



# Asset Management Workshop



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# Accounting Fundamentals



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# Governments Are Unique

- Not profit oriented
- Exempt from income taxes
- Owned collectively by constituents
- Equity is not evident
- Contributors of financial resources do not receive proportionate benefits
- Policy & operating decisions made by consensus of governing body

# Accounting Standards

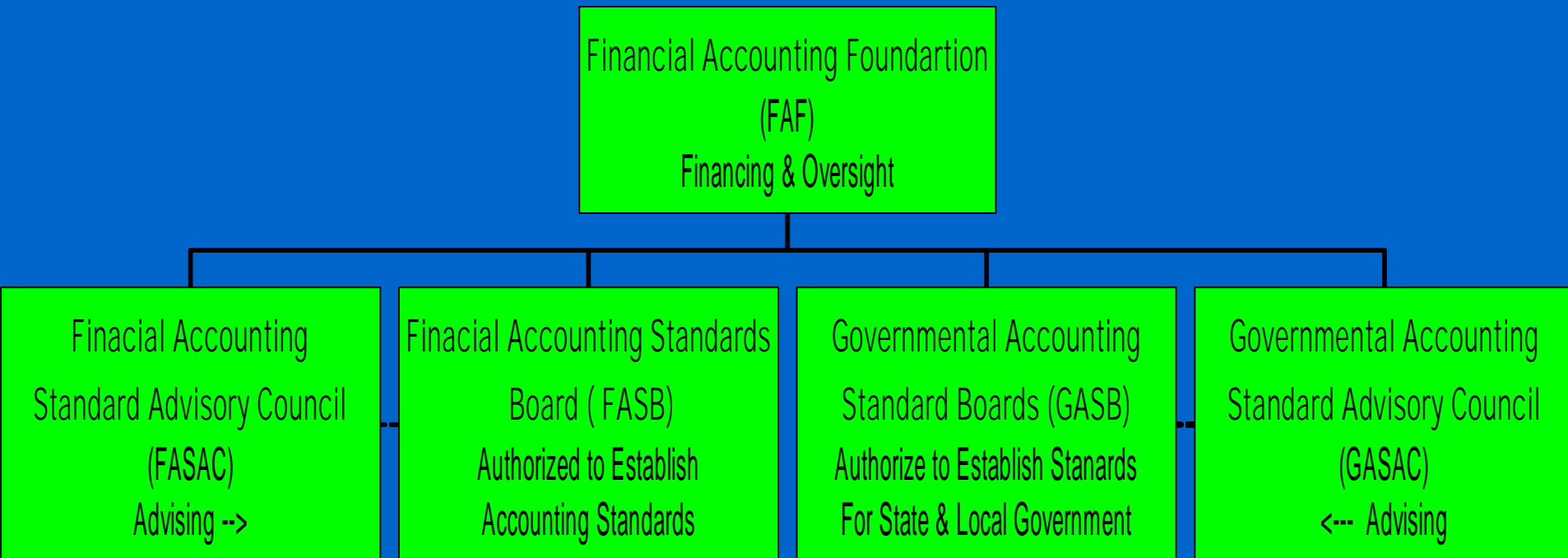
- Securities & Exchange Commission(sec) - 1933
  - Securities Acts of 1933 & 1934
  - Established SEC
  - Charged with overseeing the financial reporting of business enterprise
  - Empowered to establish accounting & reporting standards
  - Work with The American Institute of Accountants (AIA)
  - Committee on Accounting Procedure (CAP) 1934 - 1959
  - Accounting Principles Board (APB) 1959 -1973

# Accounting Standards

- American Institute of Certified Public Accountants (AICPA) 1959 -predecessor AIA
  - Generally Accepted Accounting Principles (GAAP)
  - Financial Accounting Standards Board (FASB) 1973
  - Governmental Accounting Standard Board (GASB) 1984
    - National Committee on Governmental Accounting - 1951
    - Governmental Accounting, Auditing, & Financial Reporting (GAAFR) 1968 recognized by the GAAFR as GAAP
    - National Council on Governmental Accounting (1974-1984) now the Government Finance Officers Association (GFOA)

