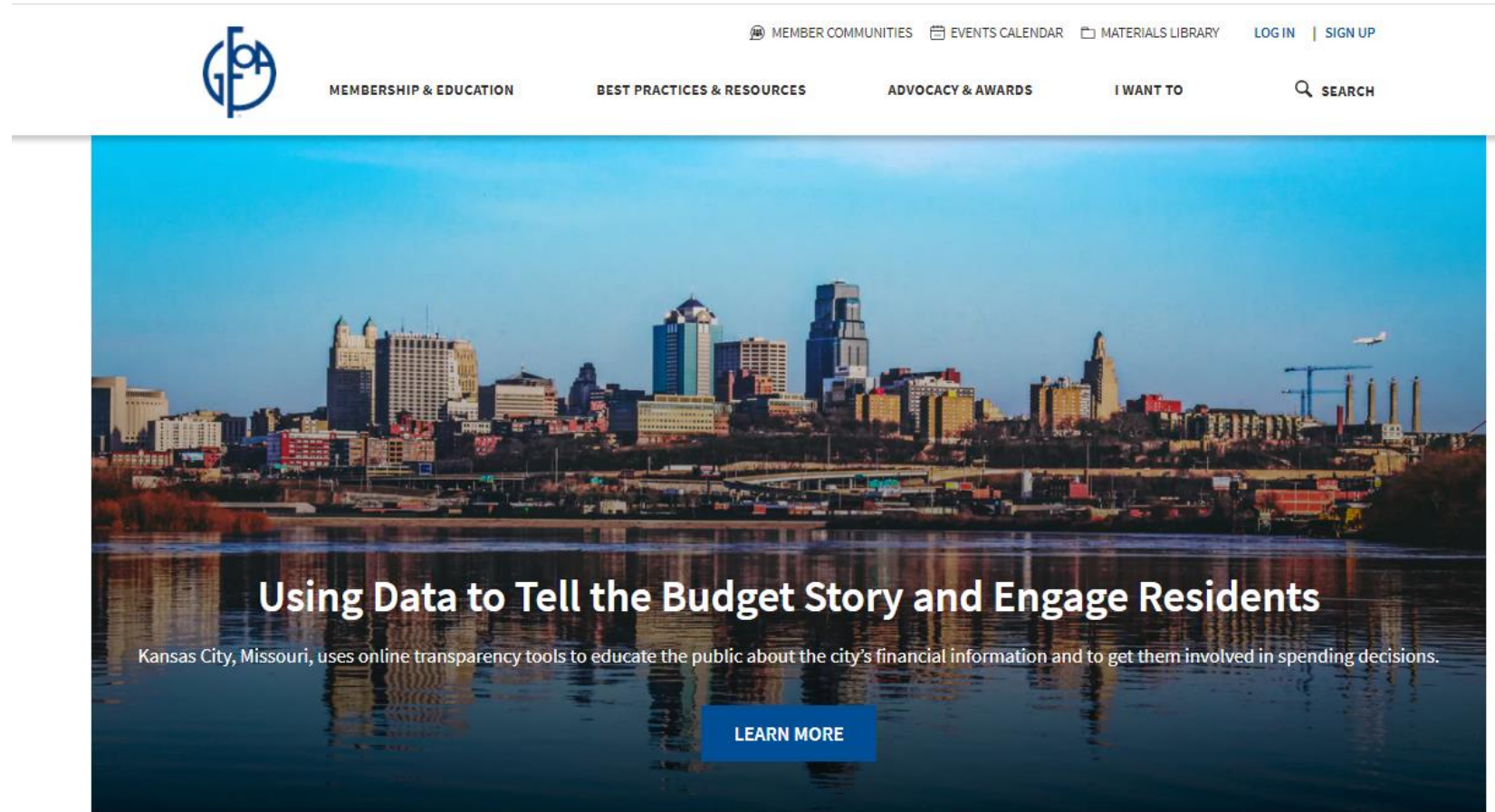


Who Creates the Rules?

Who is GFOA
(Government Finance Officers Association)?

