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Governmental Accounting 101

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AGA—Idaho Centennial Chapter PDT 2026

Welcome to Governmental Accounting 101

Presented to the AGA
Idaho Centennial Chapter PDT 2026

Presented by
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Annual Comprehensive Financial Report (ACFR

- This is the cover of the 200+ page document called the ACFR for the State of Idaho for the fiscal year ended 6/30/24 (issued in 2025).

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What is the ACFR?

- The State of Idaho's Annual Comprehensive Financial Report (ACFR) is a detailed, audited report outlining the state's financial condition and operating activities, prepared in accordance with GAAP and GASB standards. It is managed by the Idaho State Controller's Office and typically released annually to provide transparency regarding the state's fiscal health.
- What standards are used to prepare this 'report'
  (AI generated definition)

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What is the Purpose of This Presentation?

- The purpose of this presentation is to explain *GAAP and GASB* standards as they apply to the state ACFR. Primarily to explain
  - GAAP as it relates to revenue and expense recognition
  - GASB Statement #34 commonly called "The Reporting Model"
  - GASB Statement #33 covering revenue and expense recognition in nonexchange transactions
    - FYI, it takes at least 4 college level classes to explain GAAP—Generally Accepted Accounting Principles—and at least one to explain GASB—Governmental Accounting Standards Board—standards. You have less than 2 hours to learn them!!
- The good news is that there is no *graded* exam at the end of today's presentation.

What is GAAP? What is GASB?

- GAAP (Generally Accepted Accounting Principles) are the principles of accounting that underlie the preparation and presentation of financial reports *(I used to tell accounting students that GAAP are like a virus—they float in the air you just catch them. But in reality see below)*
- Any pronouncements from the FASB (Financial Accounting Standards Board) are, by definition, GAAP for ANY financial statement *(except for governmental financial statements which use FASB standards unless GASB standards have superseded that particular standard).* Any pronouncements from GASB (Governmental Accounting Standards Board) are, by definition, GAAP for Governmental financial statements.

What is MFBA?

- Before we go on, let's discuss 'measurement focus and basis of accounting.'
  - Measurement focus is <u>what</u> we are measuring (what items we are reporting) in the financial statements? (MF)
  - Basis of accounting is <u>when</u> transactions and events are recognized in the financial statements? (BA)
- Together the measurement focus and basis of accounting are called the MFBA of the financial statements. The measurement focus determines which basis of accounting is used. (Governments use all 3 MFBA)
  - If we measure 'flow of economic resources,' we use full accrual accounting.
  - If we measure 'flow of current financial resources,' we use modified accrual accounting.
  - If we measure 'flow of cash', we use cash basis accounting

('Full') Accrual Basis Accounting

- Accrual Basis Accounting recognizes revenues when they are earned (without regard to when the cash is received) and recognizes expenses when a liability has been incurred (without regard to when the cash is expended).
  - Because many agencies, departments, or other units, keep their own records on a cash basis, you may not recognize the amounts that appear in the ACFR as <u>revenue</u> (or expense) for your agency because the ACFR will recognize revenue when your agency has met the standards for being 'earned.'
    - FYI, there are multiple FASB and GASB standards dealing with *when* you have 'earned' the revenue. (FASB ASC 606…Revenues from Contracts with Customers" (effective after 12/31/2018 for public companies) and GASB Statement #33 "…nonexchange transactions" (effective after 6/31/2000)

('Full') Accrual Basis Accounting

- Continuing the discussion of 'full' accrual basis accounting
- An ACFR should explain their revenue and expense recognition criteria under 'full' accrual in the notes to the financial statements (for Idaho see Note C, page 44, 2024 ACFR) in relation to the <u>government-wide financial statements and both propriety and fiduciary funds:</u>
  - "…are prepared using the economic resources measurement focus and the accrual basis of accounting….,, Revenues are recorded when earned, and expenses are recorded when a liability is incurred."

