

# Government Accounting, Reporting & Budgeting Workshop 2007

Presented to the  
City and County of San Francisco  
by the Office of the Controller  
and Pete Rose, CGFM

# Course Objectives

## **Fundamentals of Government Accounting**

- ✓ Concepts and Terminology
- ✓ Government Accounting Equation
- ✓ Budget to Accounting to Reporting Cycle
- ✓ Differences in Accounting Measurement
  - Cash vs. combination vs. modified accrual vs. accrual
- ✓ Overview of Financial Reporting

## **Introduction to Government Accounting at CCSF**

# Course Outline

- 1) Accounting – The Basics
- 2) Introduction to Government Accounting
- 3) Government Accounting Basics
- 4) Financial Reports and Objectives
- 5) Measurement focus/bases of accounting
- 6) Accounting for revenues & receivables
- 7) Accounting for expenditures & expenses
- 8) External Financial Reporting Overview
- 9) Recap & final wrap-up

# Course Schedule

## Day 1

**Chapters 1 - 4**

## Day 2

**Chapters 5 - 8**

# Accounting - The Basics

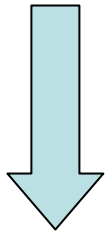
## Chapter 1



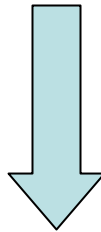
# The Accounting Equation

(Private Sector Model)

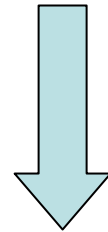
$$\text{Assets} - \text{Liabilities} = \text{Equity}$$



**Debit**  
(Normal Balance)



**Credit**  
(Normal Balance)



**Credit**  
(Normal Balance)

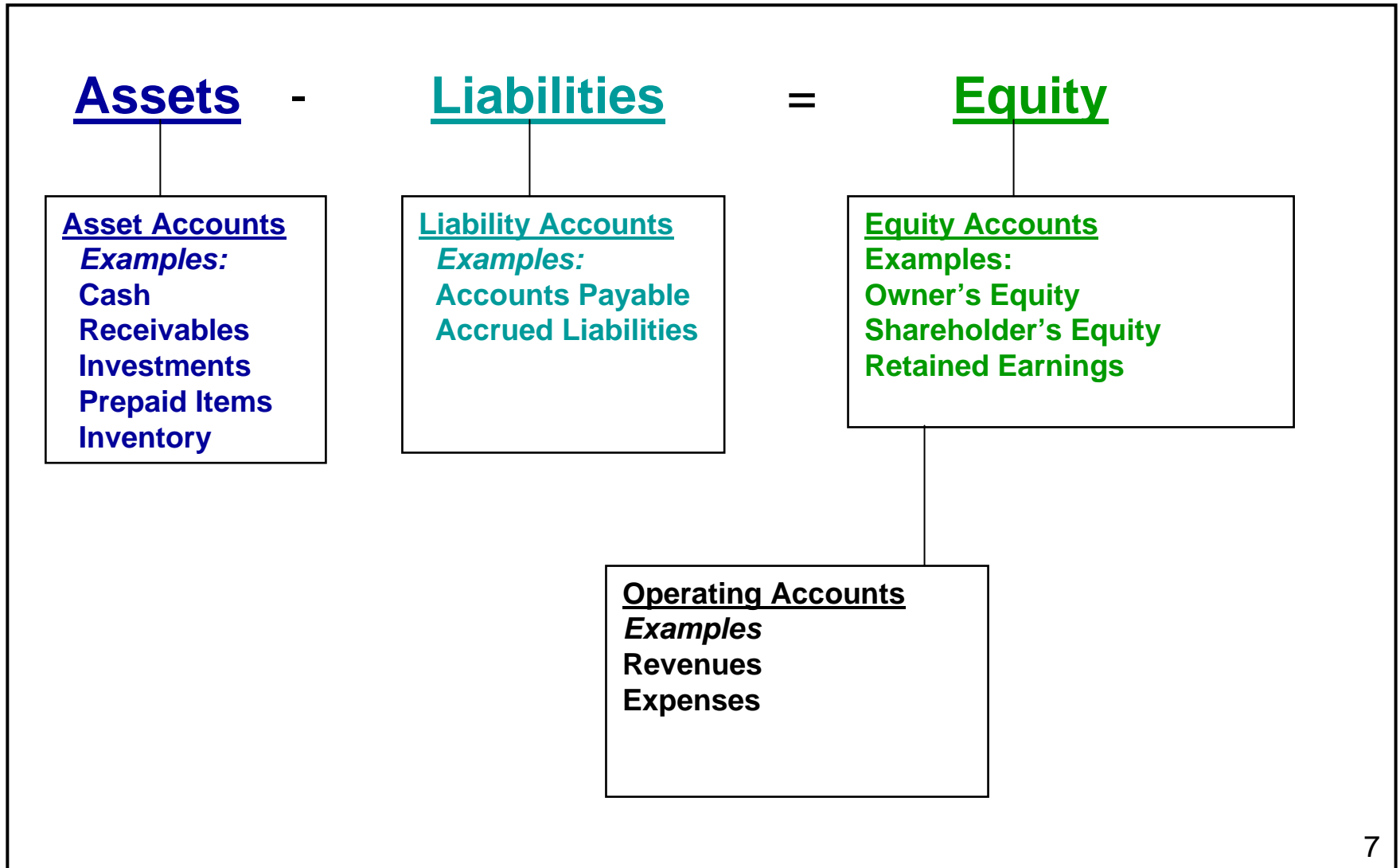
The other view

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**Assets = Liabilities + Equity**

# Comparison of Balance Sheet and Operating Statement

(Private Sector Model)



# Events at My Mythical Bookstore

- 1) Paid \$100 for various office supplies.
- 2) Paid \$4000 in salaries ( no taxes in my mythical land).
- 3) Sold 5 books for \$40 each. Received Cash.
- 4) Sold 10 books for \$50 each. Shipped with an invoice.
- 5) Received \$10,000 from venture capitalist as investment – no strings attached.
- 6) Have \$500 in outstanding invoices for book purchases at month end.

**Prepare journal entries and a cash basis income statement for these events.**







# **Introduction to Government Accounting**

## Chapter 2

# What's Different About Government?

- **Government accounting environment differs from private in various ways**
  - Legal and administrative provisions
  - Funds
  - Government Accounting Equation
  - Budget to Accounting to Reporting
  - Different Measurement Focus
  - Reporting Requirements

# Who Makes the Rules?

- **Legal and Administrative provisions**
  - SF Charter
  - Administrative Code
  - Annual Appropriation Ordinance (AAO)
- **Grantor agencies**
  - **Federal**
  - **State**
- **Accounting, Reporting & Audit Rules**
  - Governmental Accounting Standards Board (GASB)
  - Generally Accepted Accounting Principles (GAAP)
  - AICPA Audit Guide

# Funds

## What are Funds?

Funds are fiscal and accounting entities with a self-balancing set of accounts.