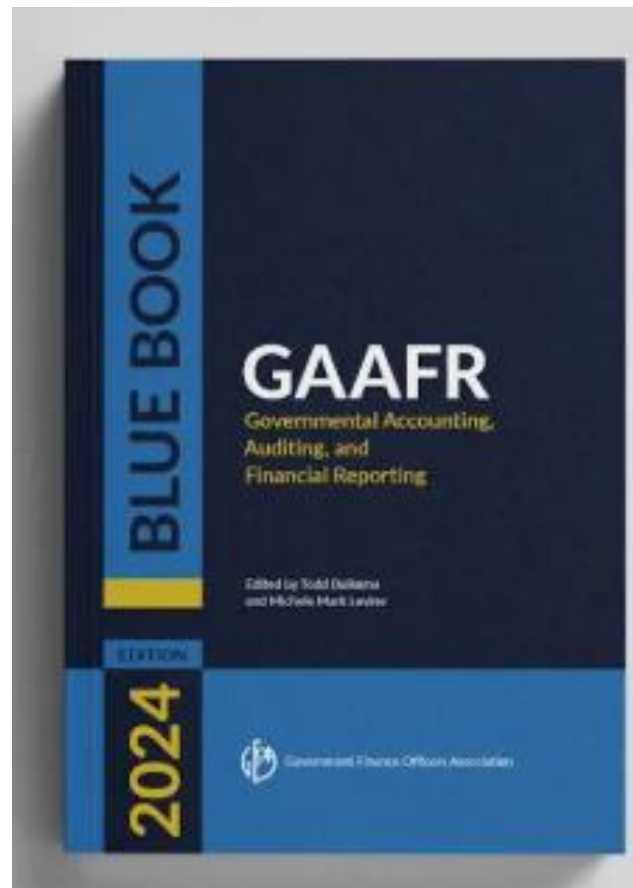
To provide leadership to the government finance profession through research, education, and recommended practices

GFOA.org



The image shows the GFOA website homepage. At the top left is the GFOA logo. To the right of the logo is a navigation menu with the following items: MEMBERSHIP & EDUCATION, BEST PRACTICES & RESOURCES, ADVOCACY & AWARDS, I WANT TO, and a search icon labeled SEARCH. Further to the right, there are links for MEMBER COMMUNITIES, EVENTS CALENDAR, MATERIALS LIBRARY, LOGIN, and SIGN UP. The main content area features a large banner image of a city skyline (Kansas City, Missouri) reflected in water. Overlaid on the bottom half of the banner is the text: **Using Data to Tell the Budget Story and Engage Residents**. Below this title is a sub-headline: *Kansas City, Missouri, uses online transparency tools to educate the public about the city's financial information and to get them involved in spending decisions.* At the bottom right of the banner is a blue button with the text **LEARN MORE**.

Who Creates the Rules?



Who Creates the Rules?

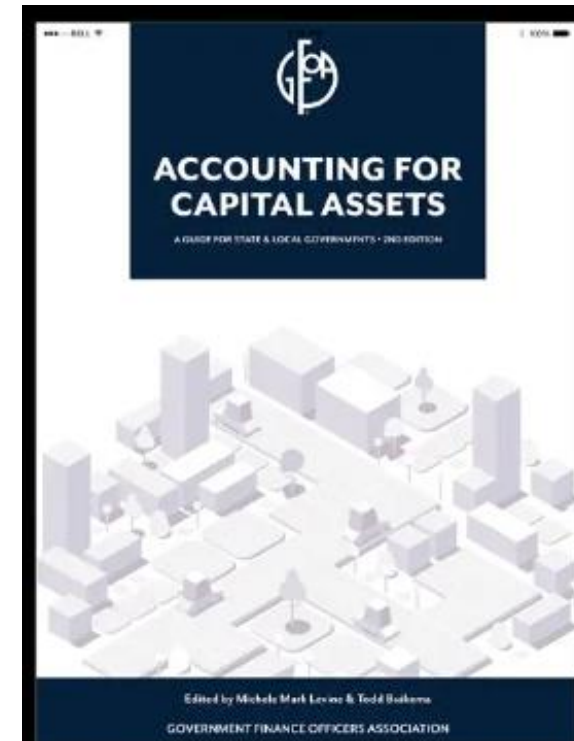
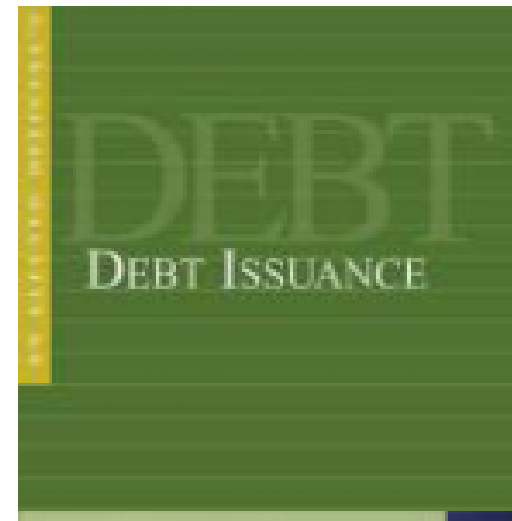
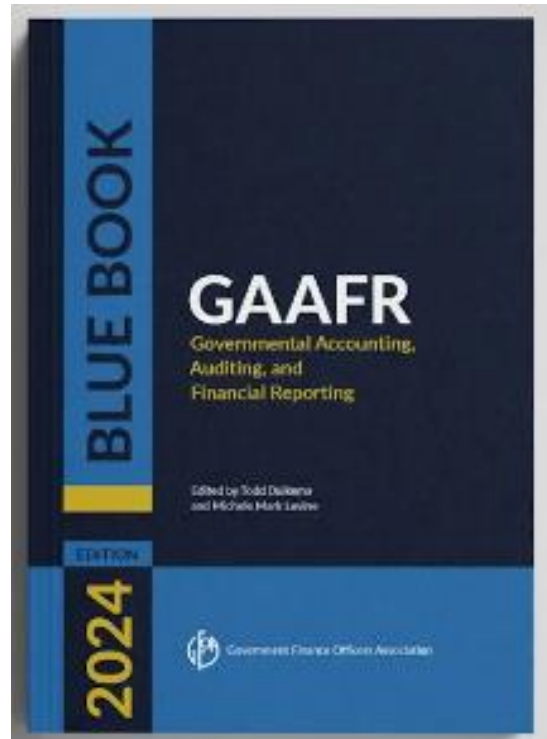
- GFOA – Recommended Practices
 - Financial Policies
 - Accounting & Financial Reporting
 - Budgeting & Financial Planning
 - Capital Planning/Infrastructure
 - Debt Management
 - Financial Management
 - Pension & Benefit Administration
 - Technology
 - Treasury and Investment Management