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('Full') Accrual Basis Accounting

- Continuing the discussion of accrual basis accounting
  - 'Full' Accrual Accounting reports only earned revenues and incurred expenses on the activity statement. All other transactions are reported on the Statement of Financial Position.
- Revenues are classified as resulting from an exchange transaction or a nonexchange transaction.
  - Revenues from exchange transactions are generally recognized when the government has fulfilled its duties under the contract (whether the contract is implied or specified)
  - Examples of when a revenue from a <u>nonexchange</u> transaction is 'earned' will be discussed in a later section (GASB Statement #33)
- Example: Exchange transaction (see next slide)

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('Full') Accrual Basis Accounting

- Example: Exchange transaction

  A State Department maintains an inventory of some health-related items that can be purchased by regional medical clinics. One of the items is purchased by a clinic in rural Idaho which agrees to pay for it in six months.
  - This is an exchange transaction because both parties are willing participants and receive equal value.
  - Under 'full' accrual accounting this transaction would be recognized *(recognized means recorded, reported, realized)* by the government as a revenue in the period in which it is purchased by the regional medical clinic, although the cash will not be received by the appropriate State Department for 6 months.

Modified Accrual Basis Accounting

- Modified Accrual Basis Accounting focuses on the flow of current financial resources
  - Modified accrual basis accounting is similar to cash basis accounting.
  - Revenues are recognized when they are measurable and 'available' to fund expenditures of the current period. [Available means they are received in cash during the period or collected soon enough thereafter to pay liabilities of the current period.] Each government can define what it means by 'available.' within certain parameters. The State of Idaho considers revenues to be available if collected during the period or within 60 days of the end of the fiscal period (see Note C, page 44)
  - "Expenses are recognized when a liability is incurred" (in most instances; there are some exceptions which are specifically mentioned in Note C)

Modified Accrual Basis Accounting

- Modified Accrual Basis Accounting focuses on the flow of current financial resources. It is used in the Idaho ACFR in reporting for the governmental funds.
  - Only 'current' financial resources are recognized on the balance sheet. "…. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of the end of the fiscal period…. Expenditures generally are recorded when a liability is incurred, as under accrual accounting." [There are specific expenditures that are only recognized when they are paid; these are itemized in the ACFR and include debt service, compensated absences, and claims and judgments.]

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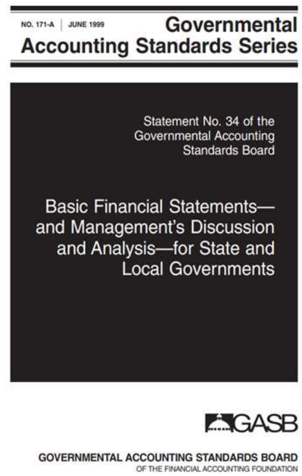
Organization of the ACFR

- This statement specifies what must be included in the financial statements and in what order it must be included. It is frequently called "The Reporting Model"
- Your ACFR has more components than are specified in GASB 34 because your ACFR is prepared to meet both GASB standards and the GFOA requirements for the Certificate of Excellence in Financial Reporting.
- Effective Date: See the next slide (because this standard was very difficult to implement and so controversial, GASB phased in the implementation date)


NO. 171-A | JUNE 1999 Governmental Accounting Standards Series

Statement No. 34 of the Governmental Accounting Standards Board

Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Organization of the ACFR

- Effective Date: The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. [NOTE: this standard's implementation date was coordinated with GASB Statement No. 33]
  - Governments with total annual revenues (excluding extraordinary items) of $100 million or more (phase 1) should apply this Statement for periods beginning after June 15, 2001.
  - Governments with at least $10 million but less than $100 million in revenues (phase 2) should apply this Statement for periods beginning after June 15, 2002.
  - Governments with less than $10 million in revenues (phase 3) should apply this Statement for periods beginning after June 15, 2003.
  - NOTE: The standard was issued in 1999 and its earliest implementation date was for years beginning 6/30/01. They gave plenty of lead time because of the problems with implementation.

The Financial Reporting Entity

- The Financial Reporting Entity (the units that are included in the financial statements) is the primary government together with all its component units
- The Primary Government is by definition:
  - A State or Indian Tribal Unit (including all departments of the state),
  - a general-purpose local government (such as a city or county), or
  - a special-purpose government (such as a school district) which meets specified criteria
- A component unit (CU) is a legally separate organization for which the primary government is financially accountable.

