



GOVERNMENTAL ACCOUNTING

Immersion Series

Session 2

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The Governmental Environment

- Authoritative Standards for State and Local Governments.
 - GAAP
 - GASB
 - GAAFR

Governmental Accounting

Why is Governmental accounting different from corporate accounting?

- Governmental Accounting is based on fiscal accountability
 - Not profit driven
 - Heavy emphasis on budgets approved by governance

Government Environment

Key Environmental Characteristics

- 1) Not all of the activities of state and local governments have the same financial objectives (operational accountability)
- 2) Governments have a special responsibility to demonstrate that they have complied with restrictions on the use of current resources (fiscal accountability).

Government Environment

Different Financial Objectives for Different Activities

Private sector enterprises set out to make a profit by providing goods or services to customers

- Sometimes services offered function in much same way as private-sector businesses, so they are described as proprietary funds (i.e. government operated golf course).
- Sometimes services do not function like private sector businesses so they are described as governmental funds (i.e. public safety)

Government Environment

Special measurement focus and
basis of accounting for
government entities

Governments use two different
measurement focus.

- Governmental funds use a
current financial resources
- Proprietary funds use economic
resources measurement focus

Financial Statement Reporting

- Measurement Focus
 - Economic / Current Financial Resources
- Basis of Accounting
 - Full accrual / modified accrual

Modified Accrual vs Full Accrual

Full Accrual

- Same as Accounting 101, similar to accounting for a business
- Based on economic measurement focus

Used for:

- Proprietary (business-type) funds
- Government-wide financial statements
 - Set of statements that combine all governmental funds on a full accrual basis

Modified Accrual vs Full Accrual

Modified Accrual

- All governmental funds are accounted for using modified accrual
- Most Significant Differences:
 - Capital assets
 - Long term liabilities
 - Revenue Recognition

Differences Between Modified and Full Accrual

Capital Assets

- Capital assets are not recorded at the fund level because:
 - Focus is on current financial resources and not economic resources
 - Capital assets cannot be easily sold to continue the operations of a governmental entity
 - *Example:* School District can't sell a school building to pay for teacher salaries.
- No depreciation expense on the fund level
 - (because the capital assets aren't recorded on the fund level)
- Purchases of capital assets are recorded as expenditures (called capital outlay) at the fund level

Differences Between Modified and Full Accrual

Long Term Liabilities

- Long-term liabilities are not recorded at the fund level since the focus is on current financial resources
- Principal payments are recorded as expenditures at the fund level since they are reduction in current financial resources

Differences Between Modified and Full Accrual

Revenue

- Revenues are **recognized** when they are **measurable** and **available**
 - Can be recorded on fund level, but not recognized
 - Would be shown as deferred if not recognized
- **Measurable**
 - Can quantify the revenue objectively
- **Available**
 - Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
 - *Current period* is generally defined as within 60 days of the financial report date.

Reconciling Items between modified and full accrual

| Reconciling Item | Government funds (modified accrual) | Governmental activities (full accrual) |
|------------------------------------|---|--|
| Capital assets | No | Yes |
| Capital Expenditures (Outlay) | Yes | No |
| Outstanding long term liabilities | No | Yes |
| Accrued interest | No | Yes |
| Principal payments on debt | No | Yes |
| Bond issuance | Cash / Revenue | Cash / Long term liability |
| Depreciation Expense | No | Yes |
| Proceeds from the sale of an asset | Yes (revenue recorded for full amount of proceeds) | Yes (reduction of asset, gain/loss on sale) |

Differences Between Modified and Full Accrual

Difference between “expenditure” and “expense”

- Expenditure
 - Modified accrual term
 - Used for governmental funds
- Expense
 - Full accrual term
 - Used for government-wide and proprietary funds

Governmental Accounting

- Fund Accounting was specifically developed to provide information on **fiscal accountability** to users of the financial statements
- Government-wide financials: GASB determined that government-wide financial statements are necessary to provide information on **operational accountability.**