Who Creates the Rules?

- GFOA – Some recommended best practice examples per <https://www.gfoa.org/best-practices> :
 - Administering Grants Effectively
 - Fund Balance Guidelines for the General Fund
 - Establishing an Effective Grants Policy
 - Using Fund Accounting Effectively
 - Determining the Estimated Useful Lives of Capital Assets
 - Establishing Capitalization Thresholds for Capital Assets
 - Documenting Accounting Policies and Procedures
 - Maintaining Control over Items that are Not Capitalized
 - Purchasing Card Programs
 - Accounting for Leases
 - Accounting and Financial Reporting for Fiduciary Activities

Who Creates the Rules?

- GFOA – Governmental Accounting, Auditing, and Financial Reporting (GAAFR)



Who Creates the Rules?

- § Who is DCED (Pennsylvania Department of Community and Economic Development)?

DCED-CLGS-30 (9-09)

Received by DCED: 02/14/2024

Approved by DCED:

Department of Community & Economic Development
Governor's Center for Local Government Services
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
Ph: 888-223-6837 | fax: 717-783-1402

2023 MUNICIPAL ANNUAL AUDIT AND FINANCIAL REPORT



BALANCE SHEET

Who Creates the Rules?

Who is DCED (Pennsylvania Department of Community and Economic Development)?

DCED-CLGS-30 (09-09)

BALANCE SHEET
December 31, 2020

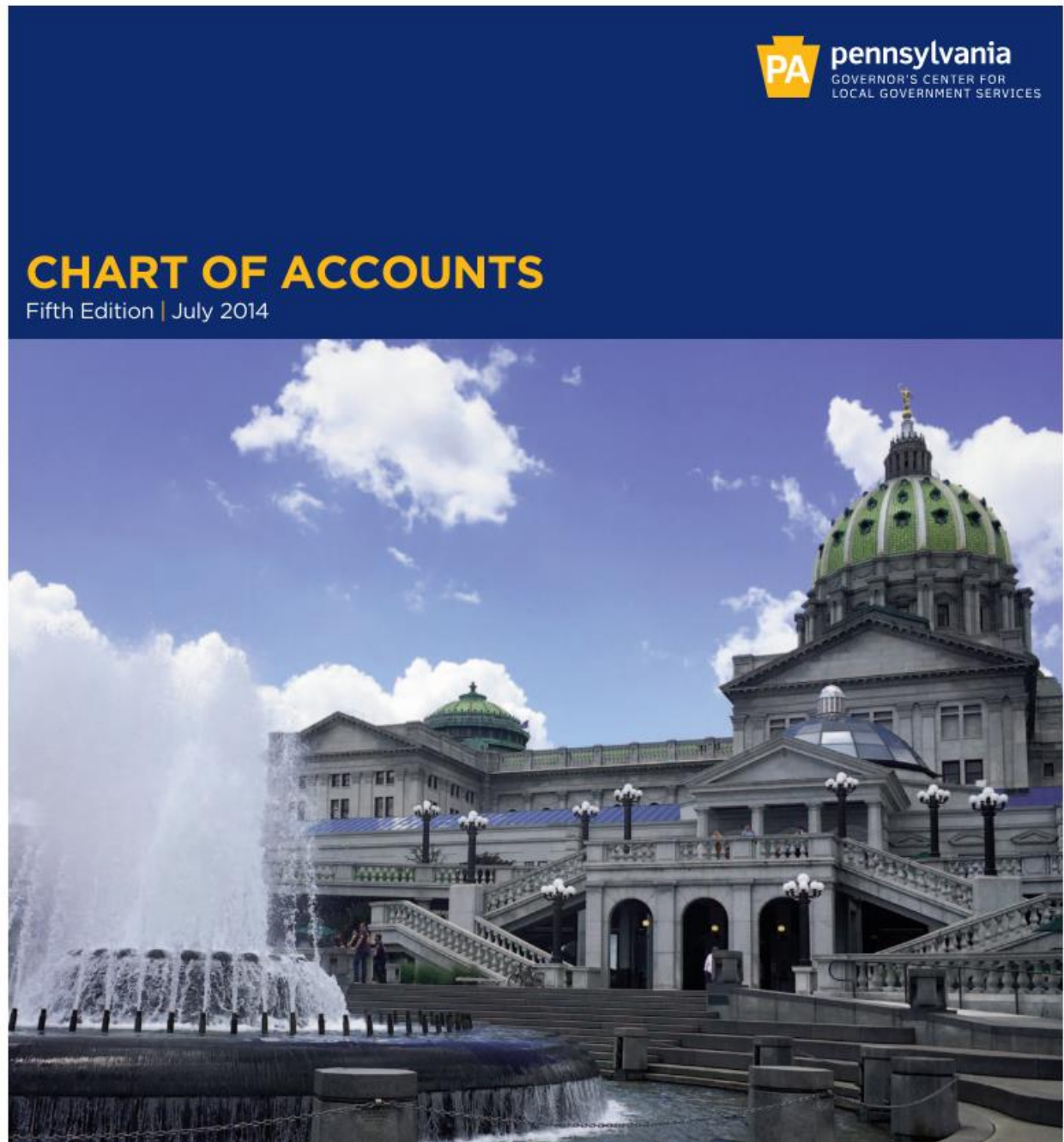
		Governmental Funds				Proprietary Funds		Fid. Fund	Account Groups		Total
		General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	Memorandum Only
Assets and Other Debits											
100-120	Cash and Investments	9,255,816	351,850	3,242,792		18,385,740		42,704,379			73,940,577
140-144	Tax Receivable	2,718,345									2,718,345
121-129, 145-149	Accounts Receivable (excluding taxes)	925,241		13,799		1,881,105		28,539			2,848,684
130.00	Due From Other Funds	133,240									133,240
131-139, 150-159	Other Current Assets					90,612					90,612
160-169	Fixed Assets					75,577,250			41,547,203		117,124,453
180-189	Other Debits					424,252				23,314,708	23,738,960
Total Assets and Other Debits		13,032,642	351,850	3,256,591		96,358,959		42,732,918	41,547,203	23,314,708	220,594,871
Liabilities and Other Credits											
210-229	Payroll Taxes and Other Payroll Withholdings	2,199				288,924					291,123
200-209, 231-239	All Other Current Liabilities	5,360,605		449,628		1,798,592		2,047			7,610,872
230.00	Due To Other Funds					133,240					133,240