Related Organizations

- A PG should include a legally separate organization in its financial statements when/if the related entity has one of the following characteristics:
  - The PG controls a voting majority of the related entity governing body or otherwise can impose its will on the related entity
  - The related entity is fiscally dependent on the PG. Fiscal dependence exists when the PG
    - Can approve or modify its budget
    - Set charges for its services
    - Must approve the issuance of debt
- The PG should include a legally separate organization if that related entity represents a financial benefit or burden to the PG

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Component Units

- A Component Unit is a related entity which must be included, even if it is a legally separate and tax-exempt organization but its economic resources directly benefit the State, the State is entitled to or has the ability to access those resources, and the resources are significant to the State.
  - This is why University Foundations are included in the University (and ultimately the) State Financial Reports.
  - This is why school districts can exclude organizations like the PTA, band boosters, etc.

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How are CU's Included

- The Financial Reporting Entity can include a related entity in one of two ways:
  - Blending
    - The related entity data is reported within the primary government financial statements
    - Used when the CU is so intertwined that they are essentially the same entity
    - Used when the CU provides services solely to the PG or if the PG is expected to service the CU's debt.
  - Discrete presentation
    - They appear as separate columns to the right of the PG in the GWFS. There is only one column for the CU's. If there is more than one CU, there should be a combining statement showing the data for each individual CU.

Equity

- On the Statement of Net Position in the GWFS (and the Statement of Net Position in the Proprietary Funds and Internal Service Funds in the Fund Financial Statements), equity is presented in 3 categories
  - Net Investment in Capital Assets
  - Restricted Net Position
  - Unrestricted Net Position
- Fiduciary funds are NOT presented in the GWFS. In the Fund Financial Statements, there is no equity reported for Fiduciary funds— their accounting equation is simply assets = liabilities. In lieu of a Statement of Activities, there is a Statement of Changes in Net Position for the Fiduciary funds (additions and deductions).

Equity

- On the Balance Sheet of the governmental funds in the Fund Financial Statements, equity is presented in the following categories
  - Restricted
  - Committed
  - Assigned
  - Unassigned

State Reporting Entity #1

- "The State of Idaho's reporting entity includes the primary government and its component units." (Note A, page 41)
- "The primary government includes all funds, departments, agencies, boards, commissions, colleges and universities, and authorities that are considered an integral part of the State"
- "Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if the State appoints a voting majority of the organization's governing board and either 1) is able to impose its will on the organization or 2) a potential exists for the organization to provide financial benefits to, or impose financial burdens on, the State."

State Reporting Entity #2

- "For those entities for which the State does not appoint a voting majority of the governing body, inclusion of the entity is required if the organization is fiscally dependent on the State."
- "Component units also include legally separate and tax-exempt organizations whose economic resources directly benefit the State, the State is entitled to or has the ability to access those resources, and <u>the resources are significant to the State</u>."

State Reporting Entity #3

- "For those entities for which the State does not appoint a voting majority of the governing body, inclusion of the entity is required if the organization is fiscally dependent on the State."
- "Component units also include legally separate and tax-exempt organizations whose economic resources directly benefit the State, the State is entitled to or has the ability to access those resources, and <u>the resources are significant to the State</u>."

State Reporting Entity #4

- "The *Fish and Wildlife Foundation* was established to preserve and sustain Idaho's fishing, hunting, and wildlife heritage. The Foundation finances construction of offices and relies on the State's leasing agreements, resulting in a significant financial benefit/burden relationship. The Foundation is <u>blended</u> as a nonmajor special revenue fund within the Fish and Game fund."
- GASB Standards for blending mean that readers of the financial statement cannot distinguish assets, liabilities, revenues, or expenses as originating in the Game & Fish department or in its Foundation. However, the ACFR provides information to find the separate Foundation statement.