Fund Accounting

Current Financial

Economic Measurement

Resources

Focus

Measurement Focus

Fiduciary Funds

Governmental Funds

Proprietary Funds

Pension Trust Fund

Investment Trust Fund

Private Purpose Fund

General Fund

Enterprise Funds

Custodial Funds

Special Revenue Fund

Internal Service Funds

Debt Service Fund

Capital Projects fund

Permanent Fund

Modified Accrual

Full Accrual

Full Accrual

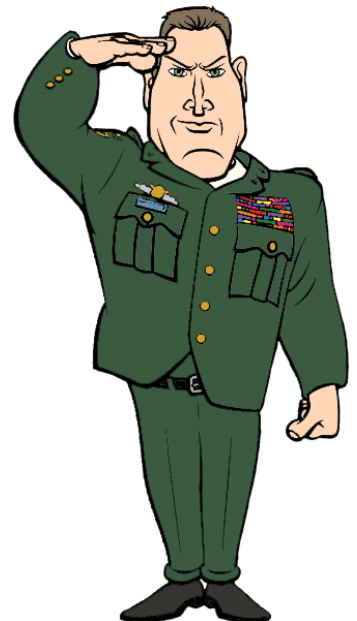
Fund Accounting

- Types of Funds
 - Governmental
 - General
 - Special revenue
 - Debt Service
 - Capital Projects
 - Permanent

Type of Funds- Governmental Funds

General Fund

- Chief operating fund of a government
- To account for and report all financial resources not accounted for and reported in another fund
- “Catch all”



Type of Funds- Governmental Funds

Special Revenue Fund

- Used to account for and report proceeds of specific revenue sources that are **restricted** or **committed** to expenditures for a specific purpose other than debt service or capital projects

Examples:

- Open Space
- Breathalyzer Fund at a Department of Transportation
- Special Grants



**What do you mean by
“committed” or
“restricted”???**

Restricted or Committed

Restricted

- Designated as such by an external authority
 - Such as a law, regulation, or external donor
 - Cannot be changed by the entity

Committed

- Designated as such by the highest authority of the entity
 - Typically the governing Board
 - Can be changed by Board resolution

Type of Funds- Governmental Funds

Debt Service Fund

- Used to account for and report financial resources that are restricted, committed, or assigned (rare) to expenditures for principal and interest

Example: If a city issues a bond and decides to set aside enough funds for the upcoming year's principal and interest payments for budgeting purposes

Type of Funds- Governmental Funds

Capital Projects Fund

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of construction of facilities or other capital assets

Example: The Board of a fire district passes a resolution to set aside funds to purchase a new firetruck.

- Funds could be committed within a capital project fund.



Type of Funds- Governmental Funds

Permanent Fund

- Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the activities of the government
 - Same concept as an endowment

Example: A donation to a University for \$1 million has a stipulation that only the interest can be spent on programs

Fund Types-Proprietary Funds

*Referred to as “business type”
funds*

- *Enterprise Funds*
- *Internal Service Funds*

Proprietary Funds- Enterprise Funds

- Operates as a business and is accounted for similarly
- May be used to report any activity for which a fee is charged to external users for goods or services

Example: A city operates a mass transit system that charges fees to use buses, trains, or a light rail.



Proprietary Funds- Enterprise Funds

- When are you required to use an enterprise fund?
 - Related debt issuance is backed solely by fees and charges from a revenue stream
 - Example: A municipal bond issuance for development of a water treatment facility is backed by tap fees and usage charges
 - A legal requirement exists to recover costs with fees and charges
 - Pricing policies of the activity establish fees and charges designed to recover costs

Proprietary Funds- Internal Service Funds

- Used to allocate the cost of certain shared activities to other funds
 - Similar to cost accounting – allocating overhead to other activities

Examples:

Fleet Services

IT Services

Employee Medical

Fund Types-Fiduciary Funds

- To report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.
- Separate category from Governmental and Business type funds, since fiduciary funds are held but not owned by the government entity

Fund Types-Fiduciary Funds

- Types of Fiduciary Funds
 - Pension and other employee benefit trust funds
 - Investment trust funds
 - Private Purpose trust funds
 - Custodial funds

Example: Inmate Jail Fund



GASB 84

Fiduciary Activities

Effective for fiscal years beginning after Dec. 15, 2018.

The three types of fiduciary activities defined in this standard are:

- Fiduciary component units, which include certain pension and OPEB arrangements and other component units that are fiduciary
- Pension and OPEB arrangements that aren't component units
- Other fiduciary activities

Other fiduciary activities

The activity must meet **all** of the following criteria:

- Assets are controlled by the government.
- Assets aren't derived from own source revenues.
- Assets aren't derived from government mandated or voluntary nonexchange transactions.

