

Ohio GFOA Intermediate Governmental Accounting

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Jason Cook, Senior Financial Analyst-
City of Dayton, Ohio



Funds, Fund Types & Interfund Activity

Chapter 4

Nature & Purpose of Fund Accounting

- Private Sector
 - Accountable for resource utilization after the fact
- Public Sector
 - Assistance from higher levels of government
 - Legislative branch vs management
 - Accountability preempted

Nature & Purpose of Fund Accounting

A governmental accounting system must make it possible both

- (a) to present fairly and with full disclosure the funds and activities in compliance with GAAP
- (b) To determine and demonstrate compliance with finance related legal and contractual provisions

of Funds Principle

- Minimum number of funds to meet legal and administrative requirements
- Too Many funds?
 - Complexity
 - Inefficient
 - Inflexible

Fund Defined

A 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, which are *segregated for* the purpose of carrying on *specific activities* or attaining certain objectives *in accordance with* special regulations, *restrictions or limitations*.

Funds Categories

- **Governmental Funds**
 - Used to account for activities primarily supported by taxes, grants, and similar revenue sources
- **Proprietary Funds**
 - Used to account for activities that receive significant support from fees and charges
- **Fiduciary Funds**
 - Used to account for resources that a government holds as agent or trustee for an outside party

Fund Types

- Governmental
 - General
 - Account for everything not accounted for or reported in another fund
 - Special Revenue
 - Proceeds of *specific revenue sources* restricted or committed to expenditure for *specified purposes* other than debt service or capital projects

Fund Types

- **Governmental**
 - **Capital Projects**
 - To account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays
 - Prevent data distortion
 - **Debt Service**
 - To account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest
 - **Permanent funds**
 - Resources restricted to the extent that only earnings and not principal may be used to support govt. activities

Fund Types

- Proprietary
 - Enterprise
 - *May* be used for any activity for which a fee is charged to external users for goods or services
 - *Must be used if* :
 - *Outstanding debt backed by revenue*
 - *Laws or regs. require fees to recover cost*
 - *Pricing policy in place to recover cost*
 - *Capital cost?*

Fund Types

- Proprietary
 - Internal Service
 - To report any activity that provides goods or services to other funds, departments, or agencies of the primary government or its component units
 - Always optional
 - Limitations:
 - Government must be predominant participant
 - Fund must operate on breakeven over time

Fund Types

- Fiduciary
 - Pension Trust
 - Investment Trust
 - External portion of investment pools
 - Private-purpose Trust
 - All other trust arrangements
 - Agency
 - Custodial capacity

Interfund Activity

- Four Ways for Primary Government to interact creating “interfund activity”
 - Reciprocal activity
 - One fund loans money to another
 - One fund furnishes goods or services to another
 - Nonreciprocal
 - One fund furnishes resources to another with no expectation of repayment (interfund transfer)
 - One fund reimburse another for cost incurred on its behalf (interfund reimbursement)

Government Wide Financial Statements

Chapter 5

2 Essential Facets of Accountability

- Fiscal
 - Justify actions have complied with public decisions to raise and spend public monies
- Operational
 - Report the extent we have met operating objectives efficiently and effectively and whether they can continue to meet objectives for foreseeable future

What changes from fund to Entity-Wide?

- Move from Funds to Activities
 - Governmental
 - Business type
 - Internal Service?
 - Fiduciary?

What changes from fund to Entity-Wide?

- **Governmental Funds to Activities**
 - Measurement focus
 - Current financial resources to economic resources
 - Basis of Accounting
 - Modified accrual to full accrual
 - Fund balance to Net position
- **Business type funds**
 - No changes

Aggregation to Consolidation

- Interfund Activity
 - Governmental fund to governmental fund
 - Governmental fund to enterprise fund
 - Internal service funds

Financial Reporting Entity

Chapter 6

Financial Reporting Entity

- GAAP requires governments to define their reporting entity in a way that fully reflect the financial accountability of that government's officials.
- Must include (at minimum) the government itself (primary government) but also any legally separate units that if excluded could render the financial statements misleading

Primary Government

- All State Governments are primary
- General Purpose Governments are primary
- “Special” Purpose Governments are primary only if it meets 3 criteria:
 - Separate legal status (sue, be sued, hold property in own name)
 - Separately elected governing body(general election)
 - Fiscal independence (one that is **not** fiscally dependent on other government)

Component Units

- Legally separate organization that a primary government must include as part of its financial reporting entity for “fair presentation”
- Three tests for Component Unit
 - Board Appointment
 - Fiscal Dependence
 - Exclusion would result in misleading financial reporting