“.....they record 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.”

## Why use Funds?

To meet legal requirements

To support fiscal accountability

# Fund Categories

## There are 3 Broad Fund Categories

### – Governmental

- In general, they report tax supported activities

### – Proprietary

- Report business-type activities

### – Fiduciary

- Report resources held as trustee or agent for others

# Characteristics of Governmental Funds

**Generally reports tax supported activities**

**Resources primarily come from**

- Taxes
- Fines and forfeitures
- Grants
- Shared revenues
- Issuance of general obligation bonds
- Investment earnings

**Budgets are required**

**Example:** General Fund – Government's primary operating fund

# Governmental Fund Types

- General Fund
  - To account for all resources except those required to be accounted for in another fund.  
(Default)
- Special revenue funds
  - To account for proceeds of specific revenue sources that are *legally* restricted for specific purposes.
    - Most are associated with federal and state grants.



# Governmental Fund Types

- Capital projects funds
  - To account for financial resources to be used to acquire or construct major capital facilities
- Debt service funds
  - To account for resources that are used to pay principal and interest on long-term debt
- Permanent funds
  - To report resources legally restricted so that only the earnings, and not the principal, can be used to support programs.

# Characteristics of Proprietary Funds

## Reports business-type activities

### Resources

- Fees charged for services
- Must live within available resources
- Fees can be matched to costs – no profit motive

### Budgets used as a guide to operations

**Example -** Hetch Hetchy Water and Power  
Central Shops Internal Service

# Proprietary Fund Types

- Proprietary funds account for activities for which a fee is charged. The government is interested in determining the net income associated with the activity, similar to the private sector. The fund type differs based on the primary customer.
  - Enterprise funds—The primary customers are outside the government.
  - Internal service funds—The primary customers are divisions and offices of the government.

# Characteristics of Fiduciary Funds

**Reports resources held as trustee or agent for others**

## **Resources**

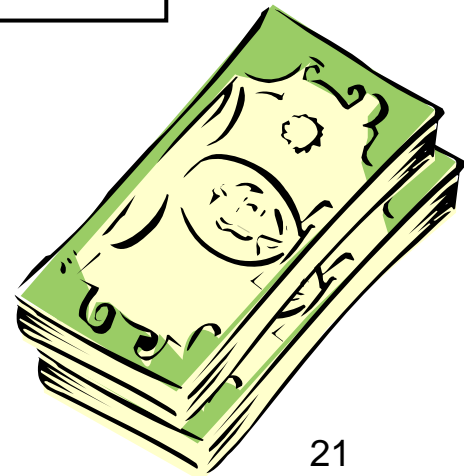
- Held for others
- Cannot be used to support a government's programs

**Reporting must demonstrate accountability of assets**

**Example:** Retirement, Health Services

# Fiduciary Fund Types

- Pension (and other employee benefit) trust
  - Employee's retirement system
  - Health Services System Fund Investment Trust



# Fiduciary Fund Types

- Private-purpose trust funds
  - A trust fund whose interest earnings are not used to support the government's programs would be reclassified as a private-purpose trust.
    - There are no funds at the present time.
- Agency funds
  - Assets held purely as a custodian for others, such as taxes collected by the City/County for the Unified School District and Community College.
    - Agency funds only report net assets. They do not report the change in net assets.

# How Many Funds?

## Number of funds

- As required by law and sound financial administration
  - Funds for external reporting can be different than funds established for budgetary and internal purposes

# Fund Type Exercise

Identify the fund type or types that could be used for the following resources



# In Which Fund Type Would You Deposit

## Deposit

- General property tax levy
- Property tax levy devoted to paying debt service
- Property tax levy for parks and recreation
- Golf course fees
- Law enforcement block grant
- Parking fines
- Building permits

# Fund Type Exercise (con'd)

- Gas taxes shared by the state
- Investment earnings from pension funds
- Gift or bequest without restrictions
- Gift or bequest with restrictions benefiting the library
- Gift or bequest with restrictions benefiting parties outside the government
- Airport fees and charges

# Government Accounting Equation

**Assets**

-

**Liabilities**

**= Fund Balance/Net Assets\***

**Asset Accounts**

Examples:

Cash  
Receivables  
Investments  
Prepaid Items\*  
Inventory\*

**Liability Accounts**

Examples:

Accounts Payable  
Accrued Liabilities

**Fund Balance/Net Assets  
Accounts**

Examples:

Reserved Fund Balance  
Unreserved Fund Balance

**Operating Statement Accounts**

Examples:

Revenues  
Expenditures

**Other Financing Sources**  
**Other Financing Uses**

**Budgetary Accounts**

Examples:

**Estimated Revenues**  
**Appropriations**  
**Encumbrances**  
**Estimated Other Financing Sources**  
**Estimated Other Financing Uses**

\*Fund Balance for Governmental Funds

Net Assets for Proprietary/Fiduciary Funds

\*\* If material in amount

# Fund Balance/Net Assets Accounts-Examples

**Reserved Fund Balance:** The amount of fund balance *not available* for spending due to legal restrictions, commitments, or because the financial resources have already been used on assets such as prepaid expense.

## CCSF Examples

Reserved for Rainy Day

Reserved for Encumbrances

Reserve for Appropriation

**Unreserved Fund Balance:** The amount of fund balance *available* for spending. This can be further subdivided into designated and undesignated. Designated means the governing board or management has *tentative* plans for spending.

## CCSF Examples

Unreserved-Designated

# Budget to Reporting Cycle



- **Budget preparation** - Mayor
  - Provides instructions
- **Budget adoption** – Board of Supervisors
  - Reviews Budget submission
  - Passes Annual Appropriation Ordinance (AAO)
- **Operations**
  - July 1 to June 30
- **Reporting**
  - Budget vs Actual
  - Year End: July 1 to Nov 30

# Measurement Focus & Basis of Accounting

To prepare statements, you **need to know**

➤ ***What to measure***

Referred to as **Measurement Focus** (MF)

➤ ***When to report the transaction***

Referred to as **Basis of Accounting** (BA)

**“MFBA” = Measurement Focus and Basis of Accounting**

# Government Accounting MFBA's

## Measurement focus

1. Flow of Current Financial Resources
2. Flow of Economic Resources

## Bases of accounting

1. Modified accrual
2. Accrual

Must determine both *basis and focus* for every transaction

# Measurement Focus

## Current Financial Resource Focus

- Focus is on change in current financial resources, often defined as financial assets (cash, investments, and receivables), and certain near-term liabilities.
- Transactions recorded when resources are received or consumed during the fiscal year or soon thereafter

## Economic Resources

- Focus is on change in all assets, financial and capital, and all related liabilities.
- Transaction recorded when economic resources are earned or consumed



# Basis of Accounting: **Modified Accrual**

## Revenue recognized when measurable and available

### ➤ **Measurable**

- You know how much

### ➤ **Available**

- Received during the current period ***or soon enough after*** to pay the obligations of the current period
  - How long is that?
    - » When do you receive your last bill for the prior year?
    - » 60-120 days would be appropriate
    - » For property tax, no more than 60 days
  - If not received, revenue is deferred
    - » Commonly called availability period

# Basis of Accounting: **Accrual**

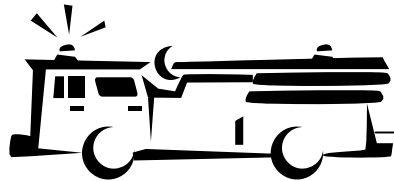
Transactions are **recorded in the period** in which

- **Revenues are earned** (title passes, services are rendered, etc.)
- **Expenses are incurred** (goods received, services received, etc.)