Other fiduciary activities

In addition, the activity must meet **one** of the following:

- Assets are held in a qualifying trust where the government is not the beneficiary, the assets are legally protected from creditors, and dedicated to providing benefits to recipients.

Other fiduciary activities

The assets aren't derived from the government's provision of goods or services and:

- Assets are held for the benefit of individuals without the government having administrative or direct financial involvement.
- Assets are held for the benefit of outside organizations that are not part of the government's reporting entity.

GASB 84

GASB defines four different types of fiduciary funds

- Pension and other employee benefit trust funds
- Investment trust funds
- Private purpose trust funds
- Custodial funds

The first three fiduciary funds are existing fund types, as defined by GASB Statement 34. The custodial fund category is new, and replaces what are currently known as agency funds.

Fund Balance Classifications

1) Non-Spendable

2) Restricted

3) Committed

4) Assigned

5) Unassigned

Fund Balance

- Non-Spendable
 - Form
 - Prepaid items
 - Inventories
 - Long-term portion of receivables
 - Assets held for re-sale
 - Must be maintained intact
 - Usually pursuant to legal or contractual requirements
 - Principal of endowment
 - Capital of a revolving loan fund

Fund Balance

- Restricted
 - External Enforceable legal restrictions
 - Creditors
 - Grantors
 - Contributors
 - Other governments
 - Authorization to raise revenues conditioned on being used for particular purpose

Fund Balance

- Committed
 - Constrained by highest level of own governing body
 - Constraint can only be removed in the same manner
 - Board designed projects

Fund Balance

- Assigned
 - Entities intended use of resources
 - Authority can be delegated to some other body or official
 - Can not assign resources you don't have
 - Must be narrower than the purpose of the fund

Fund Balance

- Unassigned
 - Net resource in excess of other commitments
 - General Fund should be only fund with positive unassigned fund balance
 - Other funds may have a negative unassigned fund balance

Government-wide Statements

- Totals all funds into single set of statements on the full accrual basis
- Statement of Net Position = Full accrual Balance Sheet
- Statement of Activities = Full accrual “Income Statement”
- Reconciliations between fund statement level and government-wide statements are contained in the Basic Financial Statements

Fund Balance and Net Position

Fund Balance/Net Position =
“Equity”

Fund Balance is the term used for modified accrual accounting i.e. the day to day operations

Asset= Liabilities + Fund Balance

Net Position is the term used in the yearend financial statements when all funds are converted to full accrual

Statement of Net Position

- Statement of Net Position is the full accrual balance sheet for governmental funds

Governmental Fund Balance Sheet

Plus: Differences between modified and full accrual

Statement of Net Position

Net Position Classifications

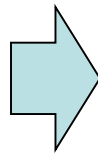
- Net Investment in Capital Assets
- Restricted
- Unrestricted

Reconciling to the Statement of Net Position

Total amount of differences between modified and full accrual are added directly to the Statement of Net Position

- *Examples:*
 - Total amount of capital assets
 - Total amount of long term liabilities

| | Fund Total |
|---------------------|-------------------|
| Cash | 1,000,000 |
| Investments | 10,000,000 |
| Inventory | 500,000 |
| Total Assets | 11,500,000 |



| | SONP Total |
|---------------------|-------------------|
| Cash | 1,000,000 |
| Investments | 10,000,000 |
| Inventory | 500,000 |
| Capital Assets | 50,000,000 |
| Total Assets | 61,500,000 |

| | |
|---------------------|-------------------|
| Fund Balance | 11,500,000 |
|---------------------|-------------------|

Calculation of Net Investment in Capital Assets

| Calculation | Inputs |
|-------------|---|
| Begin with: | Capital Assets, net of depreciation |
| Less: | Debt, including refunding issuances (related to capital acquisition) |
| Less: | Retainage payable relating to capital assets |
| Add back: | Unspent bond proceeds |
| Plus/minus: | Deferred outflows related to deferred loss on refunding (Deferred inflows related to deferred gain on refunding) |
| End with: | Net Investment in Capital Assets |

Capital Assets

Proprietary Funds and Fiduciary Funds

- *Capital assets recorded on the fund level*

Governmental Funds

- Capital purchases recorded as expenditures
 - Referred to as “Capital Outlay”
- Recorded as capital assets after reconciling to government-wide full accrual statements.