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State Reporting Entity #5

- "The Idaho State Building Authority was created by Idaho Code Section 67-6403 to finance and construct facilities, such as office buildings and parking garages, to be used and leased by the State. The Authority relies on the State's leasing agreements, resulting in a significant financial benefit/burden relationship. The Authority provides services to the State of Idaho and some community colleges. The Authority is blended as a nonmajor special revenue fund."
- This is treated just like the Fish and Wildlife Foundation with information provided to access the separate statements

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Deferred Outflows and Deferred Inflows #1

- GASB slipped in two new elements of financial statements (FASB Concept Statement #6 included 10 elements of financial statements: include assets, liabilities, equity/net assets, investment by owners, distributions to owners, revenues, gains, expense, losses, comprehensive income)—but now we have 12 elements (Deferred Outflows and Deferred Inflows).
- Guidance for measuring and reporting these new elements are found in GASB Statements No. 63 and No. 65
- Deferred Outflows and Inflows are elements that represent future financial impacts on government entities.

Deferred Outflows and Deferred Inflows #2

- Deferred Outflows of Resources are the consumption of net assets by a government that is applicable to a future reporting period.
  - Assets have present service capacity; deferred outflows have no present service capacity (they are simply expenses that will be recognized in a future period)
- Deferred Inflows of Resources
  - Liabilities represent a future surrender of resources; deferred inflows do not represent an obligation (they are simply revenues to be recognized in a future period)

Your Test

- Is the City of Boise included in the State of Idaho financial statements? Why or why not? If yes, where?
- Is the Pocatello School District included in the financial statements of the City of Pocatello? Why or why not? If yes, where?
- Is the University of Idaho included in the State of Idaho financial statements? Why or why not? If yes, where?
- Is the University of Idaho Foundation [a 501(c)(3) organization] included in the University of Idaho financial statements? Why or why not? If yes, where?

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Organization of the ACFR

- The ACFR is organized according to standards established by GASB which requires presentation in the following order:
  - Management Discussion and Analysis (MD&A)
  - Financial Statements, including Auditor's Report
    - Basic Financial Statements, including notes to the financial statements
      - ✓ Government-Wide Financial Statements (GWFS) (using 'full' accrual accounting)
        - Statement of Activities
        - Statement of Financial Position
      - ✓ Fund Financial Statements
        - Governmental funds (using 'modified' accrual accounting)
        - Proprietary funds (using 'full' accrual accounting)
        - Fiduciary funds (using 'full' accrual accounting)
  - Required Supplementary Information (RSI)

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Organization of the ACFR

- Government-Wide Financial Statements (using 'full' accrual)
  - Statement of Activities
    - This statement has a very unusual arrangement for an external financial statement
    - The focus is on not only 'net income' (called 'change in net position'),but also on the source and type of revenues and expenses.
    - It is divided into 2 categories—Primary Government and the Component Units of the Primary Government. (defined previously)
    - The Primary Government Activities are divided into 2 categories—Governmental Activities and Business-Type Activities (There are no Fiduciary Funds in the GWFS)
    - Expenses are shown by program within the appropriate activity
    - Revenues are categorized as (1) Program Revenues--Charges for Services, (2) Operating Grants and (2) Capital Grants—to arrive at Net (Expense)/Revenue AND as General Revenues.

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Definitions

- <u>Governmental Activities</u> include all the activities that are reported in the Governmental Funds (General, Special Revenue, Capital Project, Debt Service, and Permanent) plus the activities that are reported in the Internal Service Funds
  - GASB requires a reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position for Governmental Activities AND a reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities in the GWFS
- *Business-Type Activities* include all the activities reported in the Enterprise Funds. Generally there is no reconciliation needed because both statements use 'full' accrual accounting.

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					Net Income and Changes in Net Position			
		Program Revenues			Government	Business		Component
	Expenses	Charges	Operating	Capital	Activities	Activities	Total	Units
FUNCTIONS								
Primary Government								
Governmental Activities								
Program #1	$ 100	$ 40	$ -	$ -	$ (60)		$ (60)	
Program #2	$ 200	$ -	$ 60	$ -	$ (140)		$ (140)	
Program #3	$ 300	$ -	$ -	$ 50	$ (250)		$ (250)	
Total Governmental	$ 600	$ 40	$ 60	$ 50	$ (450)		$ (450)	
Business-type Activities								
Activity #1	$ 70	$ 40	$ -	$ -		$ (30)	$ (30)	
Activity #2	$ 50	$ 60	$ -	$ -		$ 10	$ 10	
TotalBusiness-Type	$ 120	$ 100	$ -	$ -	$ -	$ (20)	$ (20)	
Total Primary Government	$ 720	$ 140	$ 60	$ 50	$ (450)	$ (20)	$ (470)	
Component Unit s								
Idaho Housing Assn	15	12	-	-				3
College Foundation	10	5	-	-				5
Total Component Units	25	17	-	-				8
	GENERAL REVENUES							
	Sales Tax				200	-	200	
	Income Tax				225	-	225	
	Fuel Tax				25	-	25	
	Other Taxes				75	-	75	
	Tobacco Settlement				5	-	5	
	Unrestricted Investment Earnings				10	-	10	
	Transfers				(40)	40	-	
	General Revenues & Transfers				500	40	540	
	Net Change in Position				50	20	70	8
	Beginning Net Positon				1,000	300	1,300	3
	Ending Net Position				1,050	320	1,370	11

