



Accounting Principles

Robert W Dolan, Finance Director/Deputy Fiscal Officer
Cuyahoga County Public Library

March 9, 2025

Topics

- GAAP
- Fund Accounting
- Cash Basis of Accounting
- Capital Assets
- Financial Reporting

WHAT IS GAAP?

- Generally Accepted Accounting Principles
- Common set of accounting principles, standards and procedures governing the formatting and accepted ways of recording and reporting accounting information
- Designed to provide all primary users of external financial reports with the minimum level of consistency in the financial statements needed to assess an entity's finances.

WHO DEFINES GAAP?

- Governmental Accounting Standards Board (GASB)
- Independent standard setting body ensuring that the needs and desires of all interested parties, including preparers, auditors, and users of financial statements, receive full and fair consideration in a timely manner.

FUND ACCOUNTING



NUMBER OF FUNDS

- No limit on the number of individual funds a government may use.
- However, you should use the smallest number of individual funds possible.
- In short: “As many as you need, As few as you can.”



FUND TYPES

Each of the eleven fund types can be grouped into one of these three broad classifications:

- Governmental Funds
 - General Fund
 - Special Revenue Funds
 - Capital Projects Funds
 - Debt Service Funds
 - Permanent Funds
- Proprietary Funds
 - Enterprise Funds
 - Internal Service Funds
- Fiduciary Funds
 - 4 types to be discussed later

GOVERNMENTAL FUNDS

Governmental funds typically are used to account for tax-supported (governmental) activities.

The five fund types used to account for a government's “governmental” activities include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds



GENERAL FUND

Governmental

- The chief operating fund of a state or local government.
- Accounts for all financial resources that are **not** restricted to specific purposes or otherwise required to be accounted for in another fund.
- Never more than one General fund.



SPECIAL REVENUE FUNDS

Governmental

- Accounts for the proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted or committed to expenditures for specified purposes.
- No Debt Service or Capital Grants

DEBT SERVICE FUNDS

Governmental

- Account for and report the accumulation of financial resources that are restricted, committed, or assigned to repayment of debt principal and interest.
- Permitted, not required, unless:
 - Legally mandated
 - Financial resources are being accumulated for P & I payments maturing in future years.



CAPITAL PROJECTS FUNDS

Governmental



- Account for financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).
- In the absence of some legal requirement, their use is permitted rather than required.

PERMANENT FUNDS

Governmental

- 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.
- Examples: Cemetery Perpetual Care;
Library Endowment Fund

PROPRIETARY FUNDS

- Account for a government's "business-type" activities (supported in part by fees or charges).
- The two fund types used to account for a government's "business-type" activities include:
 - Enterprise Funds
 - Internal Service Funds
- Proprietary fund accounting similar to private sector accounting

ENTERPRISE FUND

Proprietary

An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services.

- Required for any activity which meets any of the following criteria:
 - Debt backed solely by fees and charges;
 - Legal requirement to recover full cost;
 - Policy decision to recover full cost.
- Used for public utility operations: e.g., Water

INTERNAL SERVICE FUND

Proprietary

- Accounts for the financing of goods or services provided by one department or agency
 - to other departments, agencies of the governmental unit and its component units, or to other governmental units
 - on a cost-reimbursement basis
 - if intent is to recover the full cost of providing a service through user charges.
- Mostly used as a cost-reimbursement device:
- Ex: self insurance, central garage, central computer dept.

FIDUCIARY FUNDS

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

Fiduciary funds include:

- Pension Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
- Agency Funds



PRIVATE PURPOSE TRUST FUNDS

- Account for Principal & Income of trust arrangements other than pension and investment
- For Benefit of Individuals, Private Organizations, & Other Governments
- Funds must be legally restricted by Trust Agreement

AGENCY FUND

Fiduciary

- Accounts for assets held in custodial relationship.
- Temporarily hold, invest assets, then remit them to individuals, private organizations, other governments.