Component Unit Three Tests

- #1: Board Appointment
 - Appointment must be “substantive”..real choice of the appointing government
 - Not just approving a list of candidates
 - Appointing government must be able to exercise a degree of control
 - Must appoint the “voting” majority
 - Relationship must be “on-going”
 - ANY OF FOLLOWING 3, INDICATES “ON-GOING”
 - Ability to impose it’s will
 - In position of financial benefit
 - Assumes a financial burden

Component Unit Three Tests

- #2: Fiscal Dependence

Created when one governing board can arbitrarily override the financial decisions of another

- Budget
- Levying of taxes
- Issuance of bonded debt

– Must also have financial benefit/burden to include as component unit

Component Unit Three Tests

- #3: Omission of this unit would result in incomplete or potentially misleading financial reporting
 - Examples:
 - Foundations related to a college or a hospital
 - Public retirement systems

Other Notes on Components

- NO dual-inclusion:
 - A legally separate unit can ONLY be included in one primary government (even if it meets the tests for one or more primary government)
- Fiduciary Funds of Primary Government
 - Are reported simply as a fund of the primary government....not component

Reporting Entity Presentation

- Two ways that primary government reports component units. Method depends on nature of relationship that exists between the two units.
- Component that function as an integral part of primary are “blended”
- Component that function with autonomy are “discretely presented” (together with but separate from the primary government)

Criteria For Blending

- Two situations where blending is appropriate
 - Shared governing body (substantively the same or voting majority is the same)
 - Exclusive (or almost exclusive) benefit to the primary government
 - Provide services entirely (or almost entirely) or provide benefits exclusively (or almost exclusively) for primary government
 - (function like an internal service fund)
 - CU general fund reclassified to special revenue

Separate Reporting

- Component units that are “discretely presented” may also issue their own separate, stand-alone financial reports.
 - Should use all the applicable accounting rules that the primary government
 - Should include all of it’s component units as well
 - Relationship between component and primary government must be disclosed on the cover of the report and in the financial notes

Summary Reporting Entity

- Primary Government (elected board, separate legal status & fiscal independent)
- Component Units (legally separate unit that must be reported with primary government)

Summary Reporting Entity

- When does a primary report a unit as a component?
 - When it meets test
 - Appointment of the Board
 - Fiscal dependence
 - Potentially misleading to exclude
 - How is it reported?
 - Blended
 - Discretely presented

Governmental Fund Statements

Chapter 13

Presentation of Funds

- Too many funds to present individually
 - Not feasible
 - Confusing
- 2 Categories
 - Major – presented separately
 - Nonmajor – aggregated into single column

Major Fund determination

- Test financial statement elements
 - Assets + deferred outflows
 - Liabilities + deferred inflows
 - Revenues
 - Expenditures/expenses

Major Fund determination

- Exclusions from calculation
 - Governmental
 - Extraordinary items
 - Other financing sources and uses
 - Enterprise
 - Extraordinary items
 - Transfers in or out

Major Fund determination

- How to calculate
 - Compute 10% of each element for governmental funds
 - Compute 5% of each element for governmental funds + enterprise funds
 - Use highest amount for each element threshold
- If governmental revenues are 50,000 and govt + enterprise are 250,000 then use govt. + enterprise for revenues ($12,500 > 5,000$)

Major Fund determination

- How to calculate
 - Compare each element for each fund to the figures from previous slide
 - If any fund element exceeds the threshold then it is a major fund and must be presented in its own column
- Qualitative major fund
 - Management believes it should be shown even if threshold is not met each year (capital projects?)

What Are Govt. Fund Statements?

- Governmental fund balance sheet
- Governmental fund statement of revenues, expenditures and changes in fund balances
- Budgetary comparison (optional as basic financial statement)

What is the GF Balance Sheet?

- Financial assets
- Deferred outflows of resources
- Liabilities to be paid from available expendable resources
- Deferred inflows of resources
- Difference = fund balance
 - Non spendable
 - Spendable
 - *Restricted*
 - *Committed*
 - *Assigned*
 - *Unassigned (GF only)*

Focus of Classification:

“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, paragraph 5)

Components of Fund Balance

- 5 Categories
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned
- Not all will always be present

Nonspendable fund balance

- Not in spendable form
 - Cannot ever be spent (e.g. supplies inventories and prepaid items)
 - Cannot currently be spent (e.g. the long term portion of loans receivable and nonfinancial assets held for resale)
- Legally or contractually required to be maintained intact (principal of an endowment or revolving loan fund)

Nonspendable, continued

- Resources that cannot currently be spent
 - If constraints on the purpose for which the proceeds can be used, classify based on constraint
- Only long-term loans receivable would be classified as nonspendable fund balance
- Other long-term receivables offset by liability for deferred revenue (thus no fund balance)

Spending constraints

- Restricted
 - Committed
 - Assignment
-
- No requirement that constraint be narrower than the purpose of the fund (except for general fund assigned fund balance)