We expect negative numbers here because taxes fund most

These can be negative or positive

Statement of Activities Explanations

- Government-Wide Financial Statements (using ‘full’ accrual)
  - Statement of Activities
    - Expenses specifically related to the first 3 revenue categories (Charges and Grants) are deducted from those revenues to arrive at net program revenues
    - The governmental activities are generally funded by taxes and other general revenues.
    - The business-type activities are generally funded by revenues generated by the underlying business-type transactions.
    - See Pages 18-19 of the 2024 ACFR for the statements and Note B, page 43 for explanations of what is included.

Organization of the ACFR—Part 2

- Fund Financial Statements
  - Governmental funds (using ‘modified’ accrual accounting)
  - Proprietary funds (using ‘full’ accrual accounting)
  - Fiduciary funds (using ‘full’ accrual accounting)
- What is a Fund?
  - “A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.” (GASB Codification)

Governmental Funds #1

- Government Fund Types. There are 5 governmental fund types (remember they all use modified accrual accounting)
  - General Fund—Fund of last resort. There can only be one General Fund. It is the only fund required.
  - Special Revenue Funds—to account for a revenue restricted or committed to expenditures for a specified purpose other than debt service or capital project. These include revenues funded by federal or state grants or by taxes specifically restricted to certain activities.
  - Capital Project Funds—to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays. It accounts for the purchase or construction of major capital construction (except those reported in a proprietary fund).

Governmental Funds #2

- Governmental Fund Types. There are 5 governmental fund types (remember they all use modified accrual accounting)
  - Debt Service Funds—These account for resources that are restricted, committed, or assigned to expenditures for principal and interest, other than that reported in proprietary funds.
  - Permanent Funds—Used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs
- A government does NOT have to use any governmental funds other than the General Fund unless legal or contractual obligations requires the use of a separate fund.

Number of funds & Reporting Funds

- GASB say "governmental units should establish and maintain those funds required by law and sound financial administration."
- However, for reporting purposes, GASB requires that governmental funds report by major funds (not by fund category) each in its own column, with all non-major governmental funds reported together in one column. The general fund is always considered a major fund. The other governmental funds are 'major' funds if they meet the 5% and 10% rule (discussed on another slide).

Number of funds & Reporting Funds

- An Enterprise fund is a 'major fund' if it meets the proprietary fund 5% and 10% rule (discussed in another slide). All nonmajor enterprise fund are combined and reported in one column as 'nonmajor enterprise funds'.
- Internal service funds are combined and reported in one column to the right of the major enterprise funds.
- Fiduciary funds are reported by category, not by 'major' funds on the Statement of Net Position but they do NOT appear on a Statement of Changes in Fiduciary Net Position (because they have no revenues/expenses).

Major Governmental Funds

- A governmental fund is a 'major fund' if :
  - Assets, liabilities, revenues, *or* expenses of that governmental fund is 10% or more of the total for all governmental funds, and its assets, liabilities, revenues, or expenses are 5% or more of the total of the governmental and enterprise categories, combined.
  - Deferred Inflows are included with liabilities and Deferred Outflows are included with assets for purposes of applying the 5% and 10% rule.
  - Any governmental fund can be reported as a major fund if the government thinks reporting that fund separately would be useful.
  - In a complete CAFR there will be a combining statements showing details of each 'nonmajor' fund in the Other Supplementary Information.

