Governmental Accounting Essentials

FGFOA School of Governmental Finance

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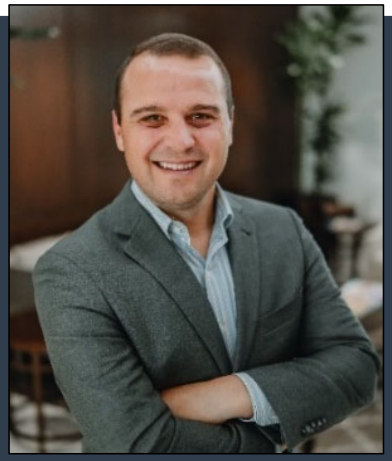
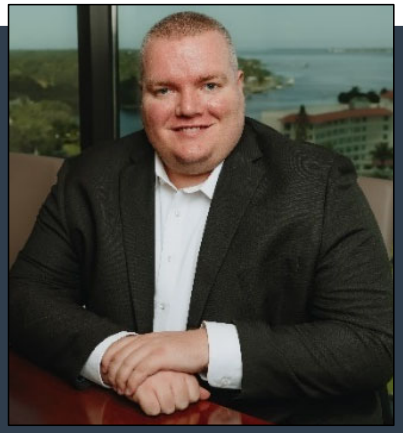
About your presenters



DANIEL ANDERSON

PARTNER



GARRETT MARLOWE

SENIOR MANAGER

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Today’s agenda

- Purpose, terminology, and funds
- Accounting timing and everyday transactions
- The Balance Sheet
- Revenues, grants, and fund balance
- Reports, Florida context, and controls
- Application, takeaways, and questions

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Legislatively Created Governments

- Cities
- Counties
- Public School Systems
- Authorities
- Commissions
- Government Corporations
- Government Associations
- Government Boards

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Why governmental accounting differs

- Accountability for public resources and service delivery
- Budgets and legal restrictions affect spending decisions
- Funds separate resources with different purposes
- Financial reports show both near-term resources and long-term obligations

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OMB and Single Audit

- OMB - Federal Office of Management & Budget
- Single Audit - Refers to compliance audit of Schedule of Expenditures of Federal Awards (SEFA)
- OMB issues specific compliance audit standards for conducting a Single Audit of Federal funds.
- Applies to all governments that expend $1,000,000 or more per year in federal awards.
- Florida Single Audit Act – governments that expend more than $750,000 of State Projects, Auditor must test internal control and compliance for major programs.

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Accounting, auditing, and controls

- GASB sets accounting and financial reporting standards
- GAAP means generally accepted accounting principles
- GAO's Yellow Book contains auditing standards
- Management prepares records and maintains controls

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Funds organize resources by purpose

- A fund is a separate accounting entity with its own accounts
- Governmental funds support general public services
- Proprietary funds report business-like activities
- Fiduciary funds hold qualifying resources for others

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Three fund categories

Governmental

- Modified accrual
- General
- Special revenue
- Capital projects
- Debt service
- Permanent

Proprietary

- Accrual
- Enterprise
- Internal service

Fiduciary

- Accrual
- Pension / benefit trust
- Investment trust
- Private-purpose trust
- Custodial

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Major Funds

- Certain size funds that require separate columns in the fund financial statements.
- Such funds must pass 5% test and a 10% test
- This test should be performed as part of our audit planning and conclusion
- These funds can change from year to year
- General Fund is always a major fund

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Opinion Units (AICPA term)

- Refers to the number of opinions provided in a standard audit report of a general government

There are five categories:

- Governmental activities
- Business-type activities
- Each major fund
- Aggregate discretely presented component units
- Aggregate remaining fund information (includes all fiduciary funds and non-major funds)

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Practice: which fund fits?

Illustrative activities. Discuss the most likely fund.

A. General tax-supported police operations

B. Water service financed through user charges

C. Construction of a new city hall

D. Qualifying resources held for outside beneficiaries

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Major funds in the statements

- The General Fund always appears as a major fund
- Other qualifying governmental and enterprise funds appear separately
- Nonmajor funds generally appear in an aggregate column
- Major fund status can change from year to year

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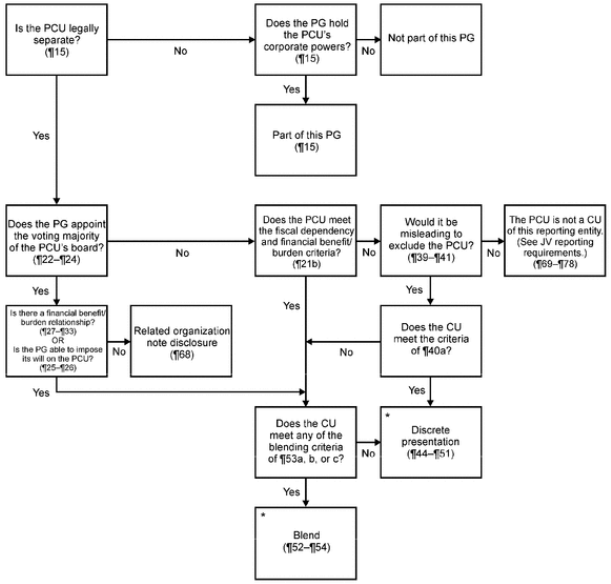
Component Unit Refresher



***Note:** A potential component unit for which a primary government is financially accountable may be fiscally dependent on and have a financial benefit or burden relationship with another government. An organization should be included as a component unit of only one reporting entity. Professional judgment should be used to determine the most appropriate reporting entity (¶21b and ¶34–¶38). A primary government that appoints a voting majority of the governing board of a component unit of another government should make the disclosures required by ¶68 for related organizations.