Restricted fund balance

- Amounts subject to externally enforceable legal restrictions
 - Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments
 - Imposed by law through constitutional provisions or enabling legislation

Committed fund balance

- Amounts whose use is constrained by limitations that the government imposes upon itself
 - Imposed at the government’s highest level of decision making
 - Normally the governing body, with consent of the executive
 - Binding unless removed in the same manner
 - Action taken no later than the close of the reporting period

Assigned fund balance

- Intended use of resources
 - Established by the governing body itself, or
 - Established by a body or an official delegated by the governing body
- Never in excess of total fund balance less its nonspendable, restricted and committed components

Committed v. Assigned

- Level at which action must be taken
 - Committed requires highest level of decision-making
 - Assigned allows delegation to some other body or official
- Action necessary
 - Formal action to impose, remove, or modify a constraint reflected in committed
 - Less formal for assigned

Unassigned fund balance

- Excess of total fund balance over nonspendable + restricted+ committed + assigned components
 - Positive balance only possible in the general
 - Deficit balance possible in any governmental fund
 - Deplete general fund assigned before reporting deficit unassigned

Other provisions

Stabilization arrangements

Can be restricted or committed

Never assigned

Encumbrances

If liquidation expected from restricted or committed,
constraint already reflected

Otherwise, assigned fund balances

What Is the GF Operating Statement?

- Statement of revenues, *expenditures* and changes in fund balances
- Other financing sources and uses reported separately to avoid distorting trend data
 - Issuance of debt (including capital leases)
 - Sale of capital assets (if not “special item”)
 - Transfers
 - Refunding transactions

What Is the Format of Operating Statement?

- Revenues
- Expenditures
- Excess (Deficiency)
- Other financing Uses
- Special & Extraordinary Items
- Net change in Fund Balance
- Beginning Fund Balance
- Ending Fund Balance

How do we report?

- Revenues
 - By major source
- Expenditures
 - By function or program (at minimum)
- What about capital outlay?

What is the Budgetary Comparison?

- Compare
 - Original budget to final amended budget
 - Final amended budget to actual (presented on the budgetary basis)
- Options
 - Basic financial statement (GFOA recommended practice consistent with current practice)
 - Required supplementary information

Why GF Financial Statements?

- Most decisions in public sector made in context of operating budget
 - Focus on near-term inflows and outflows of spendable resources
 - Includes budgeted items not otherwise reported in operating statement (e.g., capital outlay)
 - Excludes from operating statement items not typically budgeted (e.g., the incurrence of liabilities payable in future years, depreciation)

Proprietary Statements

Chapters 14, 15 & 16



2 Types of Proprietary Funds

- Enterprise
 - Services to non-government customers
- Internal Service
 - Services to other funds, departments or agencies of the primary government

What are Proprietary Statements?

- Statement of net position
- Statement of revenues, expenses and changes in fund net position
- Statement of cash flows

Measurement Focus and Basis of Accounting

- Economic Resources
- Full Accrual
 - Revenues recognized when earned
 - Expenses recognized when incurred

Statement of Net Position/ Balance Sheet

- Must use classified format (classifying assets and liabilities as current and noncurrent)
- Major fund reporting same as governmental funds; except internal service funds never major and 10 and 5 percent criteria should be applied to all enterprise funds and total of all governmental and enterprise funds, respectively
- Separate aggregated column for internal service funds immediately following the total column for all enterprise funds (non-major by definition)

3 Classifications of Net Position

- Net investment in capital assets
- Restricted net position
- Unrestricted net position

What is the PF Statement of Changes?

- Operating items distinguished from nonoperating items
 - Demonstrates the degree to which a fund recovers the costs of the services it provides
- Nonoperating items
 - Capital grants
 - Operating subsidies
 - Taxes
 - Interest
 - Other
- Reconcile operating income to net cash

Order of Presentation

- Operating revenues
- Operating expenses
- Operating income (loss)
- Nonoperating revenues (expenses)
- Capital contributions; special and extraordinary items; transfers
- Net position, Beginning of year
- Net position, End of year

What is the PF Statement of Cash Flows?

- Positive or negative cash flow? Not evident from operating statement (unlike governmental funds)
- What are the sources and uses of cash?
 - Operating activities
 - Noncapital financing activities
 - Capital and related financing activities
 - Investing activities
- Must use direct method

Operating Income v. Operating Cash

| TRANSACTION | EFFECT ON OPERATING INCOME | EFFECT ON CASH FLOWS FROM OPERATING ACTIVITIES | ADJUSTMENT THAT NEEDS TO BE MADE TO OPERATING INCOME IN RECONCILIATION |
|---|----------------------------|--|--|
| SALES ON CREDIT (I.E., CREATION OF ACCOUNTS RECEIVABLE) | INCREASE | NONE | SUBTRACT TO ARRIVE AT NET CASH FLOWS |
| COLLECTION OF RECEIVABLES | NONE | INCREASE | ADD TO ARRIVE AT NET CASH FLOWS |