Major Enterprise Funds

- An Enterprise fund is a 'major fund' if :
  - Assets, liabilities, revenues, *or* expenses are 10% or more of the total for all enterprise funds, and its assets, liabilities, revenues, or expenses are 5% or more of the total of the governmental and enterprise categories, combined.

General Fund #1

- Idaho reports the General Fund and its major governmental funds balance sheets on p. 20-21
- Idaho reports the following funds as major funds
  - Health and Welfare
  - Transportation
  - Federal Stimulus
  - Land Endowments
- It also reports the total for its nonmajor governmental funds in a separate column
- There is a column representing the total of all governmental funds in a separate column.

General Fund #2

- Idaho reports the reconciliation of the total of the General Fund and its major governmental funds to the Statement of Net Position—Governmental Activities (see p.23)
- In my opinion this reconciliation is an absolute necessity for building user confidence in the financial statements. It is, I believe, hard for a non-accountant to understand how you can have two different numbers for Net Position (and each one be correct) using the same underlying transactions. This reconciliation explains 'why?' 'how?'

General Fund #3

- Idaho reports the operating statement, Statement of Revenues, Expenditures, and Changes in Fund Balances, for the Governmental Funds on pp. 24-25.
  - Note that this statement shows the 4 major funds and a total column for the nonmajor funds as well as a column for all governmental funds.
- The reconciliation for the governmental funds to the GWFS Statement of Activities is presented on p. 27. From a practical point of view, what this reconciliation does is convert the modified accrual basis of accounting to the (full) accrual basis of accounting.

Special Revenue Funds

- A Special Revenue Fund is a governmental fund that is used to demonstrate accountability. It is used to account for revenue sources that are legally restricted or committed to expenditures for a specified purpose other than debt service or capital projects
- Gasoline taxes are a very good example of a revenue that is often accounted for in a special revenue fund
- Idaho may have special revenue funds in their books but they report by major fund (as is required) not by fund type. I suspect that Transportation is a special revenue fund.

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Capital Project Funds

- A Capital Project Fund is a governmental fund used to account for the amassing of resources to fund a capital project and to account for the acquisition or construction of that capital asset. It is a 'special' special revenue fund.
- Idaho may use capital project funds but because they report by major fund, we cannot specifically identify a capital project fund.

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Debt Service Funds

- A Debt Service Fund is a governmental fund that is used to account for the resources segregated for the purpose of payment of principle and/or interest on general long-term debt.
- It is a 'special' special revenue fund.
- Idaho may use a debt service fund to account for these transactions but, because they report by major funds we cannot specifically identify a debt service fund.

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Permanent Funds

- A Permanent Fund is a governmental fund type that preserves its principal amount while using only the earning generated from that principal to support government programs or services.
- These funds must be legally restricted
- Idaho does not specifically identify any permanent funds
- One of my clients (a city) used to have a $10,000 permanent fund. The City received a gift of $10,000, the earnings of which could be used to beautify the entrances to the City. The earnings of the $10,000 was spent primarily on landscaping.

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Proprietary Funds #1

- Propriety Fund Types. There are only 2 proprietary fund types (remember they both use 'full' accrual accounting)
  - Internal Service Funds—Used primarily to account for services provided by one department to other departments of the same governmental unit (occasionally these services may also be provided to other governments) on a cost-reimbursement basis. Examples include print shops, motor pools, and self-insurance funds.
  - Enterprise Funds—used primarily to account for services provided to parties external to the sponsoring governments. The intent is generally to bill the external parties at an amount equal to or exceeding the cost of providing the services. Examples include utility services, airports, public swimming pools, and sometimes transit systems.*

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Enterprise Funds #1

- Idaho identified 3 enterprise funds as major funds:
  - Colleges and universities
  - Unemployment Compensation
  - Loans
- Idaho presented a column title “Nonmajor Enterprise Funds” which represents the totals for all nonmajor enterprise funds and a total column for all enterprise activities. To the far right, there is a column titled “Governmental Activities—Internal Service Funds.