PCU = Potential component unit
PG = Primary government
CU = Component unit
JV = Joint venture

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Basis of accounting: when to record

- Cash basis records cash receipts and payments
- Accrual records revenues and expenses under recognition rules
- Accrual includes capital assets and long-term liabilities
- Measurement focus determines which resources a report measures

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Modified accrual: current resources

- Governmental funds use a current financial resources focus
- Revenues generally must be measurable and available
- Expenditures generally arise when a fund liability is incurred
- Long-term debt and some other items follow special rules

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Two views of the same government

Government-wide

- Economic resources
- Accrual basis
- Capital assets and long-term debt
- Net position

Governmental funds

- Current financial resources
- Modified accrual basis
- Spendable resources and fund liabilities
- Fund balance

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Example: a $120,000 vehicle

Governmental fund

- Cash purchase: $120,000
- Capital outlay expenditure: $120,000
- No vehicle asset in the fund balance sheet

Government-wide

- Vehicle asset: $120,000
- Annual depreciation: $24,000
- Illustrative: 5 years, no salvage value

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Example: borrowing and repayment

- Illustrative borrowing: $1 million for a capital project
- Governmental fund: other financing source, not revenue
- Government-wide: a long-term liability
- Principal repayment reduces debt in the government-wide view

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Budget, purchase order, and payment

- Budget: legal spending authority under applicable rules
- Purchase order: a commitment, often tracked as an encumbrance
- Receipt of goods or services: evaluate the expenditure and payable
- Payment: settle the payable and reduce cash

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Practice: the September invoice

Illustrative fiscal year ends September 30.

Supplies arrive and are used on September 28.

The invoice arrives October 5. Payment occurs October 20.

Which fiscal year records the expenditure and payable?

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What is on the Balance Sheet

Statement of Net Position

- Assets
- Deferred Outflow of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position

Balance Sheet

- Assets
- Deferred Outflow of Resources
- Liabilities
- Deferred Inflows of Resources
- Fund Balance

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What is on the Balance Sheet

What are the columns on Statement of Net Position?

- Governmental Activities
- Business-Type Activities
- Total Primary
- Component Unit(s)

NAME OF GOVERNMENT
Statement of Net Position
June 30, 2027

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Urban Renewal Agency	Cable Television
ASSETS					
Cash and cash equivalents	$ 20,231,362	$ 3,699,844	$ 23,931,206	$ 195,647	$ 462,992
Investments	22,119,677	2,136,642	24,256,319	-	-
Restricted assets-customer deposits	-	30,715	30,715	-	-
Receivables (net of allowance for uncollectibles)	13,015,337	4,203,602	17,218,939	3,000	273,328
Intergovernmental receivable	1,709,483	877,295	2,586,778	-	-
Lease receivable	301,773	-	301,773	-	-
Due from component unit	32,615	-	32,615	-	-
Internal balances	(272,321)	272,321	-	-	-
Inventories	829,294	117,581	946,875	-	-
Prepaids	86,551	-	86,551	-	2,266
Capital assets not being depreciated	59,937,290	7,275,183	67,212,473	6,601,630	-
Capital assets, net of accumulated depreciation/ amortization	227,356,743	32,703,094	260,059,837	-	206,426
Total assets	345,347,804	51,316,277	396,664,081	6,800,277	945,012

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What is on the Balance Sheet

What are the columns on Balance Sheet?

- Major Funds
- Aggregate Nonmajor Aggregate
- Totals

NAME OF GOVERNMENT
Balance Sheet
Governmental Funds
June 30, 2027

	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 8,132,952	$ 1,090,139	$ 842,804	$ 4,281,747	$ 14,347,642
Investments	14,989,065	4,980,521	1,000,000	538,805	21,508,391
Receivables (net of allowance for uncollectibles)	6,067,247	-	4,309,618	2,502,201	12,879,066
Intergovernmental receivable	513,579	507,459	-	688,445	1,709,483
Lease receivable	301,773	-	-	-	301,773
Due from other funds	145,000	335,000	-	-	480,000
Due from component unit	32,615	-	-	-	32,615
Inventories	806,623	-	-	-	806,623
Prepaid items	48,114	-	-	614	48,728
Advances to other funds	290,148	-	-	-	290,148
Total assets	$ 31,327,116	$ 6,913,119	$ 6,152,422	$ 8,011,812	$ 52,404,469

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What is on the Balance Sheet

What order of presentation should I use?

1) Order of Liquidity
2) Classified Basis

ASSETS
- Cash and cash equivalents
- Investments
- Restricted assets-customer deposits
- Receivables (net of allowance for uncollectibles)
- Intergovernmental receivable
- Lease receivable
- Due from component unit
- Internal balances
- Inventories
- Prepaids
- Capital assets not being depreciated
- Capital assets, net of accumulated depreciation/ amortization

Total assets

DEFERRED OUTFLOWS OF RESOURCES
- Pension related
- OPEB related
- Deferred charge on refunding

Total deferred outflows of resources

LIABILITIES
- Accounts payable and other accrued liabilities
- Contracts and retainage payable
- Accrued interest payable
- Deposits payable
- Intergovernmental payable
- Due to primary government
- Bond anticipation notes payable
- Revenue anticipation note payable
- Unearned revenues
- Noncurrent liabilities:
  - Due within one year: Bonds, notes, leases, claims, compensated absences
  - Due in more than one year:
    - Net pension liability - actuarially funded
    - Total pension liability - non-funded plan
    - Net OPEB liability
    - Bonds, notes, leases, claims, compensated absences

Total liabilities

ASSETS
- Current Assets:
  - Cash and cash equivalents
  - Investments
  - Restricted assets-customer deposits
  - Interest receivable
  - Accounts receivable, net
  - Due from other funds
  - Intergovernmental receivable
  - Inventories
  - Prepaid items

Total current assets

Noncurrent Assets:
- Capital Assets:
  - Land
  - Buildings
  - Machinery, equipment, and vehicles
  - Water distribution system
  - Construction-in-progress
  - Less accumulated depreciation

Total noncurrent assets

Total assets

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What is on the Balance Sheet

Why are there different equity titles on the two?