Who Creates the Rules?

- Who is DCED (Pennsylvania Department of Community and Economic Development)?
 - Governor's Center for Local Government Services
 - Publications
 - *Chart of Accounts*
 - *Debt Management Handbook*
 - *Financial Monitoring Workbook*
 - *Fiscal Management*
 - *Municipal Authorities in Pennsylvania*
 - *Municipal Pension Handbook*

Who Creates the Rules?

Who is DCED
(Pennsylvania
Department of
Community and
Economic
Development)?



Who Creates the Rules?

□ DCED

- Publications can be found at <https://dced.pa.gov/local-government/publications-and-documents/>
- Training opportunities at <https://www.patrainingshub.org/>



Why Do We Have Audits Done and What Type?

- ❑ Why?
 - Pennsylvania Codes
 - Fiduciary responsibility
- ❑ What type?
 - Financial statement
 - Yellow book
 - Uniform Guidance (Single Audit)



Who Can Do A Borough's Audit?

- ❑ Elected auditors
- ❑ Controllers
- ❑ Appointed auditors
 - 2/3 vote of Council
 - Certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants
 - Appointed annually by resolution
 - Elected auditors and controllers position abolished

Who Can Do A First Class Township's Audit?

- ❑ Elected auditors
- ❑ Controllers
- ❑ Appointed auditors
 - By ordinance
 - Certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants
 - Appointed annually by resolution

Who Can Do A Second Class Township's Audit?

- ❑ Elected auditors

- ❑ Appointed auditors
 - Resolution to replace elected auditors

 - Certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants

 - Appointed annually by resolution

What About A Municipal Authority Audit?

- ❑ Audit required
- ❑ Certified Public Accountant



Who is primarily responsible for a government's accounting? (GAAFR Chapter 1 question)

- A. The governing body
- B. The independent auditor
- C. Management



What determines the content and format of internal financial reports? (GAAFR Chapter 1 question)

- A. Generally accepted accounting principles
- B. Management's needs and preferences
- C. Both A and B



What typically determines the content and format of general purpose external financial reports? (GAAFR Chapter 1 question)

- A. Generally accepted accounting principles
- B. Management's needs and preferences
- C. Both A and B



Who is ultimately responsible for a government's financial reporting? (GAAFR Chapter 1 question)

- A. The independent auditor
- B. Management
- C. The governing body



What is a Fund?

- GAAFR
 - Fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.
 - No limit on the number of funds; however, only minimum should be established



What is a Fund?