Capital Assets

- Depreciation reported for all capital assets except for:
 - Inexhaustible capital assets
 - Land
 - Construction in Progress

GFOA Best Practices/Recommendations

1. Assets should be capitalized only if they have a useful life of at least two years.
2. Thresholds should be applied to individual assets, not groups of similar assets, unless doing so eliminates an entire class of assets, such as library books.
3. Thresholds should not be less than \$5,000 for any type of capital asset.

Statement of Activities

- Statement of Activities is the full accrual “income statement” for governmental funds
 - The governmental fund income statement is referred to as the “Statement of Revenues, Expenditures, and Changes in Fund Balance”

Governmental Fund Income Statement

Plus: Differences between modified and full accrual

Statement of Activities

Reconciling to the Statement of Activities

Differences between modified accrual and full accrual:

Changes from the prior year amount are added/subtracted to the Statement of Activities

- *Examples:*
 - Capital outlay
 - Depreciation expense
 - Principal payments
 - Changes in accrued interest payable

Revenue Classifications

1. Exchange transactions

- Transaction in which each party in the transaction directly receives and gives up something of value

2. Nonexchange transactions

- Transaction in which the government receives value without directly giving value (or vice versa)

Exchange Transactions

Examples: Charges for Services, Licenses, Permits, Fees, Fines, Forfeits

Revenue Recognition General Rule:

- Recognized in governmental funds when the exchange takes place and:
 - a) Revenue is measurable
 - b) Collection of the revenue is probable

Nonexchange Transactions

1. Derived Tax Revenues

- Result from assessments made by governments on exchange transactions
 - ✓ *Examples:* Income tax, sales and use tax, fuel taxes, etc

2. Imposed Nonexchange Revenues

- Assessments not based on exchange transactions
 - ✓ *Examples:* Property taxes, fines, penalties, property forfeitures

3. Government-mandated Nonexchange Transactions

- Government requiring another government to perform a program
 - ✓ *Examples:* State mandated road improvements, federally mandated drug abuse programs

4. Voluntary Nonexchange Transactions

- Legislative or contractual agreements entered into willingly between governmental or nongovernmental entities (some grants, endowments, etc)

Revenue Recognition in Governmental Funds

Revenue Recognition – Fund Level

- Revenues are **recognized** when they are **measurable** and **available**
 - Shown as deferred inflow if not available
- **Measurable**
 - Can quantify the revenue objectively
- **Available**
 - Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
 - *Current period* is generally defined as within 60 days of the financial report date.

Derived Tax Revenues

Examples: Sales taxes, income taxes, motor fuel taxes

Receivable Recognition

- When “underlying exchange has occurred” or when received, whichever is first

Revenue Recognition

- When “underlying exchange has occurred”
 - Report as deferred inflow if not “available”

Imposed Nonexchange Revenues

Examples: Property taxes, most fines and forfeitures

Receivable Recognition

- When “enforceable legal claim has arisen” or when received, whichever is first

Revenue Recognition

- When “resources are required to be used” or “period for which levied”
 - *Reason why property taxes are shown as revenue for the amount collected during the year, and receivable/deferred inflow for the following year’s collections*

Imposed Nonexchange Revenues

Property Taxes

- Calculated as the mill levy multiplied by assessed value
 - One mill = $1/1000$
- Collected in the year **after** mill levy is approved
- Revenue recognized when collected
- Receivable/Deferred Inflow for current year mill
 - To be received in the following year

Revenue Sources – Governmental Funds

Major Sources

1. Taxes

2. Licenses and permits

3. Intergovernmental revenues

4. Charges for Services

5. Fines and Forfeits

6. Miscellaneous

Grant Revenue

- **Frequently on a reimbursement basis**
 - Need for grant code in Chart of Accounts to identify expenditures for reimbursement
- **Federal Grants**
 - Recipients subject to Federal Single Audit requirements

Single Audit

- **Single Audit occurs if receiving over \$750,000 in Federal funding**
- **Only a sample of Federal grants are tested in detail**
- **Audit of Compliance Requirements**
 - Compliance Requirement Examples:
Allowable costs, spending cash before requesting reimbursement, eligibility, reporting
- **Internal Control over Compliance**
 - Not sufficient to be compliant. Must have controls in place to ensure compliance
- **Performed by independent auditors**
 - Auditors must meet Federal requirements
- **Report gets uploaded to the Federal government**

