

Governmental Accounting Basics

Monday 6-26-23

Governmental Accounting Basics

Agenda

Goal of Training

Increase district business officials knowledge of:

- Accounting Principles
- The Accounting Equation
- Governing Body
- Government v Business Differences
- Fund Accounting
- Basis of Accounting
- Financial Reporting
- Audit Roles
- Governmental Accounting Best Practices
- Survey, upcoming Trainings, & PFSU Contacts

Basic Accounting Principles

Basic Accounting Principles

These Principles are accepted world wide in order to make Financial and Organizational comparisons possible.

Time Period. This basic concept says that a business should report in Final Accounts all its financial activities and transactions over a standard period of time – usually monthly, quarterly and annually.

Consistency. An adopt an accounting principle or method, continue to follow it consistently in future accounting periods. Only change an accounting principle or method if the new version in some way improves reported financial results.

Full disclosure. All information should be included in an entity's financial statements that would affect a reader's understanding of those statements.

Basic Accounting Principles - Profit and Loss Account

specific accounting principles

Matching. Revenue should be recorded during the period when it is earned regardless of when the business received Cash. Expenses should be reported in the same period in which the corresponding Revenue was earned. *For Example, June services invoice paid in July 2023 should be be expensed in FY23 & Accounts Payable 7421 instead of cash.*

Revenue Recognition. Or, the realization concept. It says that all revenues and profits should be recorded in Final Accounts when the legal title to the product is transferred from the seller to the buyer. Meaning, that when the good or service have been provided to the customer. Not when the order was taken or when the cash was paid. *For Example, FY23 Grant revenue requested after June 1, 2023 & Received in July uses Accounts Receivable 8142 instead of cash. Conversely, unearned revenue 7482 is used to decrease revenue when higher than incurred expenses.*

Accruals. *60 day window after fiscal year end date.* Accruals happen when the business received something, but has not yet paid for it. *For example, Salary & Benefit Accrual paid in July and August for Services provided in FY23.*

Basic Accounting Principles - Balance Sheet

specific accounting principles

Double-entry. Double-entry means that every time a business engages in a business transaction, there are always two sides of this transaction – Debit and Credit. These two sides must be properly recorded and balanced to maintain correct information. For example, when a business sells ready products to customers for Cash, Inventory decreases and Cash increases on the Balance Sheet.

Basic Accounting Principles

Accounting Equation

Accounting Equation

The Trial Balance generated from general ledger system must balance to Zero.

- Assets and Expenses have Debit Balances.
- Liabilities, Fund Balances, and Revenues have Credit Balances.

Debit	Credit
Assets	Liabilities
Expenses	Fund Balance
	Revenues

Accounting for Rev, Exp, & Balance Sheet

- **Assets should have a Debit Balance**
- **Liabilities & Fund Balance should have a Credit Balance**
 - Assets = (Liabilities + Fund Balance)
- **Revenues should have Credit Balance**
 - Deposit a Check: Debit Cash & Credit Revenue Account
- **Expenses Should have a Debit Balance**
 - Cut a Check: Debit Expense Account & Credit Cash
- **At Year-end: Revenues (credit) less Expenses (debit) “clear” to Fund Balance.**
 - If Revenue > Expense, *Does Fund Balance Grow or Decrease?*

Governmental Accounting Basics

Governmental Accounting Governing Organization

What/Who is GASB?

Established in 1984, the Governmental Accounting Standards Board (GASB) is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

What are Pronouncements?

Each of the final Statements of Governmental Accounting Standards issued by the GASB since its establishment in 1984 is designed to provide taxpayers, legislators, municipal bond analysts, and others with information that is useful to their decision-making process regarding governmental entities. *For Example, GASB 87 & 96 establishes a single model for lease and SBITAs accounting based on the principle that leases are financing of the right to use an underlying asset.*

Government and Business Differences

- Legal Structure
- Political Process
- Different mission/motive
 - Government Activities - resources driven by available resources
 - Business - resources driven by free market.

Fund Accounting

What Types of Funds are there?