Assets	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 42,246,684	\$ 1,200,129	\$ 3,823,240	\$ 47,270,053
Investments - restricted	-	6,008,729	-	6,008,729
Receivables:				
Taxes	12,790,697	-	-	12,790,697
Loans	138,600	-	5,893,024	6,031,624
Accounts	2,448,313	421,981	113,395	2,983,689
Grants	693,342	3,495,783	1,339,616	5,528,741
Utility system concession lease	23,300,000	-	-	23,300,000
Interest	-	-	5,749	5,749
Due from pension trust funds	25,157	-	-	25,157
Due from other funds	6,533,130	1,806,840	258,568	8,598,538
Total Assets	\$ 88,175,923	\$12,933,462	\$ 11,433,592	\$ 112,542,977

What is a Fund?

	Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
	Liquid Fuels	Community Development Block Grant	Revolving Loan	Trexler	E-911		
<u>Assets</u>							
Cash and cash equivalents	\$ 1,549,676	\$ 501,900	\$ 16,337	\$ -	\$ 1,755,327	\$ -	\$ 3,823,240
Receivables:							
Loans	-	4,580,466	1,312,558	-	-	-	5,893,024
Grants	-	577,826	-	761,790	-	-	1,339,616
Accounts	-	-	-	-	113,395	-	113,395
Interest	-	-	-	5,749	-	-	5,749
Due from other funds	-	-	-	113,342	145,226	-	258,568
Total Assets	\$ 1,549,676	\$ 5,660,192	\$ 1,328,895	\$ 880,881	\$ 2,013,948	\$ -	\$ 11,433,592

What is a Fund?

	General	Special Revenue			Other Governmental Funds	Total Governmental Funds
		Domestic Relations	COVID-19	Opioid Settlement		
Assets						
Cash and cash equivalents	\$ 2,470,448	\$ 841,015	\$ 4,158,760	\$ 171,093	\$ 2,550,603	\$ 10,191,919
Receivables:						
Taxes, net	724,784	-	-	-	111,199	835,983
Accounts	76,388	-	-	826,653	23,236	926,277
Leases	303,392	-	-	-	-	303,392
Due from other governments	1,127,098	59,802	-	-	323,556	1,510,456
Due from other funds	4,189,123	-	-	-	-	4,189,123
Prepaid	-	-	-	-	3,000	3,000
Total Assets	\$ 8,891,233	\$ 900,817	\$ 4,158,760	\$ 997,746	\$ 3,011,594	\$ 17,960,150

What is a Fund?

	Special Revenue								
	District Attorney Forfeiture Fund	Community Development Block Grant	Liquid Fuels Tax	Hazardous Materials Emergency Response	Booking Fee	Act 89 Bridge Account	Act 44 Bridge Account	Probation Juvenile Collection	EMA Mobile Center
Assets									
Cash and cash equivalents	\$ 42,194	\$ -	\$ 50,750	\$ 170,304	\$ 105,854	\$ 157,115	\$ 138,105	\$ 10,156	\$ 1,245
Receivables:									
Taxes, net	-	-	-	-	-	-	-	-	-
Accounts	-	-	-	-	4,119	-	-	-	-
Due from other governments	-	62,942	-	12,000	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Prepaid	-	-	-	-	-	-	-	-	-
Total Assets	\$ 42,194	\$ 62,942	\$ 50,750	\$ 182,304	\$ 109,973	\$ 157,115	\$ 138,105	\$ 10,156	\$ 1,245

	Special Revenue								
	Probation DUI Program	Probation Case Management	Protection from Abuse	Prothonotary Automation Fund	Offender Supervision	Substance Abuse Education	Probation Juvenile Restitution	Owner Occupied Rehab	Whole Home Repairs
Assets									
Cash and cash equivalents	\$ 110,176	\$ 177,091	\$ 13,725	\$ 13,228	\$ 147,340	\$ 26,922	\$ 13,200	\$ 914	\$ 234,309
Receivables:									
Taxes, net	-	-	-	-	-	-	-	-	-
Accounts	1,851	2,645	-	382	8,483	787	206	-	-
Due from other governments	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Prepaid	-	-	-	-	-	-	-	-	-
Total Assets	\$ 112,027	\$ 179,736	\$ 13,725	\$ 13,610	\$ 155,823	\$ 27,709	\$ 13,406	\$ 914	\$ 234,309

What is a Fund?

	Special Revenue							Total Other Governmental Funds	
	Records Improvement Fund	Act 13 Bridge	Tourist Promotion	K9 Account	Levy Project	911 Account	Prison Commissary		Recycling Program
Assets									
Cash and cash equivalents	\$ 151,848	\$ 773,065	\$ 79	\$ 6,498	\$ 14,760	\$ 64	\$ 159,360	\$ 32,301	\$ 2,550,603
Receivables:									
Taxes, net	-	-	111,199	-	-	-	-	-	111,199
Accounts	1,210	-	-	-	-	-	3,553	-	23,236
Due from other governments	-	-	-	-	-	248,614	-	-	323,556
Due from other funds	-	-	-	-	-	-	-	-	-
Prepaid	3,000	-	-	-	-	-	-	-	3,000
Total Assets	\$ 156,058	\$ 773,065	\$ 111,278	\$ 6,498	\$ 14,760	\$ 248,678	\$ 162,913	\$ 32,301	\$ 3,011,594

What is a Fund?