Deferred Outflows of Resources

Deferred Outflows of Resources

- A consumption of net position that is applicable to a future reporting period
- Has a positive effect on net position
 - Similar to assets
- Common Example Transactions
 - Grants **paid** in advance
 - Deferred amounts from the refunding of debt (debits)

Deferred Outflows of Resources

Assets

| | |
|---------------------------------|----------------|
| Cash and investments | \$ 155,315,117 |
| Accounts receivable | 13,255,109 |
| Property tax receivable, net | 143,938,423 |
| Due from other governments | 2,902,614 |
| Inventories | 523,271 |
| Prepaid and other items | 36,437 |
| Restricted cash and investments | 47,964,061 |
| Due from component unit | 1,585,000 |
| | <hr/> |
| Total non-capital assets | 365,520,032 |
| | <hr/> |
| Non-depreciable capital assets | 427,139,406 |
| Depreciable capital assets | 421,836,877 |
| | <hr/> |
| Total capital assets | 848,976,283 |
| | <hr/> |
| Total assets | 1,214,496,315 |
| | <hr/> |

Deferred outflows of resources

| | |
|--------------------------------------|------------|
| Refunding of bonds | 1,745,835 |
| Pension outflows | 19,893,499 |
| | <hr/> |
| Total deferred outflows of resources | 21,639,334 |
| | <hr/> |

Deferred Inflows of Resources

Deferred Inflows of Resources

- An acquisition of net position that is applicable to a future reporting period
- Has a negative effect on net position
 - Similar to liabilities
- Common Example Transactions
 - Taxes received in advance
 - Grants **received** in advance
 - Deferred amounts from the refunding of debt (credits)
 - “Unavailable Revenue” in governmental funds
 - Outside of 60 day “availability” classification

Deferred Inflows of Resources

| | General Fund |
|--------------------------------------|-------------------------|
| ASSETS | |
| Cash and investments | 1,315,856 |
| Receivables | |
| Other | 80,048 |
| Property taxes | 307,035 |
| Total assets | <u>\$ 1,702,939</u> |
| LIABILITIES | |
| Accounts payable | \$ 17,569 |
| Accrued salaries payable | 19,541 |
| Total liabilities | <u>37,110</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Property tax revenue | 307,035 |
| Total deferred inflows of resources | <u>307,035</u> |

Long-term Liabilities

Two Primary Types of Debt

- 1. General Obligation (GO) Debt**
- 2. Limited Liability Revenue Bonds**

Distinction: What security is pledged to back the repayment of the bonds (ie. what revenue can be used to pay back the debt)

Long-term Liabilities

General Obligation (GO) Debt

- ✓ Most common form of state and local government debt
- ✓ Secured by full faith and credit of the government
 - Maximum security to bondholders
- ✓ Generally can be re-paid by all sources of revenue
- ✓ Typically authorized by voters in a bond referendum

Long-term Liabilities

Limited Liability Revenue Bonds

- ✓ Payments on debt come from a specific revenue source
 - *Could be a sales tax, utilities charges, toll road fees, etc*

- ✓ Revenue source often matches what the bond proceeds are used for
 - *Revenue Bonds for sewer treatment facility backed by sewage fees*

- ✓ Generally have more stringent requirements
 - *Such as bond insurance or debt service reserves*

- ✓ Usually do not require voter approval (Enterprise Fund under TABOR)



to TABOR

Enterprise Fund under TABOR

- It's a government-owned business, housed in an existing state agency and run by a state employee
- It can only receive up to 10 percent of its annual revenue from state and local governments grants combined
- The bulk of the revenue for enterprises comes primarily from user fees
- Enterprises have bonding authority, meaning they can take out debt based upon the projected revenue from their user fees
- Enterprises cannot levy taxes and must provide goods or services in exchange for fees

Long-term Liabilities – Other Financing Options

Certificates of Participation (COPs)

✓ Also referred to as “Lease rental revenue bonds”

1. Proceeds from bonds to acquire a capital asset through a trustee
2. Trustee leases the asset to the government
3. Government’s lease payments to the trustee repay the COPs

Investor Incentives for COPs: Lease payments to the trustee which then pass through to the investor(s), including interest, are tax exempt.

