The Fundamentals of Governmental Accounting & Reporting

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Today’s Presenter

John Hulsey provides financial management training for state and local government officials and personnel. He is a certified public finance officer and a certified government financial manager. Prior to joining the Institute of Government in 2012, John served as a finance director in local government. He has over 17 years of local government financial management experience in such areas as accounting, budget, debt management, financial reporting, and project management. John is a past president of the Georgia Government Finance Officers Association, an active member of the Government Finance Officers Association of the United States and Canada (where he also serves as an adviser to the GFOA Committee on Accounting, Auditing, and Financial Reporting), and a member of the Association of Government Accountants.
Learning Objectives

Recite the differences between private sector and public sector accounting

Discuss the purpose of fund accounting

Recall categories of funds and the eleven generic fund types

Define measurement focus and basis of accounting
Public vs. Private

What’s the Difference?
Public vs. Private-Sector

- Service motive vs. profit motive
- Stewardship vs. return on investment
- Appropriated budget vs. financial plan
- Basis of accounting differences
- Measurement focus differences
Governmental vs. Commercial

Private Business = Single entity

Categories of Financial Activities

Governmental Activity

Business-Type Activity

Fiduciary Activity

Governmental = Several separate funds, each having a separate set of accounts and functioning independently

Private Business = Single entity
Accounting Standards

- **Governmental Accounting Standards Board** – GASB (State and local governments)

- **Financial Accounting Standards Board** – FASB (Private sector)
Fund Accounting

What’s the purpose?
What is a Fund?

- Separate accounting entity
- Separate set of self-balancing accounts
- Separate set of financial statements
- Three categories of funds
Fund Categories

Reporting Entity

Governmental Fund

Proprietary Fund

Fiduciary Fund
Governmental Fund Category

- Reporting Entity
  - Governmental Funds
    - Proprietary Funds
    - Fiduciary Funds
    - Most government functions financed
    - Reports current assets, current liabilities, and deferred inflows
    - Equity known as Fund Balance
Governmental Fund Types

- General Fund
- Special Revenue Fund
- Capital Project Fund
- Debt Service Fund
- Permanent Fund
Proprietary Fund Category

- Reporting Entity
  - Governmental Fund
  - Proprietary Fund
    - Business-type activities
      - Reports total assets, deferred outflows, total liabilities, and deferred inflows
  - Fiduciary Fund
    - Equity known as Net Position
Proprietary Fund Types

- Proprietary Funds
  - Enterprise Fund
  - Internal Service Fund
Fiduciary Fund Types

- Custodial Fund
- Private Purpose Trust Fund
- Investment Trust Fund
- Pension Trust Fund

Fiduciary Funds

[Diagram showing the relationships between the different fund types]
Number of Funds – How Many?

“Minimum Number of Funds Concept”

Generally Accepted Accounting Principles (GAAP) require governments to maintain as few funds as possible to meet legal requirements and for sound financial administration.
Knowledge Check

Which of the following is a fund category?

A. Custodial funds
B. Enterprise funds
C. Special revenue funds
D. Governmental funds
Measurement Focus & Basis of Accounting

Perspective is Important!
Definition of Measurement Focus

A term used to describe the types of transactions and events that are reported on a fund’s operating statement.

Are we measuring –

- Expenses? (economic condition)
- Expenditures? (current financial resources)

Measurement focus tells us “what to measure”

Basis of accounting tells us “when” to report the items in the financial statements.
Measurement Focus – Governmental Funds

• Flow of current financial resources measurement focus
  • Are there more or less resources available for spending?

• Increases in available expendable resources
  • Revenue or other financing sources

• Decreases in expendable resources
  • Expenditures or other financing uses
Measurement Focus – Proprietary Funds

- Flow of economic resources measurement focus
  - Better or worse off economically as a result of transactions for the period?
- Improve economic position
  - Revenues or gains
- Diminish economic position
  - Expenses or losses
## Fundamental Differences

<table>
<thead>
<tr>
<th>Transaction or Event</th>
<th>Governmental Funds (Current Financial Resources)</th>
<th>Proprietary Funds (Economic Resources)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of debt</td>
<td>Increases</td>
<td>No effect</td>
</tr>
<tr>
<td>Debt service principal</td>
<td>Decreases when due and payable – usually when payment is made</td>
<td>No effect</td>
</tr>
<tr>
<td>Debt service interest</td>
<td>Decreases when due and payable – usually when payment is made</td>
<td>Decreases each year debt is outstanding</td>
</tr>
<tr>
<td>Purchase of a capital asset</td>
<td>Decreases</td>
<td>No effect</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>No effect</td>
<td>Decreases</td>
</tr>
<tr>
<td>Sale of capital asset</td>
<td>Increase</td>
<td>Increase if $ received is more than book value/ Decrease if $ received is less than book value</td>
</tr>
</tbody>
</table>
The City of Dollars has decided to construct a new building and to finance the construction through the issuance of bonds. The cost of the new building is $300,000 and bonds will be issued for that amount.

**Issuance of Long-Term Debt - Example**

- **Governmental Fund**

<table>
<thead>
<tr>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (Asset)</td>
<td></td>
<td>$300,000</td>
</tr>
<tr>
<td>Other Financing Sources – Bond Issuance</td>
<td></td>
<td>$300,000</td>
</tr>
</tbody>
</table>

*To record the receipt of proceeds from the issuance of bonds*
Issuance of Long-Term Debt - Example

**Proprietary Fund**

<table>
<thead>
<tr>
<th></th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td>$300,000</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>$300,000</td>
<td></td>
</tr>
</tbody>
</table>

*To record the receipt of proceeds from the issuance of bonds*
Knowledge Check

What effect does the purchase of a capital asset have on governmental fund equity?