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Enterprise Funds #2

- Idaho presented a column titled Total (this is the total for all enterprise funds). To the far right, there is a column titled “Governmental Activities—Internal Service Funds.” Although internal service funds are accounted for using full accrual accounting (and thus considered an enterprise fund), the numbers are combined with governmental activities and shown as expenditures of governmental funds

Enterprise Funds #3

- Because the enterprise funds use full accrual accounting, they are required to present a statement of cash flows but they use the GASB classification of cash flows (not the FASB classification.
- The GASB Classifications are:
  - Cash flows from operating activities
  - Cash flows from noncapital financing activities
  - Cash flows from capital and related financing activities
  - Cash flows from investing activities

Enterprise Funds #4

- There are several major differences between FASB and GASB Cash Flows—
  - If the debt is capital financing, the interest expense is reported in the capital financing cash flows. If the expenditures are related to capital assets, the cash outflows are reported as a capital financing cash flow.
  - If the cash flows (both in and out) are related to investment activities, they are reported as investment cash flows.
  - Net Cash Provided (used) is tied back to Income from operations, not Net Income.

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Fiduciary Funds #1

- Fiduciary Fund Types. There are 4 fiduciary fund types (remember they all use 'full' accrual accounting)
  - Agency Funds—they are used for situations in which the government is acting as a collecting/disbursing agent
  - Pension Trust Funds (and other employee benefits as well as OPEBs) –They are used to account for pensions and OPEBs for which the governmental unit is trustee
  - Investment Trust Funds—They are used to account for the external portion of investment pools reported by the sponsoring government.
  - Private-purpose Trust Funds—They are used to account for any other trust agreements under which principal and income benefit individuals, private organization, or other governments.

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Fiduciary Funds #2

- Idaho reports a pension trust fund, an investment trust fund, and private-purpose trust funds as well as custodial funds
- Most of the 'good' information related to pension funds is found in the notes to the financial statements
- Full Accrual for pension funds is not actually full accrual. The only amount shown for pensions payable are the amounts due in the following year (information about the actuarially determined liability is displayed in notes (p.87-88).

Fiduciary Funds #2

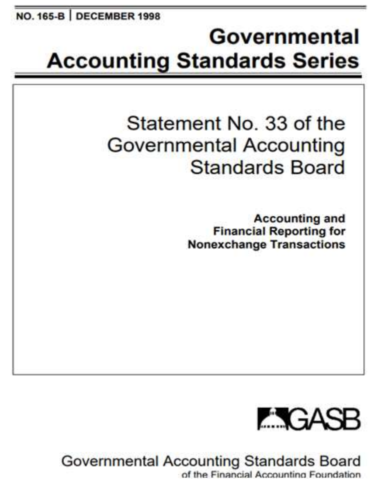
- The actuarially determined total liability for pensions is \$135,126,000 which is offset by the plan assets (assets segregated to pay pensions) of \$117,795,000 with a net pension liability \$17,331,000. While this amount looks very large, you are lucky to live in a state as conservative as Idaho. Other states have unfunded actuarial liabilities much larger (in both amounts and percentages). In 2022 (the last year for which I could find data) showed Idaho as 43rd in unfunded liability (with Washington state being 50th, the most funded)

Component Units

- In the Statements of Net Position (pp. 36-37) and Statement of Revenue, Expenses, and Changes in Fund Net Position (p. 38-39), there are columns for the following component units
  - Idaho Housing and Finance Association
  - College and University Foundation
  - Health Reinsurance
  - Bond Bank Authority
  - Health Insurance Exchange

NonExchange Transactions

- GASB Statement No. 33 establishes accounting and financial reporting standards for nonexchange transactions.
- These transactions occur when the government gives (or receives) value without directly giving (or receiving) equal value in return.
- Effective periods beginning after 6/15/2000.


NO. 165-B | DECEMBER 1998

Governmental Accounting Standards Series

Statement No. 33 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Nonexchange Transactions

GASB

Governmental Accounting Standards Board of the Financial Accounting Foundation

NonExchange Transactions

- NonExchange Transactions are classified in 4 classes
  - Derived Tax Revenues
  - Imposed NonExchange Revenues
  - Government-Mandated NonExchange Transactions
  - Voluntary NonExchange Transactions
- Each of these classifications has its own standards for when revenue is recognized and when the associated assets are recognized
- The standard also distinguishes between kinds of stipulations on the use of resources: *time requirements* (specify period when resources may be used or earliest date they may be used) and *purpose restrictions* (specify the purpose for which resources may be used).