# Financial Reporting Standards- Setting Structure

AICPA



# Standards

- Financial Accounting (Businesses) - FASB
- Governmental Accounting - GASB, SEC

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# Similarities Between Government & Businesses

- Integral part of the economic system
- Use financial, capital & human resources
- Financial management process - planning, directing , controlling & evaluating
- Scarce resource management
- Cost analysis, control & evaluative techniques
- Some products & services

# Differences

- Organizational Objectives
- Sources of Financial Resources
- Regulation & Control

# Organizational Objectives

- Expend available financial resources for the benefits of constituency
- Provide as many goods & as much services as financial & other resources permit
- Acquiring & using financial resources
- Continuing increasing the amount of resources
- Not increasing wealth
- Absence of net income determination emphasis

# Sources of Financial Resources

- Taxation - Property, Sales & Income
- Grants & shared revenues
- Charges levied for goods & services
- Permits & licensing
- Penalties & fines
- Donations

# Regulation & Control

- Strive to obtain objectives without benefits
- No open market to determine value of goods or service (charges relate to costs)
- Remote relation between contributors and recipient (difficult to evaluate)
- Stringent legal, regulatory, and other controls - federal & state statutes, judicial decrees, charters, bylaws, ordinance, contracts

# Regulations

- Organization structure
- Personnel policies & procedures
- Sources of financial resources
- Uses of financial resources
- Accounting
- Financial reporting
- Auditing

# Objectives of Accounting & Financial Reporting

- Making decision concerning limited resources
- Identification of crucial decisions
- Determination of objectives & goals
- Maintaining & reporting on custodianship of resources
- Directing & controlling human & material resources
- Contributing to the fulfillment of the desires & demand of society for social controls - (AAA)<sup>14</sup>

• Statement of Financial Accounting Concepts No. 4 (SFAC 4)

# • Objectives of Financial Reporting By Nonbusiness Organization

- Providing information to external users
- Making decisions on allocation of resources
- Assessing service & ability to continue
- Assessing management stewardship
- Valuation economic resources , obligation, & net resources
- Performance of organization
- How obtains & spends cash & other resources
- Borrowing & repayment of debt

# Governmental Accounting & Reporting

- Emphasizes:
  - Control
  - Accountability



# Two Types of Controls

- Use of funds
- Distinctive role of budgeting



# Funds

- External restrictions
- Designations
- Separate fiscal & accounting entities
- Self-balancing set of accounts recording cash & other resources, related liabilities, & balances
- Segregated for the purpose or specific activities
- Accordance with special restriction, regulation & limitations

# Two Basic Types of Funds

- Expendable (governmental) funds - to account for current assets, related liabilities, changes in net assets, and balances in **nonbusiness-type** activities
- Nonexpendable (proprietary) funds - to account for revenues, expenses, assets, liabilities, & equity of **business-type** activities

# Budgets & Appropriations

- Creation of expendable fund does not carry authority to expend resources
- Expenditures made with authority of appropriation
- Binding appropriation - specific purpose & amount
- Budgetary accounts
- Dual basis of accounting -Budgetary Basis & GAAP

# Budgets & Appropriations

- Nonexpendable (proprietary) funds may be controlled by flexible budget
- Authority to incur expenses during year if revenues are greater than planned, & reduces expense if less
- Do not use budgetary accounts
- Operate as profit seeking enterprise
- $A = L + OE$

# Fund Accounting

- Multiple accounting entities
- Each fund maintain balance:  $A^* = L + FB$ 
  - \* Just current assets in expendable funds
- General fixed assets listing
- General long-term debt
- Consolidations are not widespread