• **It does not matter when resources flow.**

• For property taxes, revenues are earned when the government establishes a legal claim by placing a lien on the property. The date payment is made is not relevant.

# Why Care? MFBA *changes* by fund classification



## Governmental Funds

**Current financial resources**  
**Modified accrual**

- Recognize revenue when measurable & available
- Recognize expenses when liability incurred.

## Proprietary and Fiduciary funds

**Economic resources**  
**Accrual**

- Recognize revenue when earned
- Recognize expenses when incurred

# Categories & Accounting Measurement

## Governmental Funds

Current Financial Resources

Modified accrual basis for external reporting

**Budgetary basis for budget**

## Proprietary Funds

Economic Resources

Accrual basis for external reporting

**Budgetary basis for budget**

## Fiduciary Funds

Economic Resources

Accrual basis for external reporting

**Usually not budgeted**

# Summary of Fund Characteristics

Characteristics	Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Types of funds</b>	General, special revenue, debt service, capital projects, permanent	Enterprise, internal service	Agency, investment trust, pension trust, private-purpose trust
<b>Accountability focus</b>	Fiscal accountability	Operational accountability	Operational accountability
<b>Measurement focus</b>	Current financial resources	Economic resources	Economic resources
<b>Basis of accounting</b>	Modified accrual	Accrual	Accrual
<b>Required financial statements</b>	Balance sheet; statement of revenues, expenditures, and changes in fund balances	Statement of net assets; statement of revenues, expenses, and changes in fund net assets; statement of cash flows	Statement of fiduciary net assets, statement of changes in fiduciary net assets
<b>Balance sheet/statement of net assets accounts</b>	Current assets, current liabilities, fund balances (equity)	Current and noncurrent assets, current and noncurrent liabilities, net assets	Current and noncurrent assets, current and noncurrent liabilities, net assets
<b>Operating or change statement accounts</b>	Revenues, expenditures, other financing sources/uses	Revenues, expenses	Additions, deductions
<b>Budgetary accounting</b>	Formally integrated into accounts of certain funds	Not formally integrated into the accounts	Not formally integrated into the accounts

Source: Accounting For Governmental And Nonprofit Entities, 13<sup>th</sup> Edition 2004, Page 42

# CCSF Fund Examples

<b>Governmental Funds</b>	<b>Proprietary</b> (Enterprise & Internal Service)	<b>Fiduciary</b>
<b>General Fund</b>	<b>Water Department Fund</b>	<b>Employees Retirement System Fund</b>
<b>Building Inspection Fund</b>	<b>Muni Transportation Agency Fund</b>	<b>Health Service System Fund</b>
<b>Culture &amp; Recreation Fund</b>	<b>Market Corporation</b>	
<b>General Services Fund</b>	<b>Central Shops Fund</b>	
<b>Public Library Improvement Fund</b>	<b>Reproduction Fund</b>	
<b>General Obligation Bond Fund</b>		

# Government Accounting Basics

## Chapter 3

# Government Accounting Basics



- **Double entry accounting system**
  - Each transaction has a **debit and a credit**
    - Posted to individual general ledger accounts
    - Accounts closed at end of year to prepare financial statements
- Government accounting equation:  
**Assets - Liabilities = Fund Balance/Net Assets**



# Government Accounting Equation

**ASSETS**

-

**LIABILITIES**

**= FUND BALANCE/NET ASSETS\*\***

Asset Accounts

*Examples:*

Cash  
Receivables  
Investments  
Prepaid Items\*\*  
Inventory\*\*

Liability Accounts

*Examples:*

Accounts Payable  
Accrued Liabilities

Fund Equity Accounts

*Examples:*

Reserved Fund Balance  
Unreserved Fund Balance

Operating Statement Accounts

*Examples:*

Revenues  
Expenditures  
Other Financing Sources  
Other Financing Uses

Budgetary Accounts

*Examples:*

Estimated Revenues  
Appropriations  
Encumbrances  
Estimated Other Financing Sources  
Estimated Other Financing Uses

\*Fund Balance for Governmental Funds

Net Assets for Proprietary/Fiduciary Funds

\*\* If material in amount

# Assets - Liabilities = Fund Balance/Net Assets

- **Assets**

- Debit accounts (normal balance=debit)
  - Cash, accounts receivable, inventories, capital assets, etc.

- **Liabilities**

- Credit accounts (normal balance=credit)
  - Accounts payable, accrued liabilities, deferred revenue, long-term obligations, etc.

- **Fund Balance (Net assets)**

- Credit accounts (normal balance=credit)
  - Reserves, fund balance, unrestricted net assets, etc.

# Government Operating Accounts

Used to report what actually happens during the year.  
Used to show change in fund equity from beginning to end of the year

## 1) Revenues, Other Financing Sources

### Credit Accounts

Taxes, charges for services, grants, transfers, etc

## 2) Expenditures, Other Financing Uses

### Debit Accounts

Current operating, debt service, capital outlay, depreciation, etc.

Operating Accounts close at year end

# Budgetary Accounts

## Typical Budgetary Accounts

- 1. Estimated Revenues** – what you expect to receive during FY as revenue
- 2. Appropriations** – what you are authorized to spend in FY (controlled by Allotment Accounts at CCSF)
- 3. Encumbrances** – commitments to spend
- 4. Estimated Other Financing Sources** – resources you expect to receive that are not revenues such as transfers from other funds or bond proceeds
- 5. Estimated Other Financing Uses** – transfers to other funds

# Budgetary Basis of Accounting

Standards are not set by GASB

Budgetary accounting is outside GASB's scope

- **Most common basis:**
  - Cash, plus encumbrances for spending
  - Cash for revenues
- **Some governments use GAAP basis**
  - *Modified Accrual*

**CCSF generally uses Modified Accrual GAAP**

(explain Teeter Plan)