A. Increase
B. Decrease
C. No effect
Basis of Accounting

Refers to the point in time WHEN a government recognizes - revenues, expenditures or expenses (as appropriate), and the related assets and liabilities in the accounts, and reports them in the financial statements.
Why is Basis of Accounting Important?

Provides direction for when an accounting transaction should be recorded in the accounting records
Basis of Accounting

- Bases of Accounting
- Accrual
  - Cash
  - Modified Accrual
## Basis of Accounting Types

<table>
<thead>
<tr>
<th>Basis</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Cash**         | • Recognizes transactions only when cash changes hands  
                    • Can’t report financials using the cash basis                                           |
| **Accrual**      | • Recognizes transactions when the economic event occurs regardless of the timing of cash flows  
                    • Revenues = earned and measurable  
                    • Expenses = When liability is incurred                                                   |
| **Modified Accrual** |• Hybrid of both accrual and cash  
                                • Revenues = earned, measurable and *available*  
                                • Expenditures = When liability is incurred with the *exception* of unmatured debt, accrued interest, supplies inventory, and prepaids |
Modified Accrual Basis of Accounting

Revenue Recognition

Recognize revenues in the accounting period in which they are:

• Earned
• Measurable
• Available
### Modified Accrual Basis of Accounting

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Receivable</strong></td>
<td>0</td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Ending A/R</strong></td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Available</strong></td>
<td>600</td>
</tr>
</tbody>
</table>

What would be the amount of revenue?
What would be the amount of unavailable revenue?
## Fund Schedule

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Modified Accrual</th>
<th>Accrual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental Funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Special Revenue</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Capital Projects</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Permanent</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>Proprietary Funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Internal Service</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Fiduciary Funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private-Purpose Trust</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Investment Trust</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Pension Trust</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Custodial</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
# Bases of Accounting Comparison

<table>
<thead>
<tr>
<th></th>
<th><strong>Accrual</strong></th>
<th><strong>Modified Accrual</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues are recorded when</td>
<td><strong>Measurable (the amount can be determined) and</strong></td>
<td><strong>When earned, if</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Earned (the service has been provided)</strong></td>
<td><strong>Measurable (the amount can be determined) and</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Available (the revenue was collected in the current fiscal year or will be collected soon enough after the close of the fiscal year to pay liabilities of the current year)</strong></td>
</tr>
<tr>
<td>Expenses/expenditures are recorded when</td>
<td><strong>(Expenses)</strong></td>
<td><strong>(Expenditures)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Measurable (the amount can be determined) and</strong></td>
<td><strong>Measurable (the amount can be determined) and</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Incurred and consumed (goods received and used or services performed)</strong></td>
<td><strong>Incurred (the liability has been created and will normally be paid from current resources)</strong></td>
</tr>
</tbody>
</table>
## Perspectives for Analyzing Financial Statements

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near-term financial position</td>
<td>Are regular inflows sufficient to cover regular outflows?</td>
</tr>
<tr>
<td></td>
<td>Are there sufficient liquid resources to meet unexpected events and developments</td>
</tr>
<tr>
<td>Net position</td>
<td>Is the entity’s net position improving or deteriorating?</td>
</tr>
<tr>
<td>Economic condition</td>
<td>Is the entity’s net position likely to improve or deteriorate in the future?</td>
</tr>
</tbody>
</table>

Source: GAAFR, Page 803
Sources of Information for Different Purposes

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Principal source of information within the CAFR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near-term financial position</td>
<td>Fund financial statements</td>
</tr>
<tr>
<td>Net position</td>
<td>Government-wide financial statements</td>
</tr>
<tr>
<td>Economic condition</td>
<td>Statistical section</td>
</tr>
</tbody>
</table>

* Comprehensive Annual Financial Report

Source: GAAFR, Page 804
Knowledge Check

The basis of accounting that recognizes revenue when it is earned, measurable and available is ...

A. Cash basis
B. Accrual basis
C. Modified accrual
D. Flow of economic resources
Center for Continuing Education
Carl Vinson Institute of Government
# Online Training Courses

**GOVERNMENTAL ACCOUNTING ONLINE TRAINING:** A 3-Course Certificate Series

<table>
<thead>
<tr>
<th>Introductory Governmental Accounting – Pt I</th>
<th>Introductory Governmental Accounting – Pt II</th>
<th>Intermediate Governmental Accounting</th>
</tr>
</thead>
</table>

**FINANCIAL MANAGEMENT ONLINE TRAINING:** Specialized Topics

<table>
<thead>
<tr>
<th>Debt Administration</th>
<th>Capital Improvement Program (CIP)</th>
<th>Human Resources: An Online Course for Governmental Officials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory Budget</td>
<td>Purchasing</td>
<td>Revenue Administration</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>Intermediate Budget</td>
<td>Internal Controls</td>
</tr>
</tbody>
</table>

**INTERNAL CONTROLS ONLINE TRAINING:** A 4-Course Certificate Series

<table>
<thead>
<tr>
<th>Internal Controls: Accounts Receivable and Cash Receipts</th>
<th>Internal Controls: Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Controls: Accounts Payable and Cash Disbursements</td>
<td>Internal Controls: Payroll</td>
</tr>
</tbody>
</table>

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QUESTIONS?
Thank You!

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