Accrual Basis vs. Modified Accrual Basis of Accounting

Accrual Basis

- Recognizes increases and decreases in economic resources when transaction occurs
- Revenues are recognized when earned
- Expenses are recognized when incurred, regardless of timing of inflow/outflow
- Followed by Proprietary and Fiduciary Funds

Modified Accrual Basis

- Recognize increases and decreases in financial resources that reflect near-term inflows/outflows
- Revenue recognized when earned when collectible within a period
- Expenses are recognized when payment is due or paid
- Followed by Governmental Funds

Basis of Accounting and Measurement Focus by Fund Type

| Fund Type | Measurement Focus | | Basis of Accounting | |
|--------------|--------------------|-----------------------------|---------------------|------------------|
| | Economic resources | Current financial resources | Accrual | Modified Accrual |
| Governmental | | X | | X |
| Proprietary | X | | X | |
| Fiduciary | X | | X | |

CAPITAL ASSETS

WHAT ARE CAPITAL ASSETS?

- Capital assets are major assets used in operations that have initial lives extending beyond a single reporting period and whose historical cost exceeds a predetermined capitalization threshold.
- Examples include land, buildings, improvements, furniture and fixtures, machinery and equipment, vehicles, infrastructure, etc.

HISTORICAL COST

The historical cost of a capital asset should include all of the following:

- Ancillary charges necessary to place the asset in its intended location (freight charges).
- Ancillary charges necessary to place the asset in its intended condition for use (installation and site preparation charges).
- Capitalized interest, if applicable.

CAPITALIZATION THRESHOLD

- A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets.
- Anticipated information needs of the external user must be considered.

THRESHOLD GUIDELINES

- A government should establish a recommended capitalization threshold to be never less than \$5,000 for any individual item.
- In setting capitalization thresholds, a government also should consider any restrictions imposed by grantors.

WHAT IS INFRASTRUCTURE?

- Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.
- Examples include roads, bridges, lighting systems, drainage systems, dams, tunnels and water and sewer systems.

PHYSICAL INVENTORY

- Although most governments have installed perpetual inventory systems to maintain control over their capital assets and relieve them from the burden of performing annual physical inventories, GFOA recommends that every state and local government perform a physical inventory of its capital assets, either simultaneously or on a rotating basis, at least once every two years.

PHYSICAL INVENTORY

- Regardless of method of accounting, a physical inventory is required.
- Perform physical inventory count as close to year-end as possible.
- Value inventory items at historical cost.

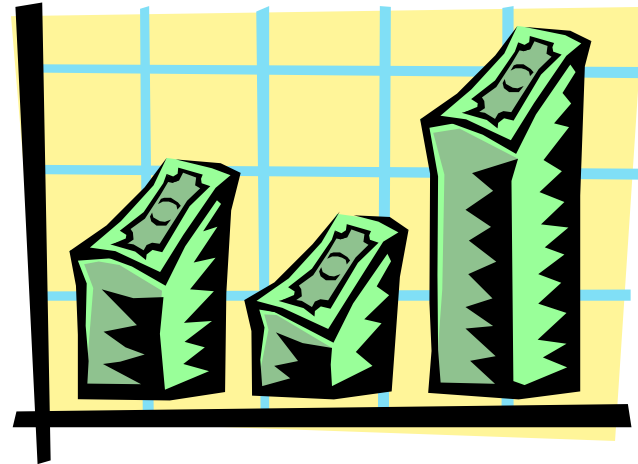


FINANCIAL REPORTING

- Internal Reporting
- External Reporting

Internal Reporting

- Also known as
 - Management Reporting
 - Interim Reporting



Internal Reporting

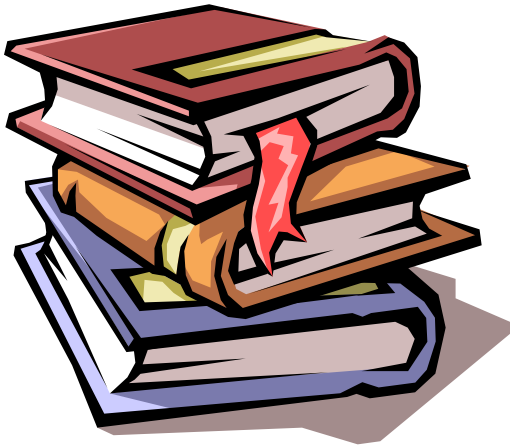
- What are internal reports?
 - Interim reports given to management and elected officials
- Why?
 - To provide financial information for decision making.
- When?
 - Monthly, quarterly, yearly or as requested

Internal Reporting

- Internal Reporting is typically done on a cash or budgetary basis
- Users understand this basis
- Easy to follow progress of budget
- Consistency is key for internal users

Internal Reporting

- Format of reports:
 - Typically by funds
 - General Fund
 - Main operating funds
 - Capital Projects



Internal Reporting

- Revenues/Expenditures
 - Are we meeting projections?
 - Major revenue sources
 - Expenditures to date
 - Are current appropriations sufficient?