# Budgetary Equation

**Beginning Budgetary Fund Balance**

**(+) Estimated Revenue**

**= Available Appropriations**

**Available Appropriations**

**(-) Appropriations**

**= Estimated Fund Balance**

# Budgetary Equation

<b>Beginning Budgetary Fund Balance</b>	<b>\$1,000</b>
+ (Plus)	<b>+</b>
<b>Estimated Revenues</b>	<b><u>500</u></b>
= (Equals) <b>Amount Available for Appropriation</b>	<b>\$1,500</b>
- (Less)	<b>—</b>
<b>Actual Appropriations</b>	<b><u>(\$1,350)</u></b>
= (Equals) <b>Estimated Ending Fund Balance</b>	<b>\$ 150</b>

## Annual 2008 Budget

City Department

### Budget Sources

License Fees \$2.5 million (Est. Revenues)

### Budget Uses

Materials & Supplies \$1.0 million (Appropriation M&S)

<b>Government Accounting Entry</b>			
<b>Date</b>	<b>Event and General Ledger</b>	<b>Debit</b>	<b>Credit</b>
7/1/07	<b>Record FY 2008 Budget</b>		
	<b>Estimated Revenues</b>	<b>2.5</b>	
	<b>Fund Balance</b>		<b>2.5</b>
	<b>Fund Balance</b>	<b>1.0</b>	
	<b>Appropriation.. M&amp;S</b>		<b>1.0</b>



# Recording Revenue

**When?** License renewal fee is due

**Accounting Event:** Annual license renewal fee bills were sent out and are due on 4/15; some related cash was received on 5/30

		Debit	Credit
4/15	Revenue Receivable	5000	
	License Fee Revenue		5000
5/30	Cash	1000	
	Revenue Receivable		1000

# Appropriation Controls

## Encumbrances

Required for purchase orders, contracts, or other obligations

- Ensures unencumbered balance is available before committing the government

## Allotments

- Quarterly division of an appropriation
- Helps to ensure funds will be available for entire year

# Encumbrances - Purpose?

- ✓ **Set aside a portion of the budget** for unperformed contracts and orders for goods and services or other obligations.
- ✓ **Budget planning tool**
- ✓ **Budget control tool**
- ✓ **Charter Requirement at CCSF!!!!!!!!!!!!**

## CCSF Charter Sec. 10.06 Encumbrances

“**No obligation** involving the expenditure of money shall be incurred by any officer, employee, board or Commission of the City and County unless the Controller first certifies that there is a **valid appropriation** from which the expenditure may be made, and that **sufficient unencumbered funds** are available in the treasury to the credit of such appropriation to pay the amount of such expenditure when it becomes due and payable.”

Each sum so recorded shall be an encumbrance for the purpose certified until such obligation is fulfilled, canceled or discharged, or until the ordinance or resolution is repealed by the Board of Supervisors

# Establishing Encumbrances

**When?** Purchase order is issued or Contract signed

Accounting Event: <b>Purchase Order Issued for 2 Vehicles</b>			
		Debit	Credit
	<b>Encumbrance</b>	<b>25,000</b>	
	<b>Budgetary Fund Balance Reserved for Encumbrance</b>		<b>25,000</b>

# Relieving Encumbrances

- **When?** Goods are received and accepted.
- **How?** Reverse the encumbrance and record an expenditure.

## Accounting Event: Received vehicles and invoice

	Debit	Credit
<b>Budgetary Fund Balance Reserved for Encumbrance</b>	<b>25,000</b>	
<b>Encumbrance</b>		<b>25,000</b>
<b>Expenditure</b>	<b>24, 875</b>	
<b>Vouchers Payable</b>		<b>24,875</b>

# Closing Entries

- When? **Fiscal Year End**
- How? **Close budgetary and operating accounts to Fund Balance.**

## Accounting Event: Closing entries at year-end.

		Debit	Credit
	<b>Appropriations</b>	<b>1M</b>	
	<b>Estimated Revenues</b>		<b>2.5M</b>
	<b>Fund Balance</b>	<b>1.5M</b>	
	<b>Revenues</b>	<b>5,000</b>	
	<b>Fund Balance</b>	<b>19,875</b>	
	<b>Expenditures</b>		<b>24, 875</b>

# Sources and Uses Exercise

## Part 1

### Current Status

1)	Fund Balance-Budget Basis-Beginning -	\$5,000
2)	Estimated Fee Revenues -	\$45,000
3)	Appropriation for Materials & Supplies -	\$50,000
4)	Encumbrance balance to date -	\$42,000
5)	Payments on encumbrances -	\$40,000
6)	Fee Revenues Received -	\$35,000
7)	Encumbrances cancelled -	\$1,000

- A. What is the balance of appropriations?** \_\_\_\_\_
- B. How much are the open encumbrances?** \_\_\_\_\_
- C. What is the balance of est. revenue account?** \_\_\_\_\_



# Sources and Uses Exercise

## Part 2 – Continue from Part 1

**D) Prepare Journal Entries for each of the following events.**

- 8) Day 1 --- Place order for two computers for \$6,000 total.
- 9) Day 2 -- Place order for furniture for \$2,000.
- 10) Day 15 - Receive 1<sup>st</sup> computer and invoice for \$2,500.
- 11) Day 20 - Receive 2<sup>nd</sup> computer and invoice for \$4,000.
- 12) Day 25 - Received \$12,000 in Fee Revenue
- 13) Day 27 - Cancel order for furniture for \$2,000.

**E) After posting your journal entries, calculate the following**

- 1. Appropriation Balance \_\_\_\_\_
- 2. Encumbrances Balance \_\_\_\_\_
- 3. Expenditures To Date \_\_\_\_\_
- 4. Operating surplus (deficit) \_\_\_\_\_

# Closing Budgetary Accounts

- When? **Fiscal Year End**

**Accounting Event: Closing Appropriations and Estimated Revenues, Actual Revenues, Expenditures, and Encumbrances**

**Part 3 F) Based on your answers to Part 1 and Part 2 above, prepare the closing entries below.**

		Debit	Credit
	<b>Appropriations</b>		
	<b>Estimated Revenues</b>		
	<b>Fund Balance</b>		
	<b>Revenues</b>		
	<b>Fund Balance</b>		
	<b>Expenditures</b>		
	<b>Encumbrances</b>		58

# PRACTICAL EXERCISE

Department of Building Inspection

Budget to Accounting to Reporting Cycle

1. Refer to exercise packet in your portfolio.

# Fiscal Year 2007-2008 Revenue Budget For DBI:BUILDING INSPECTION From Annual Appropriation Ordinance

(Partial view to display Revenue Source 20931 Apartment License Fee)