- 11 fund types grouped into 3 categories
 - Governmental Funds
 - General Fund
 - “to account for all financial resources not accounted for in some other fund.”
 - *Report activity in General Fund unless compelling reason not to:*
 1. *GAAP requirement*
 2. *Legal requirement*
 3. *Sound financial administration*

What is a Fund?

- 11 fund types grouped into 3 categories
 - Governmental Funds
 - Special Revenue Funds
 - “to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.”
 - *Typically permitted rather than required*
 - *Required if enabling legislation requires permanent investment*

What is a Fund?

- 11 fund types grouped into 3 categories
 - Governmental Funds
 - Debt Service Funds
 - “to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.”
 - *Normally permitted rather than required*
 - *Required if:*
 - ✓ *Use of a debt service fund is legally mandated*
 - ✓ *If financial resources are being accumulated for principal and interest payments maturing in future years*

What is a Fund?

- 11 fund types grouped into 3 categories
 - Governmental Funds
 - Capital Projects Funds
 - “to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.”
 - *Unless there is a legal requirement, permitted rather than required*

What is a Fund?

□ 11 fund types grouped into 3 categories

- Governmental Funds

- Permanent Funds

“to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs, that is, for the benefit of the government or its citizenry.”



What is a Fund?

	General Fund	Non-Utility Capital Improvements Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 34,544,085	\$ -	\$ -	\$ 34,544,085
Licenses and permits	2,819,303	-	-	2,819,303
Intergovernmental revenues	6,653,039	844,046	5,129,668	12,626,753
Fines and forfeitures	455,041	-	-	455,041
Departmental earnings	7,075,745	-	-	7,075,745
Other charges	1,138,367	-	566,004	1,704,371
Municipal recreation	453,111	-	-	453,111
Investment income	13,703	6,021	33,268	52,992
Host fee	9,574,998	-	-	9,574,998
Other	793,442	1,514	57,155	852,111
Total revenues	63,520,834	851,581	5,786,095	70,158,510

	911 Fund	Community Development Block Grant Fund	Liquid Fuels Fund	Debt Service Fund	Total
Revenues:					
Intergovernmental revenues	\$ 1,671,254	\$ 2,048,434	\$ 1,409,980	\$ -	\$ 5,129,668
Other charges	566,004	-	-	-	566,004
Investment income	-	31,322	1,946	-	33,268
Other	-	57,155	-	-	57,155
Total revenues	2,237,258	2,136,911	1,411,926	-	5,786,095

What is a Fund?

- 11 fund types grouped into 3 categories
 - Proprietary Funds
 - Enterprise Funds
 - *May* be used to report any activity for which a fee is charged to external users for goods or services
 - *Required* for any activity whose *principal* external revenue sources meet any of the following criteria:
 - ✓ *Debt backed solely by fees and charges.*
 - ✓ *Legal requirement to recover cost.*
 - ✓ *Policy decision to recover cost.*

What is a Fund?

- 11 fund types grouped into 3 categories
 - Proprietary Funds
 - Internal Service Funds
 - “to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.”
 - Never required.
 - Should be to measure the *full cost* of providing goods or services for the purpose of *fully recovering* that cost through fees or charges.

What is a Fund?

- 11 fund types grouped into 3 categories
 - Fiduciary Funds
 - Resources held in trustee (or similar arrangement) or in custodial capacity for the benefit of specific individuals or organizations

What is a Fund?

□ 11 fund types grouped into 3 categories

- Fiduciary Funds
 - Pension (and Other Employee Benefit) Trust Funds
 - Contributions made to the trust by employers (or other contributing entities) must be irrevocable;
 - Plan assets may only be used to provide benefits to plan members in accordance with the plan's benefit terms; and
 - Plan assets are legally protected from creditors of the employers, plan sponsors, other contributing entities, and, in the case of defined benefit plans, from creditors of the plan's members
 - IRC Section 457 should be reported if meet the definition of a pension plan, which is:
 - ✓ Implies an employer contribution or guarantee
 - ✓ Assets dedicated are accumulated and managed
 - ✓ Benefits are paid as they come due

What is a Fund?

- 11 fund types grouped into 3 categories
 - Fiduciary Funds
 - Investment Trust Funds
 - Required to report any external investment pool that it sponsors
 - Private-Purpose Trust Funds
 - Should be used to report all fiduciary activities that:
 - ✓ Are not required to be reporting in pension (and OPEB) trust funds or investment trust funds and
 - ✓ Are held in a trust that meets the criteria of GASB 84
 - Used to report arrangements where use of principal and earnings is restricted, and beneficiaries are outside the government

What is a Fund?