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NonExchange Transactions

- Derived NonExchange Revenues
  - These includes taxes like income tax and sales tax (because the amount is derived from an underlying exchange event like earning the wages which are subject to income tax or selling the products which are subject to sales tax).
  - Recognition standards
    - Assets are recognized when the government has an enforceable legal claim to the resources or when resources are received, whichever is first.
    - Revenues are recognized in the period when use of resources is required or first permitted by time requirements.
  - Most Income taxes and some sales taxes are revenue sources with no specific restrictions on the use or timing of the assets received.
  - Some sales taxes may have restrictions on the use or timing of the revenue. If a sales tax can only be used for a specific purpose, governments are wise to account for such transactions in a special revenue fund

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NonExchange Transactions

- Imposed NonExchange Revenues
  - These include assessments imposed on nongovernmental entities, other than taxes on exchange transactions. Examples include property taxes and fines. For local governments this classification may be their primary source of revenues.
  - For Property taxes
    - Assets are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.
    - Revenues are recognized in the period for which the taxes are levied.
  - For *other imposed nonexchange revenues*, revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements.

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NonExchange Transactions

- Government-Mandated NonExchange Transactions
  - These are mandated by federal or state programs that local governments must perform. In other words, they occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose. An example is when the federal government provides resources and requires the state or local government to perform the activity. These differ from grants to perform specified services (performing the specified services is voluntary, not mandated)

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NonExchange Transactions

- Voluntary NonExchange Transactions
  - These are entered into willingly by both parties to the agreement, such as certain grants and private donations. The best example is university foundations accepting donations from private individuals who specify that the money must be used for a specific purpose.

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NonExchange Transactions

- Some useful definitions
  - Eligibility requirements: conditions established by enabling legislation or the provider that are required to be met before a transaction can occur (other than cash or other assets received in advance). Eligibility requirements include:
    - Required characteristics of recipients (such as being a state or being a school district)
    - Time requirements: The period when the resources are required to be used or when use is first permitted
    - Reimbursements: 'expenditure-driven' recognition. The recipient has incurred allowable expenditures under the program.
    - Contingencies: (applies only to voluntary nonexchange transactions). The specific provider-specified required action has occurred so the recipient is now legally entitled to the resources.

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NonExchange Transactions

- In the last two categories (government-mandated and voluntary),
  - providers should recognize a liability and expense and
  - recipients should recognize an asset and a revenue
  - when all eligibility requirements are met.

"And In Conclusion…"

- These are perhaps the most important words of a presentation
- However, everything I read about a presentation says,
  - Tell them what you are going to say
  - Say it
  - Tell them what you said
- So, what did I say I was going to cover (see slide #6)
  - Revenue and Expense recognition (MFBA)
  - GASB Statement 34, the financial reporting model
  - GASB Statement 33, revenue recognition for nonexchange transactions

"And In Conclusion…"

- So, do you remember what I said in the intervening slides? Did I do it? Here is what I said
  - Measurement focus is what is measured
  - Basis of accounting is when it is measured
  - GASB #34 requires two sets of financial statements
    - Government-Wide F/S (using full accrual)
      - Governmental activities (includes all the governmental funds)
      - Business type activities (includes enterprise funds only)
    - Fund Financial Statements
      - Governmental funds (using modified accrual) reporting major funds in separate columns
      - Proprietary Funds (using full accrual) reporting major funds in separate columns
      - Fiduciary Funds (using full accrual) included to show financial stewardship only

"And In Conclusion…"

- So, do you remember what I said in the intervening slides? Did I do it? Here is what I said
  - Exchange transactions
    - Full accrual recognizes revenues when earned; expenses when a liability is incurred
    - Modified accrual recognizes revenues when measurable and available; expenses when a liability is incurred
  - NonExchange transactions (each has different recognition standards)
    - Derived (income taxes and sales taxes)
    - Imposed (property taxes)
    - Government-mandated
    - Voluntary (donations, contributions)

The End

- Questions (ask Ethan)