# Types of Funds

- Governmental funds:
  - The general fund
  - Special revenue funds
  - Capital projects funds
  - Debt service fund
- Proprietary funds:
  - Enterprise funds
  - Internal service funds
- Fiduciary funds:
  - Trust and agency funds

# The Government Funds

- General
- Special revenue
- Capital projects
- Debt service
  
- Accounting equation
  - $CA - CL = FB$
  
- Statements:
  - Balance Sheet
  - Statement of Revenue, Expenditures, & Changes in Fund Balances(GAAP basis)
  - Statement of Revenues , Expenditures, & Changes of Fund Balances-Budgeted and Actual(budgetary basis)

# Governmental Funds

- The account groups
  - General fixed assets
  - FA = investment in GFA
  - General long-term debt
  - Amount available in DSF  
+ amount to be provided  
in future years + LTL
- Statements:
  - Balance Sheet
  - Changes disclosed in notes

# The Proprietary Funds

- Enterprise
- Internal service
- Accounting equations
- $CA + NCA = CL + LTL + CC + RE$
- Statements:
  - Balance Sheet
  - Statement of Revenues, Expenses and Changes in Retained Earning/Equity
  - Statement of Cash Flows

# Fiduciary Funds

- Agency
  - Assets = liabilities
- Nonexpendable trust
  - $AC + NCA = CL + LTL + FE$
- Expendable trust
  - $CA - CL = FB$
- Pension trust
  - Assets - Liabilities + Net Assets
- Statements:
  - Not presented in government-wide statements
  - Statement of Fiduciary Net Assets
  - Statement of Changes in Fiduciary Net Assets

# Basis of Accounting

- Cash basis
  - Record revenue when received
  - Record expenses (expenditures) when paid
- Accrual basis
  - Record revenues when earned
  - Record expenses when incurred
- Modified accrual basis
  - Record revenues when measurable & available
  - Record expenditures (generally) when incurred with exceptions

# Summary of Fund Accounting Procedure

• <b>General fund</b>	governmental	spending	mod accrual
• <b>Special revenue funds</b>	governmental	spending	mod accrual
• <b>Debit service funds</b>	governmental	spending	mod accrual
• <b>Capital projects funds</b>	governmental	spending	mod accrual
• <b>Internal service funds</b>	proprietary	capital maintenance	full accrual
• <b>Enterprise funds</b>	proprietary	capital maintenance	full accrual
• <b>Pension trust funds</b>	fiduciary	capital maintenance	full accrual
• <b>Nonexpendable trust funds</b>	fiduciary	capital maintenance	full accrual
• <b>Expendable trust funds</b>	fiduciary	spending	mod accrual
• <b>Agency funds</b>	fiduciary	N/A	mod accrual

# General Fix Assets

- Defined: GFA are all fixed assets other than those accounted for in proprietary or trust funds
- GFA :
  - Land
  - Buildings & building improvements
  - Infrastructure or improvement other than buildings
  - Machinery and equipment
  - Construction in progress

# Additional Costs to GFA

- Additions Capitalize
- Betterment Capitalize
- Renewals Capitalize
- Repair & maintenance Expenditures

# Valuation of GFA

- Purchase Cost
- Gifts Fair value when received
- Eminent domain Cost ( established by courts)
- Escheat Fair value at occurrence
- Foreclosure Lower of government's claims or FMV at foreclosure

# Costs of Assets

- Land - purchase price, transaction costs, site preparations, permanent improvement, taxes, liens, insurance, escrow fees
- Land improvement - costs of driveways, parking lots, sidewalks, roads, fences ( connected with building)
- Buildings - purchase price, liens, permits, renovations, excavating, razing old building, capitalize interest, materials, labor, overhead

# Costs of Assets

- Machinery & equipment - purchase price, freight-in, handling, insurance, storage, preparation, installation, start-up costs, testing, trials runs, conditioning used assets
- Leaseholds & leasehold improvements - capitalization of leased assets over period of lease
- Internally constructed assets - direct material, direct labor, overhead, interest