What are the different components of equity for?

NAME OF GOVERNMENT
Statement of Net Position
June 30, 2027

	Primary Government		
	Governmental Activities	Business-type Activities	Total
NET POSITION			
Net investment in capital assets	204,166,769	28,286,203	232,452,972
Restricted for:			
Capital projects	338,917	-	338,917
Debt service	1,179,336	-	1,179,336
Housing services	625,881	-	625,881
Law enforcement	376,200	-	376,200
Community redevelopment:			
Expendable	4,514,328	-	4,514,328
Nonexpendable	10,000	-	10,000
Other purposes	53,573	-	53,573
Unrestricted (deficit)	(65,745,639)	5,843,337	(59,902,302)
Total net position	$ 145,519,365	$ 34,129,540	$ 179,648,905

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What is on the Balance Sheet

Net Investment in Capital Assets

1. **Capital assets (both tangible and intangible)**
2. **Less: Accumulated depreciation/amortization**

Back-out related long-term liabilities

1. Outstanding principal of capital-related borrowings related to the government's own capital assets (limited to proceeds expended for capital purposes and excluding unspent proceeds) ("outstanding **capital** debt")
2. Debt used to refund capital-related borrowings
3. Any other (non-debt) capital related liabilities as of fiscal year end, including accounts payable and retainage payable
4. **PLUS** Original issue discounts on outstanding capital debt
5. Original issue premiums on outstanding capital debt
6. **PLUS** Capital-related deferred outflows of resources (such as a loss on refunding of outstanding capital debt)
7. Capital-related deferred inflows of resources (such as a gain on refunding of outstanding capital debt)

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What is on the Balance Sheet

Restricted Vs Unrestricted

Restricted at the Fund and Government-Wide is **only amounts externally restricted**, AND is offset by any related debt

Unrestricted is everything else!

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What is on the Balance Sheet

Why are there different equity titles on the two?

What are the different components of equity for?

NAME OF GOVERNMENT
Balance Sheet
Governmental Funds
June 30, 2027

FUND BALANCES (DEFICITS)	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
Nonspendable:					
Endowment	-	-	-	10,000	10,000
Inventories	806,623	-	-	-	806,623
Prepaid items	48,114	-	-	614	48,728
Long-term interfund advances	290,148	-	-	-	290,148
Restricted:					
Special assessment project	-	875,000	-	-	875,000
Public service vehicles	1,500,000	-	-	-	1,500,000
Library purposes	-	-	-	52,276	52,276
Housing services	-	-	-	625,881	625,881
Community redevelopment	-	-	-	4,514,328	4,514,328
Law enforcement	-	-	-	376,200	376,200
Youth programs	-	-	-	1,297	1,297
Nonrecurring repairs and other parking improvements	-	-	-	338,917	338,917
General obligation debt	-	-	391,993	-	391,993
Special assessment debt	-	-	1,504,000	-	1,504,000
Committed:					
Special assessment project	-	1,200,000	-	-	1,200,000
Revenue stabilization reserve	407,377	-	-	-	407,377
Open space	-	-	-	372,776	372,776
Assigned:					
Purchases on order	592,659	-	-	-	592,659
Subsequent year's budget: appropriation of fund balance	2,215,728	-	-	-	2,215,728
Unassigned (deficits)	15,945,960	(4,266,321)	-	-	11,679,639
Total fund balances (deficits)	21,806,609	(2,191,321)	1,895,993	6,292,289	27,803,570

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Understanding What is on the Balance Sheet

- Nonspendable items, what are these?
- Short-term vs Long-term liabilities?
- Unavailable vs unearned revenues
- Interfund balances

	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 8,132,952	$ 1,090,139	$ 842,804	$ 4,281,747	$ 14,347,642
Investments	14,989,065	4,980,521	1,000,000	538,805	21,508,391
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Advances to other funds	290,148	-	-	-	290,148
Total assets	$ 31,327,116	$ 6,913,119	$ 6,152,422	$ 8,011,812	$ 52,404,469
LIABILITIES					
Accounts payable	3,670,348	-	-	594,466	4,264,814
Contracts payable	-	1,129,196	-	-	1,129,196
Retainage payable	-	1,070,044	-	-	1,070,044
Accrued liabilities	2,504,060	-	-	431,957	2,936,017
Deposits payable	-	-	-	18,367	18,367
Due to other funds	335,000	-	-	157,000	492,000
Advances from other funds	-	-	-	290,148	290,148
Bond anticipation notes payable	-	6,905,200	-	-	6,905,200
Unearned revenue-other	2,089,936	-	-	227,585	2,317,521
Total liabilities	8,599,344	9,104,440	-	1,719,523	19,423,307
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	617,585	-	26,429	-	644,014
Unavailable revenue-special assessments	-	-	4,230,000	-	4,230,000
Lease related	303,578	-	-	-	303,578
Total deferred inflows of resources	921,163	-	4,256,429	-	5,177,592
FUND BALANCES (DEFICITS)					
Nonspendable:					
Endowment	-	-	-	10,000	10,000
Inventories	806,623	-	-	-	806,623
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Long-term interfund advances	290,148	-	-	-	290,148

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Understanding What is on the Balance Sheet

- How are we tracking restricted resources?
- Assignments and why these are undervalued!
- Commitments and challenges in practice.
- What should be unassigned – what is your year-end?