Long-term Liabilities

Footnote Disclosures

1. Schedule of changes in long-term liabilities

- Includes all long-term obligations except pension and other postemployment benefits (OPEB)

2. Schedule of Debt Service Requirements

- Principal and Interest reported separately
- Shows next five years individually, then five year increments

3. Description of individual bond issues outstanding

- Including the type of bonds (GO or revenue) the purpose for which they were issued, the original issue date and amount, the current amount outstanding, interest rates, maturities, and significant bond covenants and liquidity agreements

GASB 68/75 – *Accounting and Financial Reporting for Pensions*

GASB 68 was a huge change in governmental accounting for participants in defined benefit pension plans

Reporting for GASB 68/75:

- Actuarial valuation required
 - One to two year lag between valuation date and report date
- Difference between future total assets and total liabilities as calculated by the actuary is called the “Net Pension Liability”
 - or “Net Pension Asset” if expected assets exceed liabilities
- Net pension liability/asset is shown on the balance sheet of the participant.

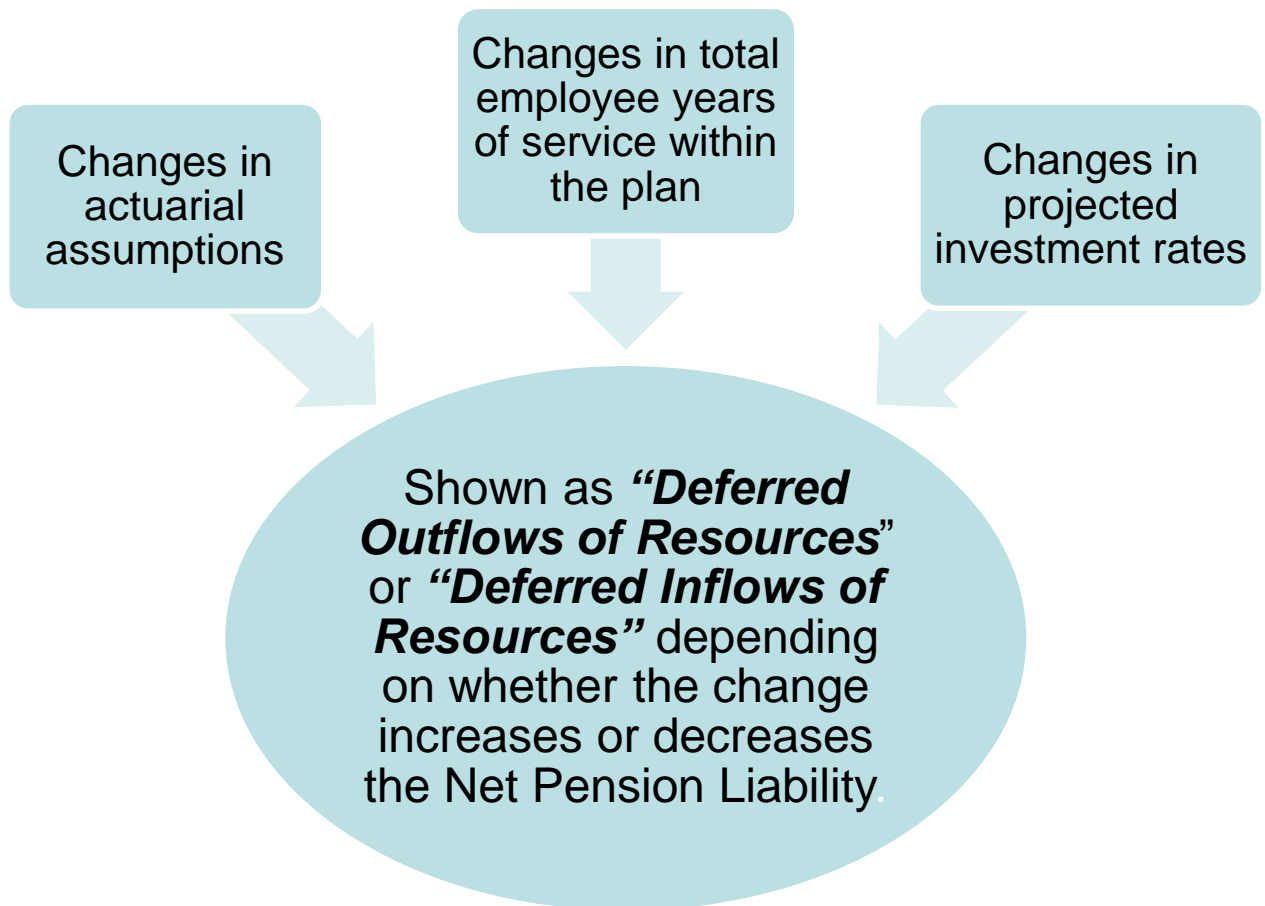
GASB 68/75 – Accounting and Financial Reporting for Pensions