# Infrastructures

- Determine Value:
  - Historical costs
  - Estimated costs
- Depreciating Assets:
  - Depreciation ( straight-line or reasonable method)
  - Modified Approach ( no depreciation, but actual cost schedule)

# Depreciation

- Depreciation - is systematic and rational allocation of the historical cost of the productive capacity of a tangible asset to the period benefited
- Historical cost- costs incurred to bring it to the condition & location necessary for its intended use
- Not a process of valuation
- Not a cash expense
- Is offset by a credit to accumulated depreciation
- Matching principle

# Elements of Depreciation

- Depreciable amount - is the depreciable base estimated to be written off over the estimated useful life of the asset
- Estimated useful life - economic life of an asset, depends on intended use & maintenance policies. The consumption of the economic benefits due to the passage of time, units of production, amount of service
- Salvage value - residual value

# Methods of Depreciation

- Straight line
- Accelerated methods -
  - Declining balance -
  - Sum-of the year's digit (SYD)
- Usage-centered
  - Units-of- output
  - Service-used
- Group & composite

# Depreciation

- Straight-line depreciation - annual amount of depreciation
  - Historical cost - salvage value
  - Useful life in years

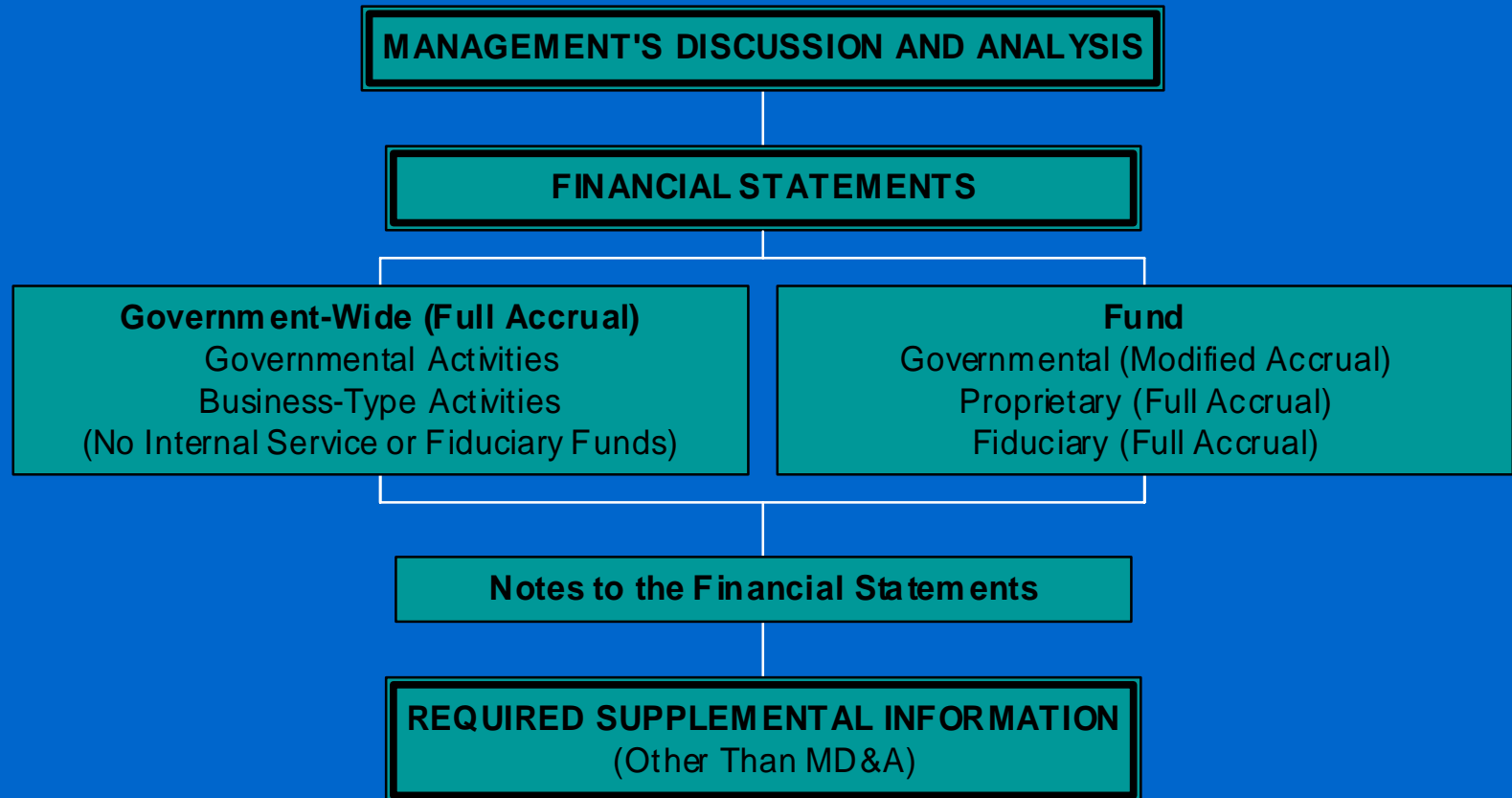
# Modified Approach

- Minimum requirements:
- Maintain an up-to-date inventory of infrastructure assets
- Regularly assess the condition and summarize the results using a measurement scale (3 years)
- Estimate the annual cost required To maintain & preserve the assets at a minimum condition level
- Establish condition standards
- Disclose- actual amount spent on maintenance

# Financial Statements - GAAB 34

- Government-wide
  - Consolidated
  - Full accrual basis
  - Net asset focus
  - Excludes interfunds transactions
  - Costs presented both gross and net
- Statements:
  - Statement of Net Assets
  - Statement of Activities
- Fund-based
  - Fund basis
  - Modified/full accrual
  - Detail reconciliation
  - Focus on major funds