	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
FUND BALANCES (DEFICITS)					
Nonspendable:					
Endowment	-	-	-	10,000	10,000
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Committed:					
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Assess the Health of the Balance Sheet

Low General Fund Balance

- What is the right level?
- Year-end
- Seasonality of revenues and expenditures
- Debt service due dates
- Goals and objectives for the current and future years

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Assess the Health of the Balance Sheet

Chief Operating Fund Can Tell A Story…

Are you concerned if a government has a low fund balance at:

- June 30th
- September 30th
- December 31st

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Assess the Health of the Balance Sheet

Gov &/or BT Activities Deficits

- A good thing
- A bad thing
- Not a big deal
- The American way
- Just print more money
- Could be good or bad

- What do deficits mean in government?
- Are we too accustomed to them?
- Have GASB Statements made them worse?

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Assess the Health of the Balance Sheet

Ongoing Need for Tax Hikes?

- Shrinking revenue stream(s)
- Growing expenditures
- Services provided exceed available revenue

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Assess the Health of the Balance Sheet

Deficits in Special Revenue or Capital Project Funds?

- *Grant Fund*

Cash	$ 1,000,000
Accounts Receivable	2,000,000
Accounts Payable	6,000,000
December 31st	$(3,000,000)

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Assess the Health of the Balance Sheet

Large US City

	General Fund	Grant Fund
Cash	$ 73,000,000	$ 74,000,000
Receivables	219,000,000	11,000,000
Due from other govs	223,000,000	363,000,000
Net due (to) from	26,000,000	(251,000,000)
Other assets	22,000,000	7,000,000
Total assets	563,000,000	204,000,000
Liabilities	(331,000,000)	(410,000,000)
Fund Balance	**$ 232,000,000**	**$ (206,000,000)**

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Assess the Health of the Balance Sheet

Interfund Receivables = Advances and Collectability?

General Fund	
Cash	$ 1,000,000
Receivables	2,000,000
Due from other Funds *	5,000,000
Liabilities	6,000,000
Fund Balance	$ 2,000,000

* Interfund amounts include - $2 M Golf Course Fund (loses $$), $1.7 Auditorium Fund (loses $$), and $1.3 M Utility Fund (makes $$)

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Assess the Health of the Balance Sheet

Tax Anticipation Notes (TAN)?

- Good idea/bad idea?
- What does it indicate?
- May or may not be an indicator
- Timing of issuing the TAN may be an indicator…
- February vs. August…

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Assess the Health of the Balance Sheet

Pension and OPEB Funding

- Investment returns are down
- Poor funding of plans
- Actuarial assumptions have not been on target
- Extended mortality
- Poor management
- OPEB is still pay as you go
- Rising healthcare costs

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Assess the Health of the Balance Sheet

Pension and OPEB Funding

- Less than 70% funded (per several actuaries)
- High discount rates
- Depletion of plan assets less than 20 years
- Not making 100% of annual contributions
- Not funding 100% of retiree's portion of liabilities

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Assess the Health of the Balance Sheet

Key Financial Indicators and Ratios

- Unassigned and assigned FB to:
  - ❑ Total Revenues (weathering strength/proactive)
  - ❑ Total Expenditures (weathering strength/proactive)
- Cash and Investments to:
  - ❑ Current Liabilities (liquidity)
  - ❑ Total Expenditures (weathering strength/proactive)
- Intergov Rev to Total Rev (Reliance)
- Net Bottom-line to:
  - ❑ Total Revenues
  - ❑ BOY Fund balance

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Assess the Health of the Balance Sheet

Key Financial Indicators and Ratios

- Population based
  - Total revenues to total population
  - Total expenditures to total population
  - Long-term debt to total population

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Assess the Health of the Balance Sheet

Key Financial Indicators and Ratios

- Accumulated Depreciation to Depreciable Capital Assets
- Net investment in capital assets
- Litigation has been noted to prompt financial distress / crisis / bankruptcy
- Pension / OPEB Funded Ratios
- Retired/Entitled Individuals to Active ee's
- Assets in Pension Trust (or funded OPEB) compared to actuarial liability of retirees
- Discount rates

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Assess the Health of the Balance Sheet

Proactively address only what you can control

- You can't change the economy
- You can't change unemployment rates
- You can't change an aging population
- You can't control natural disasters
- We can only control spending and services
- We can look to enhance revenues

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Assess the Health of the Balance Sheet

Consider multiple solutions

- Are the causes isolated?
- Are the causes numerous with multiple sources?

- Review all functional areas of expense
- Develop a long-term plan with creditors
- Review and optimize all sources of revenue
- Consider certain enterprise operations that may not be very enterprising.

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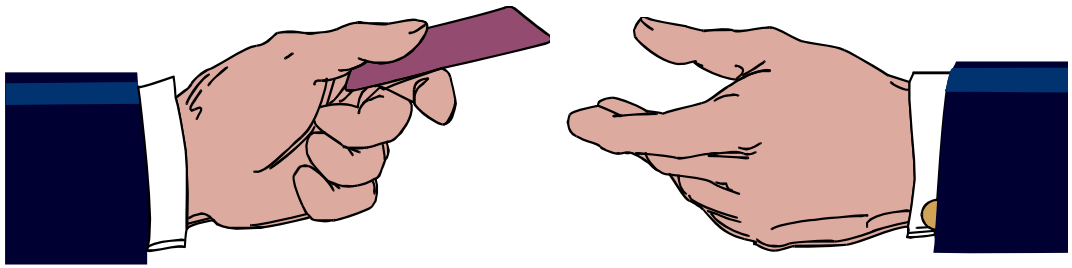
Revenue Transactions

State and local governments engage in two kinds of transactions:

- Exchange and exchange-like transactions, and
- Nonexchange transactions.



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Exchange and Exchange-like Transactions

- In an exchange transaction, each party receives and gives up essentially equal values.
- An exchange-like transaction differs from a "pure" exchange transaction in that
  - The values exchanged, though related, may not be quite equal, or
  - The direct benefits may not be exclusively for the parties to the transaction.