Internal Reporting

- Expenditures
 - Are our expenditures going to exceed appropriations?
 - Were the expenditure projections accurate?
 - Are encumbrances timely and correct?
 - What modifications can be made to stay within the budget?

Internal Reporting

- Other important reporting information
 - Use of grants
 - Capital project updates
 - Cash and investments
 - Special projects

Internal Reporting

- Finance Officer responsibility to report pertinent information to users that is
 - Accurate
 - Timely
 - In a manner that is sufficient to make decisions

External Financial Reports

Who Reads This Stuff?

- Investors
- Credit Analysts
- Auditor of State
- Legislative Body
- Management
- Citizens



Annual Requirement to File with the Auditor of State



Filing Annual Financial Reports with the Auditor of State

- Fiscal officer submit to AOS
 - Not to audit staff during the audit
- Submitted version does not need to be audited
- Electronic filing is preferred
- PDF format if filed electronically



Filing GAAP ACFR's with AOS

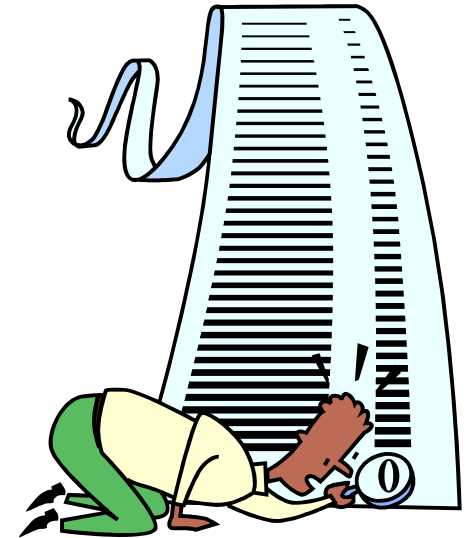
- County, city, school, etc.
 - Component unit of these
- All required statements
 - Including footnotes
- Will not accept cash basis

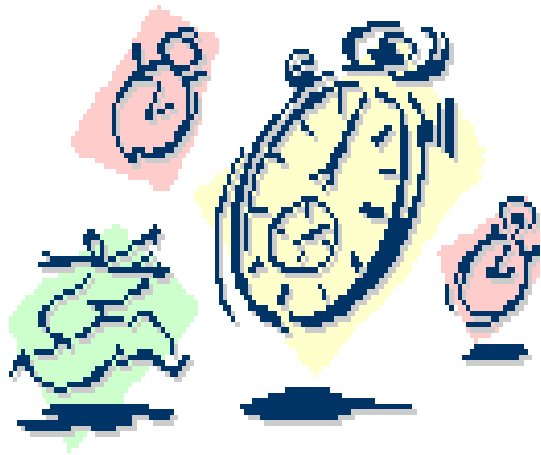


Cash Basis Annual Financial Reports

12 prescribed reports

- Villages (non UAN)
 - Libraries (non UAN)
 - Townships (non UAN)
 - General Health District
 - Metropolitan Park District
 - 7 others
- Not prescribed
 - Same format as summarized to Board





Filing Deadline

- Cash basis annual financial report
 - Certified by the fiscal officer or board
 - Filed within sixty (60) days after the close of the fiscal year
- Reporting pursuant to GAAP
 - File reports within one hundred fifty (150) days after the close of the fiscal year

Publication of Availability

- When AFR filed with AOS
- Notice only is required
 - Organizational website
- In newspaper published in local
 - If not, general circulation



Annual Comprehensive Financial Report (ACFR)

- Not required, but recommended
- Certificate of Achievement for Excellence in Financial Reporting
 - National Government Finance Officers' Assn. (GFOA)



ACFR Contents

- Introductory Section
 - General information
 - Letter of Transmittal
- Financial Section
 - Management's Discussion & Analysis (MD&A)
 - GAAP Financial Statements
 - Notes to the Financial Statements
 - Other Information not required by GAAP
- Statistical Section



Reporting to the Citizens

- Typical government financial statements may be difficult for many citizens to understand.
- Consider a special report for citizens
 - Summarized data
 - Written in layman's language
 - No accounting jargon
 - Lots of charts / graphs
 - Distribute via web site, libraries, etc.



Accounting Principle Questions?