- Statements:
  - Balance Sheet
  - Statement of Revenues, Expenditures & Changes in Fund Balance
  - Budgetary Comparison Statement

# Basic Financial Statements



# Balance Sheet

- Provides Information about the Entity's Assets, Liabilities and Equity or Fund Balance
- Photo Finish at a Moment of Time
- Assess the Entity's Liquidity, Financial Flexibility, Profitability, Wealth Appreciation and Risk
- Four Major Governmental Funds
- $\text{Assets} = \text{Liability} + \text{Equity}$

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## Statement Of Revenue, Expenditure, & Changes in Fund Balances(Net Assets)

- Provides Information about Profitability
- Revenues, Expenditures, Other Financing Sources & Uses
- Special Items & Extraordinary Items
- Net Change Other the Period
- Four Major Governmental Funds
- Interfund Transfer Reported as Other Financing Source or Use

# Budgetary Comparison Statement

- Can Be Presented as Integrated Set of Financial Statements or Required Supplementary Information
- Original and Final Budget Columns required for Comparisons
- Compare Budget with Actual
- Comparison of General and Special Revenues Funds

# Statement of Cash Flows

- Proprietary Funds
- Shows Inflows & Outflows of Cash
- Three Sections
  - Operating
  - Investing
  - Financing
- Reconciles to Change in Cash Balance

# Required Supplementary Information

- Management 's discussion and analysis
  - Introduce & provide structure, analytical overview of the basic financial statement
- Budgeting reporting
  - Comparison of budget to actual
  - Original & final budgets must be presented

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# Management's Discussion & Analysis

- A brief discussion of the basic financial statements
- Condensed financial information
- An analysis of the SLG's overall financial position & results of operations
- An analysis of balances and transactions of individual funds
- Analysis of significant variation between original and final budget & final and actual
- A description of capital assets & long-term debt
- Other important information . . . . .



Thank You