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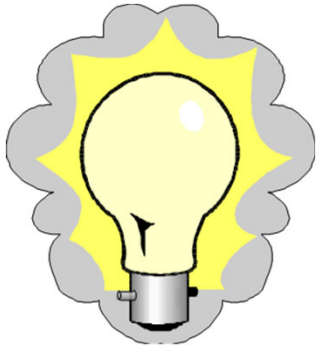
Exchange and Exchange-like Transactions

- An exchange-like transaction has exchange characteristics that are strong enough to justify treating it as an exchange for accounting recognition.



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What are Nonexchange Transactions ("NETs")?

- Occur when a government either gives or receives value in a transaction without directly receiving or giving equivalent value in return
- Examples: many taxes, assessments, fines, grants, and contributions
- Substance of transaction over "label" determines if exchange or nonexchange

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Caution

Some transactions may be difficult to determine if exchange, or nonexchange transaction:

- Research grants
  - Patent rights
  - Rights to exclusive use of the research
- Special assessments
  - City-wide garbage special assessment versus
  - Private lake special assessment

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Exchange or Nonexchange?

- Business licenses
- Building permits
- Drivers licenses

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What Do We Typically See?

- Most governments receive a majority of their revenues through nonexchange transactions.
- Many governments also provide financial assistance to other governmental and nongovernmental entities.
- Proprietary funds are where most exchange transactions are reported.

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Two Related GASB Statements – Accounting for Non-exchange

- ***GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions***
  - Issued - December 1998
  - Effective - Periods beginning after June 15, 2000
- ***GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33***
  - Issued - April 2000
  - Effective - Periods beginning after June 15, 2000

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Four Classes of Nonexchange Transactions

- Derived Tax Revenues
- Imposed Nonexchange revenues
- Government Mandated Nonexchange Transactions
- Voluntary Nonexchange Transactions

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Stipulations on Use

- Two types identified:
  - Time Requirements
  - Purpose Restrictions
- Different standards apply to each kind of stipulation
- Time requirements – **affect TIMING of recognition**
  - Specify the period when resources are required to be used or when use may begin
  - Resources are required to be maintained intact in perpetuity or until a specified date or event
- Purpose restrictions – **do NOT** affect timing
  - Specify the purpose for which resources are required to be used
  - Impact net position/fund balance classification

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Derived Tax Revenues

- Result from assessments (taxes) imposed on exchange transactions
  - They “derive” their value from the underlying exchange transaction.
- Taxes are raised using the government’s own taxing power
- Generally – taxes/assessments on consumption or earnings
- Various income and sales taxes
- Purpose restrictions may exist in enabling legislation (MFT)

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Derived Tax Revenues – Timing of Recognition

- **Assets:** When the underlying exchange transaction occurs, or resources are received, whichever is first
  - Income is earned
  - Sale occurs
  - Debit cash (resources received) or a receivable
- **Revenue:**
  - Accrual basis – when the underlying exchange occurs
  - Modified accrual
    - When the underlying exchange occurs, and
    - revenues are “available”
- **Include all related amounts**
  - Assessments in tax audits
- **Resources received in advance – record as a liability**

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Question:

Which of the following is not an example of a derived tax revenue?

A. Insurance Premium tax
B. Property Tax
C. Sales Tax
D. All of the above are derived tax revenues

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Answer:

A. Insurance Premium tax

B. Property Tax

C. Sales Tax

D. All of the above are derived tax revenues

One key characteristic of a derived tax revenue is that it is a tax or assessment on either income (income tax) or consumption (sales, motor fuel, hotel)

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Derived Tax Revenue – Most Common For Us

- **Sales taxes**
  - Local Option Sales Tax
  - How much lag?
    - Depends on the state.
    - Does it pass through another entity?
- **Insurance Premium tax**

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Imposed Nonexchange Revenues

- Result from assessments imposed on some basis other than an exchange transaction
- Imposed on acts committed or omitted
  - Such as property ownership or the contravention of a law or regulation
- Imposed by governments on nongovernmental entities such as individuals, corporations etc
- Enabling legislation may have purpose restrictions, and/or, the government may specify the period when the resources are required to be used or when use may begin
- Examples – property taxes, fines, penalties and property forfeitures (seizures and escheats)

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Imposed Nonexchange Revenues – Timing of Recognition

- **Assets:**
  - When the government has an enforceable legal claim to the resources, or resources are received, whichever is first
  - For property taxes, the enforceable legal claim typically occurs on the "lien date"
- **Revenues:**
  - Accrual basis - in the period when use of the resources is required or first permitted by any time requirements
    - For property taxes, the period for which the amounts are levied (intended to finance)
    - Even if the enforceable legal claim arises, or the due date for payment occurs, in a different period

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Imposed Nonexchange Revenues – Timing of Recognition

- **Revenues (continued)**
  - Modified accrual – in the period when use of the resources is required or first permitted by any time requirements and the resources are available
  - If no time requirements exist, revenue should be recognized at the same time as the asset (when there is an enforceable legal claim or the assets are received)
    - Typically the case for most fines and penalties
  - Resources received or recognized as a receivable, which have not met the time requirements, should be:
    - Deferred inflows of resources (GASB 65)
    - Accrual and modified accrual FS

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Question:

When should revenues from traffic tickets be recognized?

A. When the ticket is issued
B. When the judge rules
C. When the payment is received
D. When time allowed for dispute lapses
E. Need more information

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Answer:

E. Need more information

- Undisputed fines should be recognized when payments are received or time allowed for dispute lapses, whichever occurs first
- Disputed fines should be recognized when the legal authority (such as traffic court) rules that the fine is valid
- Disputed fines should be net of estimated refunds from rulings overturned on appeal

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Property Tax Levy

What year is a levy intended to finance?