Department Appropriations (D)		Fiscal Year 2007-2008	
<b>Department: DBI : BUILDING INSPECTION</b>			
Fund Description			Total Funding
2S BIF			
Bldg Insp			
<b>Sources of Funds</b>			
<b>Sources Subobjects:</b>			
20931	APARTMENT LICENSE FEE	4,000,000	4,000,000
30150	INTEREST EARNED - POOLED CASH	800,000	800,000
61101	PLAN CHECKING	7,826,349	7,826,349
61102	BACK CHECKING	724,894	724,894
61103	PREPLAN APPLICATION MEETING	101,280	101,280
61104	SUBPOENA	3,300	3,300
61108	NOTICES	40,320	40,320
61109	POSTING NOTICES	10,000	10,000
61110	STREET NUMBERS	42,036	42,036
61111	REPRODUCTION	5,000	5,000
61112	CENTRAL PERMIT BUREAU FEE	1,000,000	1,000,000
61115	BUILDING PERMITS	14,926,381	14,926,381
61116	PENALTIES-BUILDING PERMIT	500,000	500,000
61117	ADDITION BLDG INSPECTIONS	200,000	200,000
61118	RESIDENTIAL INSPECTION	20,000	20,000
61119	OFF HOURS BLDG INSPECTION	10,000	10,000
61120	ENERGY INSPECTION	50,000	50,000

# Fiscal Year 2007-2008 Appropriations For DBI:BUILDING INSPECTION

## From Annual Appropriation Ordinance

(Partial view to display Uses of Funds)

Department Appropriations (D)

Fiscal Year 2007-2008

**Department: DBI : BUILDING INSPECTION**

Fund Description	Total Funding
2S BIF Bldg Insp	

### Uses of Funds

**Operating: ANP**

001	SALARIES	26,594,890	26,594,890
013	MANDATORY FRINGE BENEFITS	8,095,451	8,095,451
020	OVERHEAD	465,715	465,715
021	NON PERSONAL SERVICES	2,997,780	2,997,780
040	MATERIALS & SUPPLIES	1,022,870	1,022,870
060	CAPITAL OUTLAY	114,700	114,700
081	SERVICES OF OTHER DEPTS (AAO FUNDS)	7,495,808	7,495,808
091	OPERATING TRANSFERS OUT	750,000	750,000
<b>Total Uses of Funds</b>		<b>47,537,214</b>	<b>47,537,214</b>

# Financial Reports and Objectives

## Chapter 4

# What do Financial Reports Tell Us?

- **Financial position**

- Report assets, liabilities and the difference = net assets
- Tells **where** you are as of a point in time

- **Results of operations**

- Report inflows and outflows (revenues, expenditures/expenses/other financing sources or uses)
- Tells **how** you did during the operating period

Understanding how to **Measure Transactions** is critical to financial reporting

# Preparing Financial Reports

For each transaction, you need to know:

- **What to measure**
- **Which period to report it in**

***How*** you measure each transaction and

***When*** you report each transaction

depends.....**upon the Reporting Objective**



# Reporting Objective #1- Budgetary

- **Budgetary Reporting** (internal reporting)
  - **How much** am I authorized to spend?
    - How much was appropriated?
    - How much was allotted?
  - **What am I authorized** to buy, contract or
  - **What if I don't spend** everything?
  - **What if I need more?**

During the year, most budgets operate on a cash and encumbrance basis

# Reporting Objective #2 – External

- **External reporting for governmental funds**  
(supported by taxes, fines, grants, shared revenues and other sources)
  - **How much is available to provide services?**
  - **How much did we spend on services?**
  - **How much do we:**
    - Own? Owe?**
    - Have left to spend in the future?**

# Reporting Objective #3 - External

- **External reporting for proprietary funds:**
  - How much was charged for services?
  - How much was spent providing services?
    - **Objective is to match expenses to revenues**
  - How much does the enterprise own?
  - How much does it owe and what is the difference?
    - Similar to private sector (but no shareholders in government)
- **External reporting for fiduciary funds:**
  - What is the value of the assets and the amount of the liabilities?
  - How much was taken in and spent during the year?

# Measuring Transactions

- **What to measure?**
  - Relates to reporting objective
    - Budgetary control?
    - External reporting?
- **When to report the transaction?**
  - Also relates to reporting objective

Usually considered a single concept. However, need to determine both for every transaction

# Measurement Focus/Bases of Accounting

## Chapter 5

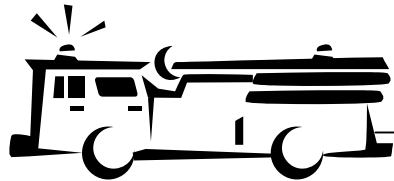
# Revenue Accounting Basics

**To prepare a balance sheet or an operating statement:**

- Must know when to report the transaction.  
You need a basis of accounting (BA).
- Must know what to measure.  
You need a measurement focus (MF).

**The common acronym is MFBA—measurement focus and basis of accounting**

# Why Care? MFBA *changes* by fund classification



## Governmental Funds

**Current financial resources**  
**Modified accrual**

- Recognize revenue when measurable & available
- Recognize expenses when liability incurred.

## Proprietary and Fiduciary funds

**Economic resources**  
**Accrual**

- Recognize revenue when earned
- Recognize expenses when incurred

# Government-Wide Reporting

- At the government-wide level, the MFBA is flow of economic resources and accrual
- Thus, it is necessary to convert transactions for governmental activities from current financial resources/modified accrual to economic resources/accrual



# Government Accounting Bases

- **Cash (Not GAAP)**
  - Easiest way to measure transactions
  - Very common basis for budget
    - Easy to use and understand
  - Used during the operating year
    - Adjustments made after period ends
- **Modified accrual (GAAP basis)**
  - Sometimes used for budget
- **Accrual (GAAP basis)**
  - Very rare for budget
- **Combination (Not GAAP)**
  - Uses cash or modified accrual for different transactions
    - Recognizes limited timing of transactions
  - Also common for budget (CCSF)

# Cash Basis

- Revenues are recorded when received
  - No need to determine when they were earned or due to the government
    - Sales tax collected by vendor in June is due by end of July
      - Check received in August and revenue recorded then
      - Determining when it was due is required for other bases
- Expenditures are recorded when check or warrant is written
  - No need to determine when liability was incurred
    - Goods received in June, invoice received in July, payment made in August
      - Expenditure recorded in August
      - Liability determination required for other bases

# Modified Accrual Basis of Accounting

## Revenue recognized when measurable and available

### ➤ Measurable

- You know how much

### ➤ Available

- Received during the current period **or soon enough after** to pay the obligations of the current period
  - How long is that?
    - » When do you receive your last bill for the prior year?
    - » 60-120 days would be appropriate
    - » For property tax, no more than 60 days
  - If not received, revenue is deferred
    - » Commonly called availability period

# Modified Accrual Basis-Revenues

**Revenues susceptible to accrual are accrued**

**Which of the following revenue sources are susceptible to accrual?**

- Property taxes
- Income taxes
- Sales taxes
- Motor fuel taxes
- Estate taxes
- Hotel/motel taxes
- Parking fines
- Fees and user charges
- Expenditure-driven grants
- Earnings from investments

# Modified Accrual Basis-Expenditures

**Under *modified accrual*, expenditures are recorded when a fund liability is incurred**

- Goods or services have been received
- Payment on claims has been received for services provided
- Judgments have been rendered by a court