Operating Income v. Operating Cash (cont.)

| TRANSACTION | EFFECT ON OPERATING INCOME | EFFECT ON CASH FLOWS FROM OPERATING ACTIVITIES | ADJUSTMENT THAT NEEDS TO BE MADE TO OPERATING INCOME IN RECONCILIATION |
|---|----------------------------|--|--|
| INCURRENCE OF PAYABLES AND OTHER OPERATING LIABILITIES | DECREASE | NONE | ADD TO ARRIVE AT NET CASH FLOWS |
| LIQUIDATION OF PAYABLES AND OTHER OPERATING LIABILITIES | NONE | DECREASE | SUBTRACT TO ARRIVE AT NET CASH FLOWS |

Operating Income v. Operating Cash (cont.)

| TRANSACTION | EFFECT ON OPERATING INCOME | EFFECT ON CASH FLOWS FROM OPERATING ACTIVITIES | ADJUSTMENT THAT NEEDS TO BE MADE TO OPERATING INCOME IN RECONCILIATION |
|----------------------------|----------------------------|--|--|
| PURCHASE OF INVENTORIES | NONE | DECREASE | SUBTRACT TO ARRIVE AT NET CASH FLOWS |
| CONSUMPTION OF INVENTORIES | DECREASE | NONE | ADD TO ARRIVE AT NET CASH FLOWS |

Operating Income v. Operating Cash (cont.)

| TRANSACTION | EFFECT ON OPERATING INCOME | EFFECT ON CASH FLOWS FROM OPERATING ACTIVITIES | ADJUSTMENT THAT NEEDS TO BE MADE TO OPERATING INCOME IN RECONCILIATION | ELEMENTS OF RECONCILIATION: |
|----------------------|----------------------------|--|--|--|
| | | | | START: OPERATING INCOME |
| DEPRECIATION EXPENSE | DECREASE | NONE | ADD TO ARRIVE AT NET CASH FLOWS | ADD BACK DEPRECIATION EXPENSE AND AMORTIZATION EXPENSE |
| AMORTIZATION EXPENSE | DECREASE | NONE | ADD TO ARRIVE AT NET CASH FLOWS | |
| | | | | FINISH: NET CASH FLOWS FROM OPERATING ACTIVITIES |

Common Errors in Statement of Cash Flows Preparation

- Reporting interest and dividends received
- Reporting interest paid
- Reporting proceeds from debt issues
- Reporting investments
- Reporting noncash transactions
- Netting cash flows
- Reconciliation – receivables and payables containing operating and nonoperating balances

Should An Enterprise Fund Always Support Itself?

- Some enterprise funds designed to recover full cost
- Other enterprise funds designed to recover only a portion of their cost (subsidy reflects perceived indirect benefit to general public)
- Must distinguish between the two situations

Surplus/Deficit in Internal Service Fund?

- Role of internal service fund = allocation of cost
- Ideally “break even” basis
 - Exception for “working capital” needs
 - Exception for replacement of capital assets
- Substantial ongoing surplus/deficit may mean that charges are excessive or insufficient

Fiduciary Funds

Chapters 17 & 18



Fiduciary Defined

- GASB # 84, Fiduciary Activities
 - Effective for periods beginning after 12/15/18
- Not included in this presentation

Fiduciary Defined

- Used to report assets held in a *trustee or agency* capacity for others and therefore cannot be used to support government's own programs
 - Ongoing responsibility
 - Third-party ownership
 - Unavailable for govt. use

Trust Arrangements

- Pension Trust
 - Employer contributions irrevocable
 - Plan assets dedicated to paying plan benefits in accordance with plan
 - Assets legally protected from creditors of employer and plan administrator

Trust Arrangements

- Investment Trust
 - External investment pools
 - Outside parties
 - Income generation as goal
 - Sharing of investment earnings(loss)
- Private Purpose Trust
 - Catchall for other trusts
 - Escheat property
 - Retainage

Agency Funds

- Purely custodial in nature
- No trust relationship

What are Fiduciary Fund Statements?

- Statement of fiduciary net position
- Statement of changes in fiduciary net position

Statement of fiduciary net position

- Assets
- Liabilities
- Net Position
 - Invested in capital assets
 - Restricted
 - Unrestricted
- Agency does not have net position

Statement of changes in fiduciary net position

- Agency funds excluded
- Trust funds
 - Additions
 - Deductions

Pension Trust Funds

- Statement of changes in fiduciary net position
 - Investment Activity
 - Always an addition
 - Three elements
 - Net appreciation in investments
 - Income not part of appreciation
 - Investment expense

Any Questions??

Jason Cook

financier143@gmail.com