- Laws and regulations governing the levy determine the period for which the taxes are levied
- Generally coincides with the budget or fiscal period of the entity initiating the levy
- All governments subject to the same laws and regulations should use the same period

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Government Mandated and Voluntary Nonexchange Transactions

Government Mandated

- Occur when a government at one level provides resources to a government at another level with a restriction on the purpose for which the resources can be used & the recipient government is mandated to perform a particular service/function with the resources
- Typically involves the federal government or a State government
- Provider establishes purpose restrictions and may establish time and other eligibility requirements
- Examples – federally mandated programs imposed on State and local governments such as a school lunch program which a school district must administer, QBE funds

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Government Mandated and Voluntary Nonexchange Transactions

Voluntary

- Result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement
- Examples - many grants, entitlements and private donations/contributions, gifts, bequests etc
- Frequently, the provider establishes purpose restrictions and eligibility requirements
- In many cases, the provider may require the return of the resources if the purpose restrictions or eligibility requirements are contravened after recognition of the transaction

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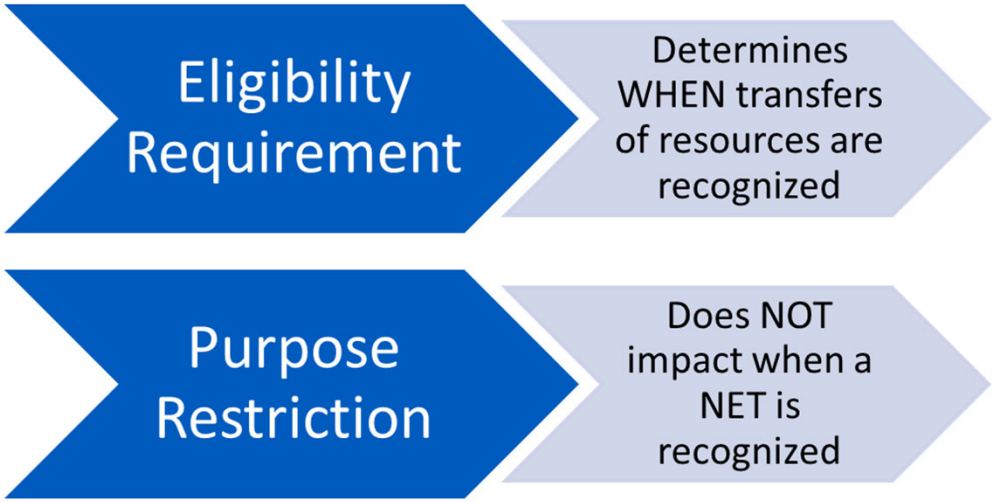
Eligibility Requirements and Purpose Restrictions

- Identification as eligibility requirement versus purpose restriction drives timing of revenue recognition



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Eligibility Requirements and Purpose Restrictions

Purpose Restrictions

- Specify the purpose for which the resources are required to be used
- Purpose restrictions should not affect when a nonexchange transaction is recognized
- A purpose restriction simply limits how resources may be used after a transfer has taken place
- Balances of unexpended funds held should be shown as restricted (fund balance/net position)

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Question:

Which of the following is not true for a purpose restriction?

A. They describe how resources should be used
B. They determine when revenue can be recognized
C. They may result in restricted net position
D. They pertain to mandatory and voluntary NETs

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Answer:

A. They describe how resources should be used
B. They determine when revenue can be recognized
C. They may result in restricted net position
D. They pertain to mandatory and voluntary NETs

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Eligibility Requirements and Purpose Restrictions

- An eligibility requirement determines when the transfer of resources between parties should be recognized
- Established by enabling legislation or the provider
- 4 types of eligibility requirements
  - Required characteristics of recipients
  - Time requirements
  - Reimbursements
  - Contingencies

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Eligibility Requirements

Required characteristics of recipient:

- The recipient (and secondary recipients, if applicable) has the characteristics specified by the provider.
- Examples – must be a road district, must maintain a mental health facility

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Eligibility Requirements

Time Requirements:

- Time when the resources are first permitted or required to be used (sold, disbursed or consumed)
- Time requirements are specified by enabling legislation or the provider
- Resources which are required to be maintained intact, as specified by the provider (endowments)
- If silent, the date the relevant appropriation becomes effective (start of the governmental provider's fiscal year)
    - Continuing appropriations (refers to an appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked)

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Eligibility Requirements

Reimbursements:

- Provider stipulates that a recipient cannot qualify for resources without *first* incurring allowable costs under the provider's program
- Allowance made for "advances"
- This can be very difficult to conclude
- Evidence – agreement indicates resources belong to the provider until allowable costs are incurred
- Look to laws and regulations that cover the grant

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Eligibility Requirements

Contingencies:

- Applies only to Voluntary NETs
- The provider's offer of resources is contingent upon a specified action of the recipient
- Example – provision of matching funds

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Question:

Which of the following are examples of eligibility requirements?

A. Matching funds must be provided
B. Recipients must be hospitals
C. The program can begin after 1/1/2015
D. Monthly progress reports must be submitted
E. All of the above
F. A through C

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Answer:

A. Matching funds must be provided
B. Recipients must be hospitals
C. The program can begin after 1/1/2015
D. Monthly progress reports must be submitted
E. All of the above
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Government Mandated and Voluntary Nonexchange Transactions

Recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as:

- The filing of claims for allowable costs under a reimbursement program
- The filing of progress reports with the provider

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Government Mandated and Voluntary Nonexchange Transactions

- Assets (recipients) and liabilities (providers):
  - When all applicable eligibility requirements are met, or resources are actually received, whichever is first
- Revenues (recipients) and expenditures/ expenses (providers) :
  - Accrual basis - when all applicable eligibility requirements are met
  - Modified accrual – when all applicable eligibility requirements are met and the resources are available