This includes **expenditures for capital outlay and debt repayment** when current financial resources are used

# Modified Accrual Basis-Capital Expenditures & Debt Issue

**Fund liability requires the use of current financial resources (those received during year and within availability period)**

- For the most part, this means cash
  - Unlike cash, however, it is important to determine when fund liability is incurred

**Capital expenditures are recorded when received or constructed**

- Requires outflow of current financial resources
- Not accounted for as assets

# Modified Accrual Basis-Capital Expenditures & Debt Issue - continued

- Debt issue involves inflow of financial resources
  - However, **accounted for as an other financing source** instead of revenue
    - Outstanding debt is not accounted for as a liability
  - Debt repayment recorded as expenditure
    - Both principal and interest

# Modified Accrual Summary

- Accrue revenue susceptible to accrual
- Recognize revenue when measurable and available
- Recognize expenditures when incurred if they require use of current financial resources
- No balance sheet impact for capital assets and debt issues
  - Since they involve resource flows, they are reported on the operating statement
- Revenue that is measurable but not available is deferred



# Accrual Basis of Accounting

- Transactions are recorded in the period in which:
  - Revenues are earned (title passes, services are rendered, etc.)
  - Expenses are incurred (goods received, services received, etc.)
- It does not matter when resources flow.
- For property taxes, revenues are earned when the government establishes a legal claim by placing a lien on the property. The date payment is made not relevant.

# Accrual for Capital Outlay & Long-Term Debt

- Under full accrual:
  - Capital outlay is the exchange of one asset (cash) for another (capital asset)
    - There is no operating statement impact
  - The amount of the capital asset “used” in the period is reported on the operating statement (depreciation exp.)

# Accrual for Capital Outlay & Long-Term Debt - continued

- Issuing debt is the exchange on an asset (cash) for a liability (long-term debt)
  - There is no operating statement impact
- The payment of principal on debt is the exchange of an asset (reduction in cash) for a liability (reduction of long-term debt)
  - There is no operating statement impact

# Capital Outlay and Long-Term Debt Example

- A building is purchased at a cost of \$1 million
- The building has a useful life of 20 years
- The building is financed with a bond issue of \$1 million
  - The term of the bonds is 10 years
    - Based on level principal
  - The interest rate is 5%
- Transactions take place on first day of fiscal year

# Capital Outlay and Long-Term Debt Example

- Modified Accrual

- Balance Sheet:

- No entries in the fund balance sheets.

- Accrual

- Balance Sheet:

- Asset

- Capital outlay-building (net) - \$950,000
  - (\$1 million less depreciation of \$50,000)

- Liability

- Long-term debt - \$900,000
  - (\$1 million issued less principal reduction of \$100,000)

# Capital Outlay and Long-Term Debt Example

- Modified Accrual
- Operating Statement:
  - Capital outlay - \$1 million
  - Debt service
    - Principal - \$100,000
    - Interest - \$50,000
  - Other financing sources
    - Bonds - \$1,000,000

- Accrual
- Operating Statement:
  - Depreciation - \$50,000
  - Interest - \$50,000

# Property Tax Example

- Property taxes are levied on May 1 and are due by June 30.
- Amount of levy is \$5 million
- Payments received:
  - By June 30: \$4,500,000
  - In July: \$200,000
  - In August: \$175,000
  - After August: \$100,000
  - Amount written off (uncollectable): \$25,000

# Property Tax Example

## Modified accrual

- Balance Sheet:
  - Accts receivable (net)  
\$475,000
  - Deferred revenue -  
\$100,000
- Operating Statement
  - Property tax revenue -  
\$4,875,000
    - (\$4,900,000 less bad debt of \$25,000)

## Accrual

- Balance Sheet:
  - Accts receivable (net)  
\$475,000
- Operating Statement:
  - Property tax revenue -  
\$4,975,000
    - (\$5,000,000 less bad debt of \$25,000)



# Exercise 1 – Capital Outlay and Long-Term Debt

## Bond Issuance

On July 1, 2006, the San Francisco Finance Corporation issues \$3 million in 6 year bonds to purchase equipment. The bonds have an interest rate of 5%. The equipment has a useful life of 10 years.

## Debt service requirements:

- Interest payments of are due on November 1 and June 1 of each year. The payment on Nov. 1, 2006, is \$50,000 and the payment of June 1, 2007 is \$75,000.
- Principal payments of \$500,000 are due on June 1 of each year beginning June 1, 2007.

# **Exercise 1 – Capital Outlay and Long-Term Debt – cont'd**

**Prepare the Balance Sheet and Operating Statement to show:**

- **Issuance of the Bonds**
- **Purchase of Equipment**
- **Payment of debt**

**A. Use Accrual Accounting**

**B. Modified Accrual Accounting**

**Fiscal year is July 1, 2006 to June 30, 2007**

# Accrual Summary

- **Recognize revenue when earned** or when the government established a claim
- **Recognize expenses when incurred**
- **Capital assets and debt issues do not have an operating statement impact**  
Recorded on the balance sheet
- **Money that has not been earned or due to the government (advances) is deferred**

# Accounting for Revenues and Receivables

## Chapter 6

# Classifying Revenue Transactions

## 1) Exchange Transactions

Example: **Sell items at City Store**  
(exchange of nearly equal value)

## 2) Exchange-like Transactions

Example: **Charge permit fee for Park picnic table**  
(*values exchanged may not be equal*)

## 3) Non-exchange Transactions

Examples: **Taxes, fines, forfeitures, grants, gifts**  
(government or grantor determines value)

# Recognizing Receivables and Revenues for Exchange and Exchange-like Events

## Receivables:

- Receivable is recognized when the exchange occurs
- Accounting treatment *is the same* for both Accrual and Modified Accrual

## Revenues:

- Accrual – Recognize Revenue when exchange occurs
- Modified Accrual – Recognize Revenue when exchange occurs *if available*

# Exchange Transactions

**Each party receives and gives up essentially equal values** -- involves the exchange of money for goods or services

## Revenue Recognition

- **Cash basis** - recognize revenue when received
- **Accrual basis** - recognize revenue at the time of the exchange
- **Modified accrual -recognize** revenue at time of exchange, **if it is available** (*Deferred if not available*)

# Exchange-like Transaction

**Each party gives or receives something of value - but --** values exchanged may be related but may not be of equal value

## **Examples: Licenses and permits**

Recipient receives permission to do something for a fee  
(build a house, drive a car, get married)

Fee is not necessarily related to the associated cost

## **Revenues Recognition**

- **Accounting Treatment** *is identical* to exchange transactions



# City and County Examples

## CCSF - Exchange

Rents and concessions

Charges for services

Other revenues

- Sale of scrap and waste
- Medical records abstract sales

Revenues of internal service funds

## Exchange-Like

Licenses and permits for

- Eating places
- Driver agent badge tag
- Café tables and chairs
- Sidewalk display and flower markets
- Marriage and dog licenses