- 11 fund types grouped into 3 categories
 - Fiduciary Funds
 - Custodial Funds (formally 'Agency Funds' prior to GASB No. 84)
 - Should be used to report fiduciary activities that are not required to be reported in one of the other three trust funds.
 - *Required* to account for debt service transactions involving special assessment debt for which the government is not obligated in any manner.
 - Business-type activities that manage assets in a fiduciary role and hold those assets more than three months should also use the custodial fund for reporting for reporting those fiduciary activities.

What is a Fund?

- Funds: How and Why Establish?
 - Should have as many funds as necessary, but as few as possible!
 - Created typically as Special Revenue Funds.
 - A fund does not necessarily equal a checkbook.
 - Establish a fund by Resolution or Ordinance of the governing board.
 - Must outline what it will be used for and managed so that those authorized activities are only to be used for that (those) purpose(s).
 - Greatest purpose is to negate co-mingling funds for management, reporting, and transparency.

Which of the following is a fund category? (GAAFR Chapter 4 question)

- A. Internal service funds
- B. Business-type activities
- C. Fiduciary funds
- D. All of the above



Which of the following best describes the “number of funds principle?” (GAAFR Chapter 4 question)

- A. Use separate funds for separate activities
- B. Funds in the financial statements should mirror funds in the accounting system
- C. Use as many funds as bank accounts
- D. Use only as many funds as necessary



For Discussion

- What are the fund type options for reporting the following scenarios and why?
 - A. A Township receives liquid fuels restricted state funding, which is earmarked for the purposes of highway improvements.
 - B. A Borough has decided to set funds away to offset future other post employment benefit costs (health insurance for retirees); however, no formal trust was established.
 - C. A Township assesses a separate real estate tax millage dedicated to fire protection.

For Discussion

- What are the fund type options for reporting the following scenarios and why?
 - A. The Mayor of City X has decided to provide any employee that moves into the City limits with down payment assistance. There is no specific revenue source to fund this expenditures.
 - B. The Township charges for collection of trash. There is no debt associated with trash collection and no requirement to cover costs.
 - C. The Borough has a motor pool, where all vehicles of the Borough are serviced. Costs of the motor pool are then charged to the various departments/funds of the Borough based on the number of vehicles used by each department/fund.

What Are Activities?

- **Government-wide financial statements**
 - Governmental Activities = governmental funds
 - Business-type Activities = enterprise funds
 - No fiduciary funds
 - Internal service funds go with predominant user



What Are Activities?

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current assets:			
Cash and cash equivalents	\$ 14,373,147	\$ 5,295,465	\$ 19,668,612
Investments	93,183	-	93,183
Receivables (net of allowance for uncollectibles):			
Taxes	3,581,553	-	3,581,553
Accounts	685,428	7,283,472	7,968,900
Pledges	-	-	-
Other	747,239	-	747,239
Accrued interest	-	8,042	8,042
Due from component unit	131,250	-	131,250
Due from other governments	6,811,009	-	6,811,009
Internal balances	290,783	(290,783)	-
Inventories	-	272,065	272,065
Prepaid expenses	-	-	-
Total current assets	26,713,592	12,568,261	39,281,853

What is the Basis of Accounting?

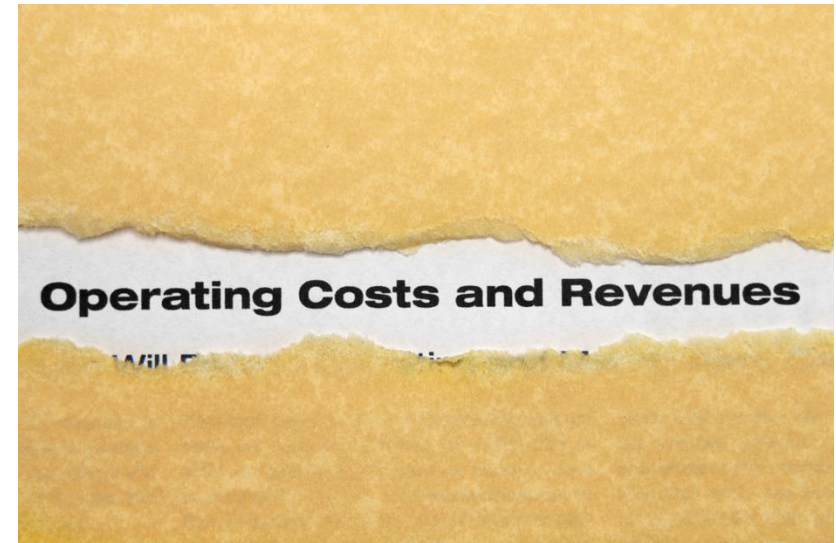
- Accrual basis (economic resources measurement focus)

Revenues when earned, expenses when incurred

- Government-wide activities
- Proprietary funds
- Fiduciary funds

Terminology

- Expenses
- Net Position



What is the Basis of Accounting?