- **Government Funds**
 - General
 - Special Revenue
 - Debt Service
 - Capital Projects
- **Proprietary Funds** (business type activity)
 - Enterprise & Internal Service
- **Fiduciary Funds**
 - Agency, Private-purpose trust funds

Basis of Accounting

The basis of accounting refers to the methodology under which revenues and expenses are recognized in the financial statements. There are 3 different methods:

- **Accrual Basis (GAAP)**-a business recognizes revenue when earned and expenses when expenditures are consumed. This approach requires a greater knowledge of accounting, since accruals must be recorded at regular intervals. If a business wants to have its financial statements audited, it must use the accrual basis of accounting, since auditors will not pass judgment on financial statements prepared using any other basis of accounting.
- **Modified Basis (GASB)** **Local government recognizes revenues that are available and measurable. It recognizes expenditures as they are incurred. It tracks receivables and payables.**
- **Cash Basis (NOT GAAP)**-recognizes revenue when cash is received, and expenses when bills are paid. This is the easiest approach to recording transactions, and is widely used by smaller businesses. It DOES NOT track receivables and payables.
- **Which BASIS does your District's accounting practices most closely represent?**

Fund Accounting

Deeper Look into Modified Accrual Accounting

Modified Accrual Basis of Accounting

- Revenues are considered to be available when they are collectible within the current Period(**60 day Accrual window**).
- Expenditures are generally recognized when the related fund liability is incurred, as in accrual accounting.
- Expenditures recognition is modified from accrual accounting for:
 - Debt Service, claims and judgements, other postemployment compensation & benefits are recorded when payment is due.
- General capital asset acquisitions are reported as expenditures in governmental funds.
 - Allocations of costs, such as depreciation, are not recognized in Governmental Funds.
- Issuance of long-term debt and acquisitions are reported as other financing sources.
- Income Statement is July 1 - June 30 Activity, not just cash.
- Balance Sheet is a Point in Time 6/30/23.

Fund Accounting-Chart of Accounts

Fund	Location	Special Reporting	Program	Object/Source/Balance Sheet Code	Job Code	Grant/Project	Object/Source/Balance Sheet Description
XX	XXX	XX	XXXX	01XX	XXX	If Applicable	Wage Expense
XX	XXX	XX	XXXX	02XX	XXX	If Applicable	Benefit Expense
XX	XXX	XX	XXXX	03XX, 04XX, 05XXX	000	If Applicable	Purchased Service Expense
XX	XXX	XX	XXXX	06XX	000	If Applicable	Supply Expense
XX	XXX	XX	XXXX	07XX	000	If Applicable	Capital Outlay Expense
XX	XXX	XX	XXXX	08XX	000	If Applicable	Overhead & Indirect Expense
XX	XXX	XX	XXXX	09XX	000	If Applicable	Other Services/Debt Expense
XX	000	00	0000	1XXX	000	If Applicable	Local Revenue
XX	000	00	0000	2XXX	000	If Applicable	Intermediate Revenue
XX	000	00	0000	3XXX	000	If Applicable	State Revenue
XX	000	00	0000	4XXX	000	If Applicable	Federal Revenue
XX	000	00	0000	5XXX	000	If Applicable	Transfer/Alloations Revenue
XX	000	00	0000	6XXX	000	If Applicable	Fund Balance
XX	000	00	0000	7XXX	000	If Applicable	Liabilities
XX	000	00	0000	8XXX	000	If Applicable	Assets

Trial Balance = The Yellow Column has to Equal 0.

The Chart of Accounts are structured to align with the Federal Reporting Standard for Public Education.



Fund Reporting

- Let's look at an [audit](#) Table of Contents: (Pull up your District's)
 - GAAP(Accrual) vs GASB (Modified Accrual)
 - District Wide financial statements
 - Statement of Net Position
 - Statement of Activities
 - Fund Financial Statements
 - Balance Sheet
 - Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.
 - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 - Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.
 - Notes
 - Supplementary Information
 - Budget to Actual Variances
 - Net Pension liability, Net Share of Other Post-Employment Benefits (OPEB)
 - Combining Balance Sheet-Non Major Governmental
 - Auditor's integrity
 - Single Audit