Franchise fees

- Consumer protection application
- PGE gas and electric
- Cable TV
- Steam franchise

# Nonexchange Transactions

- **The government imposes an obligation on someone** (home owner, vendor, etc.)
  - Taxes
  - Fines and forfeitures
- **The parties may be involved in an exchange but the value is not relevant**
  - Grants
  - Shared revenues
  - Donations and gifts
    - Includes infrastructure “donated” by developers

# Classes of Nonexchange Transactions

- **Derived tax revenues**
- **Imposed Non-exchange revenues**
- **Government-mandated Non-exchange transactions**
- **Voluntary Non-exchange transactions**

# Summary Chart – Classes and Timing of Recognition of Nonexchange Transactions

<b>Class</b>	<b>Recognition</b>
<b>Derived tax revenues</b> Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption	<b>Assets*</b> Period when <i>underlying exchange has occurred</i> or when resources are received, whichever is first.
	<b>Revenues</b> Period when <i>underlying exchange has occurred</i> . (Report advance receipts as deferred revenues.) When modified accrual accounting is used, resources also should be “available.”
<b>Imposed nonexchange revenues</b> Examples: property taxes, most fines and forfeitures	<b>Assets*</b> Period when an <i>enforceable legal claim has arisen</i> or when resources are received, whichever is first.
	<b>Revenues</b> Period when <i>resources are required to be used</i> or first period that use is permitted (for example, for property taxes, the <i>period for which levied</i> ). When modified accrual accounting is used, resources <i>also</i> should be “available.” (For property taxes, apply NCGA Interpretation 3, as amended.)
<b>Government-mandated nonexchange transactions</b> Examples: federal government mandates on state and local governments  <b>Voluntary nonexchange transactions:</b> Examples: certain grants and entitlements, most donations	<b>Assets* and Liabilities</b> Period when <i>all eligibility requirements have been met</i> or (for asset recognition) When resources are received, whichever is first.
	<b>Revenues and expenses or expenditures</b> Period when <i>all eligibility requirements have been met</i> . (Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently [for example, permanent and term endowments], report revenues and expenses or expenditures when the resources are, respectively, received or paid and report resulting net assets, equity, or fund balance as restricted.) When modified accrual accounting is used for revenue recognition, resources <i>also</i> should be “available.”

\* If there are purpose restrictions, report restricted net assets (or equity or fund balance) or, for governmental funds, a reservation of fund balance.  
 Source: GASB *Statement No. 33* (Norwalk, CT, 1998), Appendix C.

# Voluntary Nonexchange Transactions

- Legislative or contractual agreements entered willingly by two or more parties
- Characteristics:
  - They are not imposed on provider or recipient
  - Fulfillment of eligibility requirements is essential for a transaction to occur
- Provider may establish purpose restrictions and eligibility requirements

# Requirements and Restrictions

- **Time requirements:**

- Specify period(s) when resources are required to be used or when use may begin
  - Affect timing of recognition of transactions

- **Purpose restrictions:**

- Specify specific purpose(s) for which resources are required to be used
  - Net assets are restricted until resources are used for specific purpose or as long as provider requires resources to be maintained intact
  - Can only be determined **after** a transaction takes place

# Eligibility Requirements

- Must be met **before** a transaction takes place
  - Recipients required to meet characteristics specified by provider
  - Time requirements specified in legislation have been met
  - Provider offers resources on a reimbursement basis and recipient has incurred allowable costs
  - Offer of resources contingent on action of recipient and action has occurred (i.e., provide matching funds)

# Examples of Eligibility Requirements

- **Applicant must be a law enforcement agency**
- **Funds obligated between Oct. 1 and Sep. 30**
- **Checks/warrants issued prior to July 1**
- **Only eligible expenditures will be reimbursed**
- **Matching requirement is 20%**



# Purpose Restrictions

- Specify specific purpose(s) for which resources are required to be used
  - Net assets are restricted until resources are used for specific purpose or as long as provider requires resources to be maintained intact
  - Can only be determined *after* a transaction takes place

# Examples of Purpose Restrictions

- Applicants must have incomes less than \$25,000 annually
- Grant funds must be used for community policing
- No capital equipment may be purchased with grant funds
- Funds must be used to rehabilitate housing

# Recognition

- Many departments are both recipients and providers of grants
- **Providers:**
  - Recognize liabilities and expenses when all eligibility requirements have been met
  - Resources sent before eligibility requirements are met are advances for provider and deferred revenue for recipient
- **Recipients:**
  - Recognize assets and revenues when all eligibility requirements have been met

# Government-mandated and Voluntary- Applying Criteria

## **Federal grants**

- Public assistance administration
- Public assistance programs
- Transportation/transit
- Construction
- Disaster relief
- Other federal grants

(Discussion on grants)

# Exercise 1 - Grants

- The availability period for recognizing grant revenue is 60 days after the end of the fiscal year.
- A reimbursable grant has a period of July 1-June 30. The grant is \$5 million.
- Reimbursements prior to June 30 have been received for \$4 million. The reimbursements cover the first 9 months of the grant period.
- The fiscal year is July 1-June 30.

# Exercise 1 - Grants

- Reimbursement requests to June 30 are received as follows:
  - July 30 - \$350,000 (April billing)
  - August 30 - \$300,000 (May billing)
  - September 30 - \$300,000 (June billing)
- There are no outstanding receivables after September 30

# Exercise 1 - Grants

- Prepare the balance sheet and operating statement to show the revenue recognized and outstanding receivables:
  - If accrual accounting is used
  - If modified accrual accounting is used

# Expense Recognition

- Expenses are recognized as soon as a liability is incurred regardless of when related cash flows occur.
- Expenses are recognized when economic resources are consumed
  - Depreciation
  - Claims and judgments



# Expenditure Recognition

- Expenditures are recognized when a fund liability is incurred if the liability requires the use of current financial resources.
- If financial resources are not used, then there is no fund liability.
  - A claim is recognized when current financial resources are required.
    - Modified accrual basis of accounting
- Under cash basis, expenditure is recognized when voucher/check/warrant processed

# Expenditures and Expenses

- Most transactions are reported the same regardless of the basis of accounting (excluding cash basis)
  - Salaries and wages
  - Operating costs, such as utilities
- Inventory and prepaid items can be reported using the consumption method in governmental funds
  - Exceptions to current financial resources

# Exercise 1 - Payroll

- The last day of FY2006 is Saturday, June 30, 2006
  - The pay period from Jun 10 – Jun 23 is paid on July 6 (\$1,300,000)
  - The pay period from Jun 24 – Jul 7 is paid on July 20 (\$1,400,00)
- For the two pay periods, what is the payroll expenditure/expense for FY2006 under accrual & modified accrual bases?
  - What are the dates of the last pay period of FY2006 under the cash basis?