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Government Mandated and Voluntary Nonexchange Transactions

- Resources provided to be used in a future period (advance), the resources should be reported as:
  - Deferred outflows of resources by the provider (GASB 65)
  - Deferred inflows of resources by the recipient (GASB 65)
    - i.e. there is a “time” eligibility requirement
- Resources provided before all eligibility requirements have been met:
  - Assets by the provider
  - Liabilities by the recipient
- Purpose restriction is not an eligibility requirement.
  - Not having spent the funds on eligible expenditures (unless reimbursement driven) should not delay recognition of revenue

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Subsequent Contravention of Eligibility Requirements or Purpose Restrictions

If after a NET has been recognized in the FS:

- Discover that eligibility requirements are no longer met and/or
- Purpose restrictions not complied with and
- Probable the provider will withhold the resources or ask recipient to return resources already received
  - Recipient – recognize a decrease in assets or an increase in liabilities, and an expense
  - Provider – recognize a decrease in liabilities (or an increase in assets) and a revenue

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Government Mandated and Voluntary Nonexchange Transactions

Endowments (permanent & term) - when the provider stipulates that resources should be maintained intact in perpetuity, for a specified period of time, or until a specific event occurs:

- Resources should be recognized as revenues when received (recipient) and as an expenditure/expense when paid (provider).
- Assuming other eligibility requirements, if any, have been met
- Net position/fund balance reported as restricted until restrictions and time requirements have been met

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Government Mandated and Voluntary Nonexchange Transactions

- Voluntary NETs from non-governmental providers:
  - Pledges, promises to give, promised donations, etc
  - Including permanently nonexpendable additions to endowments and other trusts; term endowments; contributions of works of art and similar assets to capitalized collections; or other kinds of capital or financial assets, with or without purpose restrictions or time requirements
- Receivables and revenues (recipients):
  - When all applicable eligibility requirements are met, and
  - Promise is verifiable and resources are measurable and probable of collection
  - Recognize net of estimated uncollectible amounts

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Permanent Endowments, Term Endowments

- Time requirement
  - Met as soon as recipient begins to honor the provider's stipulation not to sell, disburse or consume the resources
  - Time requirement cannot be met until the resources are actually received
- Providers and recipients should not recognize liabilities or receivables
- Recognize cash or other assets as expense when paid (provider) and as revenues (recipients) when received, provided all other eligibility requirements are met

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Nonexchange Revenues Administered or Collected by Another Government

State shared revenues:

- A government may share its own derived tax revenues or imposed nonexchange revenues with other governments
- For example, a state (provider) may share a portion of the revenues resulting from its sales tax and income tax, with local governments
- GASB requires symmetrical accounting treatment for certain shared revenues between the provider government and the recipient government
- Both the provider government and the recipient government should comply with the requirements for voluntary or government-mandated nonexchange revenues
- Allows the recipient government to use a reasonable estimate of the amount to be accrued

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Nonexchange Revenues Administered or Collected by Another Government

Time requirements for revenue recognition - State shared revenues:

- At date appropriation begins (beginning of State fiscal year)
- For continuously appropriated state shared revenues, at the time the underlying exchange takes place

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Question:

A state imposes a 6% tax on sales of goods by retail merchants. Legislation requires the state to remit 10% of this sales tax to cities, on a quarterly basis. No annual appropriation is required. When will the cities recognize receivables and revenues (accrual basis)?

A. When all eligibility requirements are met
B. When the Cities receive the amounts from the State
C. At the start of each quarter
D. At the end of each quarter

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Answer:

A. When all eligibility requirements are met
B. When the Cities receive the amounts from the State
C. At the start of each quarter
D. At the end of each quarter

This is a voluntary NET and fulfillment of an eligibility requirement (time) is necessary for a transaction to occur. The remittances to cities are continually appropriated so the eligibility requirement is met (the applicable period is considered to have already begun) as each sales transaction occurs.

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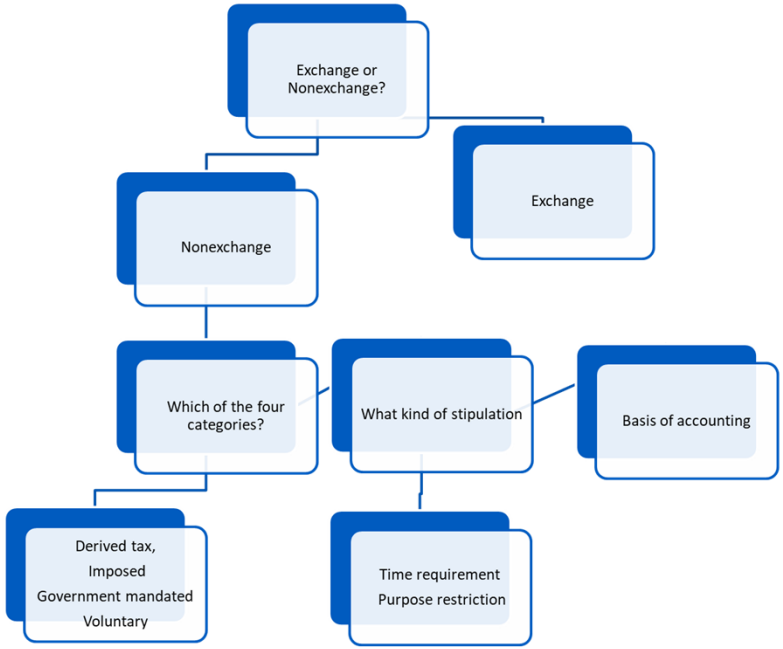
Decision Matrix



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GASB 63/65 Impact on NETs

- Two related statements
  - GASB 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position”
  - GASB 65, “Items Previously Reported as Assets and Liabilities”
- Identified which transactions should now be recognized as deferred inflows or outflows
- Deferred inflow
  - Acquisition of assets by govt that is applicable to future reporting period
- Deferred outflow
  - Consumption of assets by govt that is applicable to future reporting period