Pipeline Reports

BOLDED BALANCE REPORT

	Governmental										Proprietary			Fiduciary	
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20, 22-29	Supplemental Cap Const Fund 06	Total Program Reserve Fund 07	Food Service Special Revenue Fund 21	Debt Service Funds 30-39	Capital Projects Funds 40-45, 47-49	Supplel Cap Const Fund 46	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85
Total Assets															
Total Liabilities															
Total Fund Equity															
Total Liabilities & Fund Equity															
For Each Fund Type: Do Assets=Liability+Fund															

Grant Revenue Received Reconciliation Report

Column 1 Grants	Column 2 CDE	Column 3 District 2022-2023 Revenue Reported	Column 4 District 2022-2023 Grants Deferred	Column 5 District 2021-2022 Grants Deferred	Column 6 District 2022-2023 Grants Acct Rec	Column 7 District 2021-2022 Grants Acct Rec	Column 8 District Grant Revenue Received	Column 9 Difference
State(3110-3949) & Fed(4000-9999)	Payment Amount Cash Basis Figure	Source 3000, 4000	Balance Sheet 7482, 7801	Balance Sheet 7482, 7801	Balance Sheet 8142	Balance Sheet 8142	Columns 3+(4-5)- (6-7)	CDE Cash vs Dist Formula Columns 8-2

Please Note: Data pipeline requires all values to be positive unless they are in the opposite of the natural balance for that account type. For example, Liabilities natural balance is a credit, but if 10-7481 is a debit balance it will be a negative number in pipeline.



Role of the Auditor

- The primary role of the auditor is to render an opinion on the accuracy of the financial statements.
 - Heavy emphasis on the Balance Sheet.
 - Modified Accrual vs Cash Basis
- Auditors are Independent Reviewers
 - Independence means that the district should be booking all transactions and year-end audit entries, and Auditor reviews entries. Perhaps, adding some entries to correct submitted.

Role of District

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP & GASB.

- Every District's Goals:
 - Get through Pipeline reports - Tier I, II, and Grant Revenue Reconciliation Report before/during Auditor's visit by taking ownership of some of the Modified Accrual entries.
 - Property Tax, Salary & Benefit Accrual, Grant Receivable and Unearned Revenue, Food Service Inventory and Patron Balances, etc
 - Receive less correcting AJE for Fund Financials from Auditor every year.

Governmental Accounting Best Practices

- **Maintain General Ledger on Modified Accrual Basis throughout the year with these system entries:**
 - Cash GL account is reconciled monthly and balances to the Bank Rec
 - Account Payable are systematically created when an PO/invoice is entered prior to payment
 - Payroll is posted on a cash basis monthly with salary/benefit accrual adjusted at year-end
 - Revenues are recorded on a cash basis (when received), with Property tax for the July 10th and Aug 10th, if applicable, adjusted at year-end
- **General Ledger (Trial Balance) is reviewed monthly at month-end to ensure:**
 - Cash/Investments equals reconciled bank balance
 - Receivables are current and accurate
 - Payables are current and accurate
 - Due to/Due Froms balance in total
 - Grants A/R or Unearned are current and accurate

Your Specific Questions?

- [Survey](#) of Training
- **Upcoming [Training](#)**- Thursday, July 20, 9:00am-10:30am:
Checklist/Audit Preparation Training: Glenn Gustafson & Mark Rydberg will review the essential elements needed to get ready for your FY 22/23 annual financial audit. Included in this training will be review of a checklist and a new audit workpaper preparation tool. This training should assist you in getting your books in order prior to the arrival of the auditors.
- **Past Trainings on Audit Preparation** - [August 18 & 25, 2022](#)

Audit Prep - CDE School Finance

CDE support staff Contact information

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Contact for questions about: Year-end audit reviews, finance December data pipeline submission, Financial Transparency website, CDE 40 submission, grant codes, indirect cost rates

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Contact for questions about: Year-end audit reviews, federal financial reporting, data requests, finance December data pipeline submission, Financial Transparency website, grant codes

Mark Rydberg - School Finance Program Manager

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Contact for questions about: School finance team / individual training and support

Glenn Gustafson - Part-Time School Finance Program Manager

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Contact for questions about: School finance team / individual training and support. Technical accounting questions