# Exercise 2 - Inventory

- There is no beginning inventory for computers in FY2007. Purchases are:
  - 10 @ \$1,200 on July 15, 2006
  - 20 @ \$1,100 on Sep. 25, 2006
  - 10 @ \$1,400 on Dec. 2, 2006
  - 20 @ \$1,300 on Mar. 12, 2007
  - 10 @ \$1,000 on May 22, 2007
- On June 30, 2007 there are 15 computers in the inventory.
- What is the expenditure for FY 2007 under purchases method and expense under consumption method under FIFO?

# Expenditures Only

- Some transactions are only reported as expenditures, but not expenses since they require the use of current financial resources but their effect extends beyond a single operating period.
  - Capital outlay
  - Principal retirement
  - Debt issue costs

# Expenses Only

- Transactions that do not require the use of current financial resources are reported only as expenses.
  - Depreciation
  - Compensated absences
  - Amortization of bond premium/discount
  - Amortization of debt issue costs
  - Interest on deep discount debt
  - Loss on the sale of capital assets
  - Loss on the issue of refunding bonds

# Expenditures or Expenses

- Certain transactions are reported as expenditures or expenses but because of the change in measurement focus, the amounts reported are different.
  - Interest on long-term obligations
  - Claims and judgments



# Interest on Long-term Debt

- A government issues a bond that requires interest payments on June 1 and December 1.
  - Expenditure:
    - Amount to be paid from Dec. 1 to May 31 and from June 1 to Nov. 30
  - Expense:
    - Interest due during the fiscal year (July 1-June 30, Jan. 1-Dec. 31)



# Exercise 3: Claims

- A claim is incurred on May 1, 2005 for \$100,000. Fiscal year is July-June. Claim payments are:
  - \$35,000 on Nov. 1, 2005
  - \$25,000 on Mar. 1, 2006
  - \$20,000 on Sep. 1, 2006
  - \$20,000 on Aug. 1, 2007
- What is the expense, if any, for FY2005, 2006, 2007 and 2008?
- What is the expenditure, if any, for FY2005, 2006, 2007 and 2008?

# External Financial Reporting Overview

## Chapter 8

# Accounting, Reporting and Auditing

## Standards and Sources

# Governmental Accounting Standards Board

- Established in 1983
- Overseen by Financial Accounting Foundation
- One full-time member and six part-time members
- Director of Research and staff
- Follows due process to issue standards



# GASB Due Process

- Due process documents:
  - Discussion Memoranda
  - Invitation to Comment
  - Preliminary Views
  - Exposure Draft
- Public hearings
- Task forces
- Focus groups



# Basis of Accounting Standards

- Importance of the budget
- Short term focus
- Concerned with resource flows
- Non-exchange transactions
- Fiscal accountability
- Accounting in funds



# Who Must Follow GASB Standards?

- Legally, no one.
  - Power to set standards
  - No power to enforce
- Who can?
  - Governments themselves
    - Enact legislation requiring GAAP
  - Investors and creditors (indirectly)
    - Downgrade securities



# GAAFR-The Blue Book

- Government Accounting, Auditing, and Financial Reporting
  - Published by GFOA
  - Definitive guidance for governments
  - Contains actual examples and journal entries
  - Excellent reference for preparing government-wide statements
  - Guidance for preparing CAFR



# AICPA Audit Guide

- Audits of State and Local Government Units (ASLGU)
  - Detailed descriptions of accounting requirements
  - Detailed descriptions of audit procedures to address accounting requirements
  - Contains opinions that need to be used in different circumstances

# Financial Reporting Model

# Components of the Reporting Model

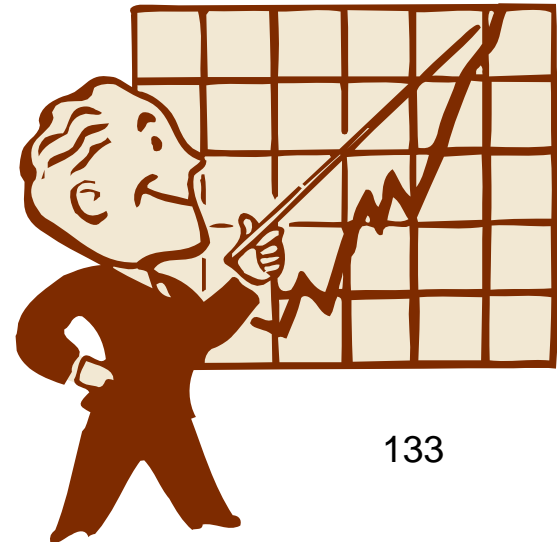
- **Management's Discussion & Analysis:** Provides financial management the opportunity to present an analysis of government's activities
- **Basic Financial Statements:** Present balances and changes in those balances
- **RSI:** Supplements information in basic financial statements (includes budgetary reports)

# The Basic Financial Statements (BFS)

- Components
  - Government-wide financial statements
  - Fund financial statements
  - Notes to the financial statements

# Basic Financial Statements

- **Government-wide statements**
  - present financial position and changes in position for ENTIRE government (except fiduciary funds) on single measurement focus and basis of accounting



# Basic Financial Statements

- **Fund financial statements**
  - present balances and changes in those balances for each of government's funds
  - different MFBA for governmental funds and proprietary funds
- **Notes to the financial statements**
  - contain more detailed information pertaining to basic statements

# Financial Reporting Entity

- Reporting entity
  - City and County of San Francisco (Primary government)
  - Component units of the City/County
- What's a primary government?
  - State, county, city, village, township, town.
  - Special purpose government with an elected body that
    - Has separate legal standing, and
    - Is fiscally independent.

# What's a Component Unit?

- An entity that is legally separate.
  - Has a name, has corporate powers, can sue or be sued in its own name.
  - A number of departments have appointed boards but they are not legally separate.
- Has a governing board that is appointed by the elected officials of the primary government.
- Component units are presented in the CAFR either as a blended unit or presented discretely.



# Blended Component Units

- Component units that have a very close relationship with the primary government are blended. This means that their financial activity is included with those of the primary government.
  - San Francisco County Transportation Authority
    - Presented as a special revenue fund.
  - San Francisco Finance Corporation
    - Presented as an internal service fund.
  - San Francisco Parking Authorities
    - Presented as an enterprise fund.

# Discretely Presented Component Units

- Component units that have an “arms length” relationship are discretely presented. They are included in a separate column on the government-wide financial statements.
  - San Francisco Redevelopment Agency
  - Treasure Island Development Authority

# Comprehensive Annual Financial Report (CAFR)

- GASB encourages, but does not require, all government to publish a CAFR
  - Requirements set forth in GASB *Codification Section 2200*
- GFOA provides detailed guidance on the requirements for preparing a CAFR in GAAFR
  - Certificate of Achievement for Excellence in Financial Reporting Program

# Recap & Final Wrap-Up

- Evaluations
- CPE Certificates will be issued based on completion of required exercises