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GASB 65 Nonexchange Transactions (NETs)

Government Mandated & Voluntary NETs:

- Government mandated & voluntary NETs frequently have eligibility requirements (required characteristics of recipients, time requirements, reimbursements, contingencies)
- Resources transmitted before time requirements are met reported as:
  - deferred outflows (by provider)
  - deferred inflows (recipient)
- Resources transmitted before eligibility requirements, other than time requirements, have been met reported as:
  - assets (provider)
  - liabilities (recipient)

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GASB 65 Nonexchange Transactions (NETs)

Government Mandated & Voluntary NETs:

- If time requirements not met and one or more other eligibility requirements are not met, report
  - assets (provider)
  - liabilities (recipient)
- Pertains to FS prepared using full accrual and modified accrual

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GASB 65 Treatment of NETs

Transaction	Treatment	Reason
Grant received in June to be used starting after July 1st	Deferred inflow	Time requirement
Reimbursement based grant received before incurring allowable costs	Liability	Eligibility requirement other than time

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Question:

The State pays to the City a $5 million dollar grant award on November 30, 2014. Per the terms of the grant agreement, the award is being provided so that the City can operate an after school program for at risk teens during calendar year 2015.

Also, per the agreement, the City must provide a minimum of $200,000 in matching funds. As of the City's year end (12/31/2014), matching funds had not yet been identified or provided.

At 12/31/14, how should the City report the $5 million in State grant funds received?

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Answer:

The City has two eligibility requirements that have not yet been met;

- Timing requirements (start of calendar year 2015) and
- Matching requirements ($200,000 matching funds).

As such, the entire $5 million will be reported by the City as a liability.

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Problem

The State has started a new program wherein it reimburses the City for 75% of the cost of a specially trained police officer. To be reimbursed, the City must submit a reimbursement claim form which indicates the total salary and benefits paid during the claim period, and the reimbursement amount requested. Claims can be filed as needed, but no more frequently than monthly. The State has received the following claims:

Earnings Period	Date Claim Submitted	Total Incurred	Claim Amount
1/1 – 3/31	7/1	$15,000	$11,250
4/1 – 6/30	10/15	15,000	11,250
7/1 – 9/30	12/15	15,750	11,812

What expense should the State report in its FY 12/31 financial statements?

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Answer

The State should record an expense for all reimbursable salaries and benefits incurred by the City over the State's fiscal year.

Total claims submitted	$34,312	
Estimated claims for 10/1 to 12/31		11,812
Total expense	$46,124	

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Five fund balance classifications

- Nonspendable: inventory or amounts kept intact
- Restricted: external constraints or qualifying law
- Committed: formal action by the highest decision-making authority
- Assigned: intended use under authorized assignment procedures
- Unassigned: residual General Fund balance

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Practice: classify the balance

A. Supplies inventory on hand
B. Unspent grant funds restricted to park improvements
C. Resources committed by formal governing-board action
D. Remaining spendable General Fund resources with no constraint

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Net position and financial health

- Net investment in capital assets reflects capital-related resources
- Restricted net position reflects qualifying use constraints
- Unrestricted net position is the remaining component
- Cash, fund balance, and net position answer different questions

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Finding your way through the report

- MD&A provides management's explanation of financial results
- Basic statements present government-wide and fund views
- Notes explain policies, balances, commitments, and risks
- An ACFR also includes introductory and statistical sections

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Financial position and operating results

Position at a date

- Government-wide: net position
- Governmental funds: balance sheet
- What resources and obligations remain?

Activity during a period

- Government-wide: activities
- Governmental funds: revenues and expenditures
- What changed during the year?

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Why the two views reconcile

- Governmental fund balance starts with current resources
- Capital assets and accumulated depreciation change the total
- Long-term liabilities and other adjustments change the total
- The reconciliation explains the government-wide result

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Florida reporting context

- Florida DFS prescribes the local government AFR format
- The Uniform Accounting System Manual guides account coding
- The DFS AFR and an ACFR serve different reporting purposes
- Entity type, law, and grant terms determine additional duties

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Internal control supports accountability

Internal Control – Process to provide reasonable assurance of

- Reliability
- Effectiveness/Efficiency
- Compliance

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Controls in everyday work

- Different people authorize, handle assets, and record transactions
- Independent reviewers examine reconciliations and exceptions
- Vendor bank changes receive independent verification
- Access rights and supporting records follow job responsibilities

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A practical month-end close

- Reconcile cash and key subsidiary records to the ledger
- Review receivables, payables, and transaction cutoff
- Match interfund balances and investigate differences
- Compare actual results with budget and document explanations

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Grant compliance and audit awareness

- Track each award's eligible costs and required documentation
- Reconcile award activity to the ledger and reporting schedules
- Federal audit threshold: $1 million in awards expended
- State assistance and other audit requirements need separate review

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Practice: a year-end review

Illustrative September 30 year-end. What needs attention?

A. A September service invoice remains unrecorded

B. A bank reconciliation difference carries forward each month

C. Grant cash is recorded as revenue before eligibility review

D. Two funds report different interfund balances

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What to take back to work

- Identify the fund and reporting basis before recording
- Use transaction dates and agreements to assess recognition
- Keep restrictions and spending authority visible
- Reconcile balances and ask about exceptions early

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Resources for continued learning

- GASB pronouncements and implementation guidance
- Florida DFS Uniform Accounting System Manual and AFR guidance
- GAO Green Book for internal control concepts
- Your accounting policies, grant agreements, and latest statements

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Questions and discussion

- Which accounting distinction is still unclear?
- What transaction would you like to discuss?
- What supporting facts would finance need to decide?

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