Changes in the Net Pension Liability:

- GASB did not want the year-to-year change in Net Pension Liability to show up entirely in the income statement
 - Could have potential for enormous adjustments each year based on actuarial assumptions/inputs

Changes related to changes in actuarial assumptions, changes in total employee years of service within the plan, and changes in projected investment rates are **shown on the balance sheet and amortized** rather than shown on the income statement

Changes in the Net Pension Liability



GASB 68/75 – Accounting and Financial Reporting for Pensions

Single and Agent Employer:

- Pension plan is specific to that employer. All employees, contributions, and pension obligations relate to that employer.
 - *Example:* County pension plan, agent plan with FPPA

Cost-Sharing Employers

- Many employers participate in one pension plan. Contributions and pension obligations are pooled between employers.
 - *Example:* PERA defined benefit plan, FPPA Statewide defined benefit plan

Proportionate Share for Cost-Sharing Employers

Proportionate Share for Cost-Sharing Employers

- Proportionate Share = Employer Contributions
Divided by Total Employer Contributions
- Multiply the Net Pension Liability, Deferred Outflows, and Deferred Inflows by the Proportionate share
 - These amounts are what goes on the financial statements
- Changes in proportionate share from the previous year
 - Shown as a deferred outflow/inflow and amortized

GASB 68/75 – Accounting and Financial Reporting for Pensions

Required disclosures in the footnote:

- Plan Description
- Detail of benefits provided
- Detail of required contributions
- How the net pension liability was measured
- Schedule of Deferred Inflows and Outflows
- Pension Expense amortization schedule
- Actuarial assumptions
 - Inflation, discount rate, investment rate of return, mortality rates, etc
- Discount rate – and how a 1% change would affect the Net Pension Liability (NPL)
- Pension plan fiduciary net position

Compensated Absences

Underlying thought process:

• **Vacation leave** and similar **compensated absences**, except sick leave, should be accrued when the benefits are earned and it is probable that the employee will be **compensated** through paid time off or cash

• **Sick leave** is accrued for payouts anticipated for reasons other than actual days taken for being sick

- Accrued using either:
 1. Termination Payment Method
 2. Vesting Method

Compensated Absences

Important Note:

- Compensated absences is only for full accrual
- ✓ Not shown on governmental funds
- ✓ Shown on government-wide statements
- ✓ Shown on proprietary funds

Example: Accrued Vacation Calculation

Vacation Leave Assumptions

1. Employees earn one and one-half days of vacation per month.
2. Employees are required to have one year of service before they are allowed to take vacation time or be paid for accumulated vacation upon termination.
3. Vacation balances accumulated are paid at the employee's current salary rate.
4. Salary-related payments are an additional 9.5% of vacation benefits paid.

Example: Accrued Vacation Calculation

Step 2:

Calculate the vacation leave liability

| <u>Employee</u> | <u>Daily Salary</u> | <u>Probable Vacation Balance Payable</u> | <u>Vacation Liability</u> |
|-----------------|-------------------------------|--|-------------------------------|
| John | \$150 | 42 | \$6,300 |
| Sally | 135 | 27 | 3,645 |
| Jane | 100 | 12 | 1,200 |
| David | 95 | 0* | - |
| | | | <hr/> |
| | | | \$11,145 |
| | 9.5% Pension related payments | | <hr/> |
| | | | 1,059 |
| | | Total Vacation Liability | <hr/> \$12,204 |

*Estimated that it is probable that David will not meet the required one year of service

Accrued Sick Leave

- **Only accrued for anticipated payouts**
 - Time taken off due to a *contingent event* (getting sick, jury duty, etc) is not accrued for.
- **Based on reasonable expectations of payment**
 - Not just what would be paid if the entity ceased operations at the end of the fiscal year

Two Accrual Methods from GASB 16

- 1. Termination Payment Method**
- 2. Vesting Method**

Termination Payment Method

1. Sick leave is accrued as a liability when the benefit is earned and it is probable that the benefit will be **paid out** upon termination or retirement.