- Modified accrual basis (current financial resources measurement focus)
 - Revenues when earned, to the degree that they are *available* to finance expenditures of the fiscal period, expenses when incurred, except for debt service payments and other specific liabilities that are recognized when due
 - Governmental funds
- Terminology
 - Expenditures
 - Other Financing Sources/Uses
 - Fund Balance
- Other comprehensive basis of accounting

What is the Basis of Accounting?

– Modified accrual basis

Other Financing Sources

- The issuance of long-term debt (face amount and premium/discount)
- The inception of a lease
- Sales of capital assets
- Insurance recoveries
- Transfers

Other Financing Uses

- Original issue discount on debt
- Payments to advance refunding escrow agent
- Transfers

What is the Basis of Accounting?

- Other comprehensive basis of accounting
 - AICPA publication



What is the Basis of Accounting?

- Other comprehensive basis of accounting

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What measurement focus (MF) and basis of accounting (BA) are used for governmental funds? (GAAFR Chapter 9 question)

- A. Economic resources MF/accrual BA
- B. Economic resources MF/modified accrual BA
- C. Current financial resources MF/accrual BA
- D. Current financial resources MF/modified accrual BA

Which of the following assets, if present, should be included on a statement of financial position, regardless of measurement focus? (GAAFR Chapter 7 question)

- A. Prepaids
- B. Capital assets
- C. Receivables
- D. All of the above



Which of the following would not appear in a statement of resource flows prepared using the economic resources measurement focus?
(GAAFR Chapter 7 question)

- A. Revenues
- B. Expenses
- C. Expenditures
- D. None of the above



Which of the following would not appear in a statement of resource flows prepared using the current financial resources measurement focus?
(GAAFR Chapter 7 question)

- A. Revenues
- B. Expenses
- C. Expenditures
- D. None of the above



How is Fund Balance Reported?

- Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources reported in Governmental Fund Types
 - “The extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent” (GASB #54, Para 5)



Components of Fund Balance

- ❑ Five categories
 - Nonspendable

 - Spendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned

- ❑ Not all will always be present



Nonspendable Fund Balance

❑ Not in spendable form

- Cannot *ever* be spent
- Cannot *currently* be spent



❑ Legally or contractually required to be maintained intact

Spending Constraints

- ❑ Three categories
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance

- ❑ No requirement that constraint be narrower than the purpose of the fund

Restricted Fund Balance

- ❑ Constraints enforceable by outside parties
 - Creditors
 - Grantors and contributors
 - Law or regulations of other governments
 - Constitutional provisions/enabling legislation

- ❑ Same as restricted net position



Committed Fund Balance

- ❑ Constraints imposed by government itself
 - Formal action to impose and remove
 - Highest level of decision-making authority
 - Action must be taken prior to the end of the reporting period



Assigned Fund Balance

- ❑ Intent to use for a specific purpose
 - Body or official delegated by governing body or governing body itself
 - Governing body's intentions not management's
 - Action taken before issuance of financial statements

- ❑ Never in excess of total fund balance less other components

Unassigned Fund Balance

- ❑ Residual balance reported in general fund
 - The use of some other fund type presumes that all of the resources reported in that fund are either restricted, committed, or assigned

- ❑ Positive balance only in general fund

- ❑ Deficit possible in any governmental fund

Summary of Fund Balance Components

Nonspendable	<i>Form or legal limitation</i>
Restricted	<i>Externally enforceable limitations</i>
Committed	<i>Self-imposed limitations</i>
Assigned	<i>Intended use</i>
Unassigned	<i>Residual</i>

What is the Basic Accounting Equation?

- Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position (Fund Balance for governmental funds)

What are Deferred Outflows and Inflows of Resources?

- ❑ Deferred outflows of resources:
 - Consumption of fund balance by the government that is applicable to a future reporting period

- ❑ Deferred inflows of resources:
 - Acquisition of fund balance by the government that is applicable to a future reporting period.

Deferred Inflows of Resources

- Nonexchange Transactions
 - Imposed Nonexchange Transactions - result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines)
 - Deferred inflows of resources when received or reported as receivable before:
 - The period for which property taxes are levied
 - The period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements

Deferred Inflows of Resources

- Nonexchange Transactions
 - Government Mandated and Voluntary Nonexchange Transactions - occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform) or result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations)
 - Resources received before eligibility requirements are met (excluding time requirements) should be reported as assets by the provider and as liabilities by the recipient
 - Resources received before time requirements are met (but all eligibility requirements met) should be reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient

Deferred Inflows of Resources

- ❑ Revenue Recognition in Governmental Funds
 - When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

- ❑ “Deferred” should be limited to items reports as deferred outflows of resources or deferred inflows of resources – use terms such as unearned or advances



Questions? Contact Me!



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