

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



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JOSH MANDEL

TREASURER OF OHIO

# INVESTMENTS 104

## Basic Accounting and Reporting



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Big Thinking. Personal Focus.

# Introduction

- Financial professionals who work with governments and governmental agencies have many responsibilities and expectations that often exceed those who work in the private sector.

# Introduction (cont.)

- Government accountants work in an environment that differs significantly from their private industry counterparts:
  - Transparency is critical
  - Expertise is assumed
  - Consequences of errors are greater
  - Accounting rules are often more complex

# Characteristics of Government Accounting

- As with all accounting principles, the objective of the Governmental Accounting Standards Board (GASB) is to provide for consistency in governmental reporting, and to enhance the relevance and usability of the financial statements to the end users

# Characteristics of Government Accounting (cont.)

- The primary users of government financial reports are:
  - Legislatures and other elected politicians
  - Citizens
  - Lenders
  - The free press

# Characteristics of Government Accounting (cont.)

- One of the unique characteristics of governmental financial reporting is the requirement to present two levels of financial statements:
  1. Fund Financial Statements
  2. Government Wide Financial Statements

# Government Wide Financial Statements

- Focus is on the overall financial position and activities of the government as a whole, including component units
- Follows accrual basis of accounting applied to the flow of all economic resources
- Includes essentially all assets and liabilities, current and long-term

# Government Wide Financial Statements (cont.)

- Government wide financial statements are meant to present:
  - The ability of the entity to fund current services provided with current revenues
  - Changes in financial position

# Fund Financial Statements

- These financial statements have a short term focus and emphasize cash transactions
- These financial statements are intended to demonstrate compliance with restrictions, statutes, regulations, or contracts

# What is Fund Accounting?

- Fund accounting is the activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of the government
- The analyzing, recording, summarizing, reporting and interpreting is accomplished through the use of Funds

# What is a Fund?

- A Fund is an entity with a set of self-balancing set of accounts that record cash and other resources, together with all related liabilities and balances that are segregated for purposes of carrying on specific activities in accordance with specific regulations, restrictions or limitations

# Why Use Fund Accounting?

- Fund accounting is how governments track revenues that have restrictions against expenditures made within those restrictions
- Fund accounting makes it simpler to isolate which monies are available for specific purposes

# How Does Fund Accounting work?

- Fund accounting has several essential elements:
  - There are three different fund types
    - Governmental Funds
    - Proprietary Funds
    - Fiduciary Funds
  - Each fund has a column or account coding for receipts, disbursements and fund balances
  - A total column for each fund type that totals receipts, disbursements and fund balances

# What are Governmental Funds?

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

# General Fund

- Operating fund of the government
- Used to account for all financial resources except those that must be accounted for in another fund
- Monies can be used for any purpose provided monies are disbursed or transferred in accordance with the Ohio Revised Code (Ohio law)

# Special Revenue Funds

- Used to account for monies of specific revenue sources that are restricted or committed for specified purposes other than debt service or capital projects

# Debt Service Funds

- Used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest on note, bond and lease debt

# Capital Projects Funds

- Used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition or construction of capital facilities and/or capital assets

# Permanent Funds

- Used to account for the financial resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that benefit the government or its citizens

# Proprietary Fund Types

- Enterprise Funds
  - Used to account for any activity that a fee is charged to external users for goods or services
- Internal Service Funds
  - Used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government or to other governments on a cost-reimbursement basis

# Fiduciary Funds

- Used to report assets held in a trustee capacity for others and cannot be used to support the government's own programs. Examples of Fiduciary Funds include:
  - Pension Trust
  - Investment Trust
  - Private Purpose Trust
  - Agency

# Fiduciary Pension Trust

- Used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans or other employee benefit plans

# Fiduciary Investment Trust

- Used to account for the financial resources of an external investment pool that the government sponsors
- Not a common government fund

# Fiduciary Private Purpose Trust

- Used to report all trust arrangements, other than those properly reported in pension or investment trust funds
- Where the principal and income of the fund benefit individuals, private organizations or other governments

# Fiduciary Agency Fund

- Custodial in nature – the money is not collected for the government that collects it
- The government collects monies on behalf of another entity and turns around and remits the money to that entity

# Why Create New Funds?

- A new source of revenue that is legally required to be recorded separately from other funds
- A new source of revenue that is contractually required to be recorded separately from other funds
- A new source of revenue that is restricted by an outside organization

# How to Create a New Fund?

- Determine if Auditor of State (AOS) permission is required to create the new fund per ORC Section 5705.12. AOS permission is required when:
  - The fund will be used to account for restricted gifts or bequests that will not be held in trust
  - Management has to capture additional financial information about a specific revenue source or activity

# AOS Approval

- New and separate funds are justified when:
  - The fund will provide information that cannot be obtained with the addition of accounts within an already existing fund
  - It is necessary to demonstrate compliance with legal or contractual restrictions

# Basic Financial Statements

- As mentioned previously, Generally Accepted Accounting Principles (GAAP) requires two financial statement components:
  - Fund financial statements
  - Government-wide financial statements
- GAAP requires reconciliations between the two as part of the financial reporting package

# Basic Financial Statements (cont.)

- The reconciliations include the following:
  - Reconciliation of Total Governmental Fund Balances (fund financial statements) with Net Position of Governmental Activities (Government-wide financial statements)
- Reconciliation of Net Change in Fund Balances-Total Government Funds (Fund financial statements) with Change in Net Position of Governmental Activities (Government-wide financial statements)

# Basic Financial Statements (cont.)

- Business type activities also need reconciled, but is often unnecessary as both are measured on the accrual basis
- Components of Net Position
  - Net Investment in Capital Assets
  - Restricted Net Position
  - Unrestricted Net Position

# Basic Financial Statements (cont.)

- Determine Major Funds
  - Major government and enterprise funds must be separately reported in the main financial statements
  - Nonmajor government and enterprise funds are combined on the face of the financial statements and will be disclosed in supplemental combining schedules

# Basic Financial Statements (cont.)

- Footnotes to the Financial Statements
  - Information must relate to and provide additional and clarifying information to the basic financial statements
  - Utilize a disclosure checklist

# Basic Financial Statements (cont.)

- Management's Discussion and Analysis (MD & A)
  - GASB identifies the purpose of MD & A to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, and other information

# Basic Financial Statements (cont.)

- The MD & A should provide a broad description of the entity's activities, long-term plans, revenue and expense analysis, borrowing and repayment activities, etc.
- Disclosures should focus on the current year, but comparative information should be provided

# Basic Financial Statements (cont.)

- Statistical Section – Comprehensive Annual Financial Report (CAFR) Only
  - This Section provides a 10 year history of data which enables the reader to identify trends in financial and operating information

# Component Units

- GASB 39 – “Determining Whether Certain Organizations Are Component Units”
  - Blended Component Units
  - Discretely Presented Component Units

# Conclusion

- Know the accounting and reporting rules
- Use your auditor and the AOS website
- Utilize checklists
- During the year, keep year-end reporting in your mind so that the data can be readily compiled

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