2. Accrual based on estimate from historical experience on sick leave payments

➤ Requires historical data

- ✓ GASB 16 suggests three to five years as reasonable time period for estimating historical data

Vesting Method

1. Sick Leave is accrued based on accumulation by active employees currently eligible to receive payments if employment was terminated, as well as other employees who are expected to become eligible in the future.
 2. Accruals for future eligibility should be based on assumptions concerning the probability that individual employees or classes of employees will become eligible to receive termination payments.
- No historical data required – based on active employees

Outline of the Annual Report

Comprehensive Annual Financial Report

- More extensive report than GASB requirements
- GFOA Certificate of Achievement based reporting
- Three main parts:
 1. Introductory Section
 2. Financial Section
 3. Statistical Section

Outline of the Annual Report

Introductory Section

- Letter of Transmittal
- GFOA Certificate of Achievement
- List of Principal Officers
- Organizational Chart

Financial Section

- Auditor's report
- Management discussion and analysis
- Basic Financial Statements
 - Including Notes to the Financial Statements
- Required Supplementary Information (RSI)
- Combining statements and individual fund statements
 - Primarily for nonmajor funds

Outline of the Annual Report

Statistical Section

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic
- Operating

Most data is presented for the most recent 10 years

Financial Section

Management Discussion and Analysis

- Analysis of the financial condition and operating results of the government written by its *financial managers*
 - Both past and present activities
- Minimum Required Components:
 - Brief discussion of basic financial statements
 - Condensed financial information to support analysis
 - Analysis of overall financial position and results of operations
 - Analysis of significant variations between original and final budget amounts
 - Description of significant capital assets and long-term debt activity
 - Description of any currently known facts, decisions, or conditions that are expected to have a significant impact on the entity's financial position
- MD&A is reviewed for reasonableness and consistency,
 - It is **not audited**.

Financial Section

- Basic Financial Statements
 - Government-Wide
 - Government-Wide Statement of Net Position
 - Government-Wide Statement of Activities
 - Fund Statements
 - Balance Sheet
 - Reconciliation to Statement of Net Position
 - Statement of Revenues, Expenditures, and Changes in Fund Balance
 - Reconciliation to Statement of Activities
 - Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
 - Budget is an essential part of government statements and the Annual Report

Financial Section

- Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
 - Only major funds shown in Basic Statements
 - Can only include General Fund and Major Special Revenue Funds
 - Major Fund Determination
 - General Fund is always considered a major fund
 - Based on size (see table on next slide)
 - Any other funds that are deemed to be important for separate disclosure
 - NOTE: Non-major funds are shown as one aggregated column in government-wide financial statements

Financial Section

- Basic Financial Statements (continued)
 - Proprietary Fund Statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - This is the only section of the Annual Report where a cash flow statement is prepared
 - Presented based on the direct method
 - Fiduciary Fund Statements
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
 - Notes to the Financial Statements

Financial Section

- Required Supplementary Information (RSI)
 - Will vary based on the requirements for the entity
 - Major fund budget to actuals
 - Reviewed for reasonableness, **not audited.**
- Supplementary Information (SI)
 - Will vary based on the type of the entity
 - Combining Schedules
 - Shows the roll up of all non-major funds into the basic financial statements
 - Contains brief descriptions of each non-major fund
 - Reviewed for reasonableness, **not audited.**
 - “In relation to” opinion

Statistical Section

- Will vary slightly based on the type of the entity
 - GASB 44 addresses requirements for the Stats Section
- **Not audited.**
- Not subjected to auditing procedures applied to the audit of the basic F/S, no opinion is given on them

Statistical Section

1. Financial trends

- Intended to assist users in understanding and assessing how a government's financial position has changed over time.

2. Revenue capacity

- Intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues

3. Debt capacity

- Intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt

4. Demographic and economic

- Intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments

5. Operating

- Intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition

Colorado Statutes

- Helpful websites

Colorado Statutes and Constitution

- <http://www.leg.state.co.us>

Division of Local Governments

- <http://www.dola.state.co.us>

Office of the State Auditors

- <http://www.leg.state.co.us>

Governmental Accounting Immersion Series Session 2

Q & A

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