

Fund Level & District Wide Financial Statements & Preparing the Reconciliations

NICOLE ABEL, CPA

NICOLE.ABEL@PLANTEMORAN.COM

JAKE SCULLY, CPA

JAKE.SCULLY@PLANTEMORAN.COM

Presentation Objectives

To give you a better understanding of:

- Full accrual statements
- Fund level statements
- Fund level components which are converted to full accrual (i.e. reconciling items)
- Additional components required in full accrual statements

Background: What makes the differences?

- Two accounting methods being used
- Differences arise in treatment of items as a result of two different methods
- Examples:
 - Expenditure could become an asset
 - Revenue could become a liability
 - Short term vs. long term focus

Why Two Methods?

- Fund accounting uses modified accrual basis
 - Answers the question: “What did you do with the money received this year?”
- Full accrual method answers the question:
 - “As a whole, what does the District own (assets) compared to the obligations of the District (liabilities) and what is the full cost of services delivered this year?”

District Wide Statements (Full Accrual)

- Statement of Net Position (Exhibit C - Page 1)
- Statement of Activities (Exhibit C - Page 2)

Fund Level Statements (Fund accounting)

- Balance Sheet (Exhibit C - Page 3)
- Statement of Revenue, Expenditures and Changes
in Fund Balance (Exhibit C - Page 5)

Reconciliation Statements

- Reconciliation of the Balance Sheet to the Statement of Net Position (Exhibit C - Page 4)
- Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities (Exhibit C - Page 6)

Concept of Major Funds

- General Fund always major
- 10% of total governmental funds from any category (A +DO, L+DI, R or Exp)
 - Assets include deferred outflows of resources and liabilities include deferred inflows of resources
- Major funds presented separately
- Nonmajor funds – shown in one total column
- See Exhibit C – Page 3
- GASB 100 – Fund changing between major/non-major

Major Fund Determination Exercise EXHIBIT D

Overview of Conversion

- Complete the fund level statements
- Work from the governmental totals
- Identify eliminations
- Identify modified accrual to full accrual changes
- Post changes to create the district wide statement of net position and statement of activities
- Net position issues

5 Key Items “Converted” to Full Accrual

- Capital Outlay and Leases/SBITA's
- Payments on Long-term Debt
- Receivables
- Interfunds
- Net Pension/OPEB Liability

Capital Outlay

- What is capital outlay?
 - Assets purchased by the District
 - Recorded as expenditure
- Under FULL ACCRUAL:
 - Not all cost is expense → most costs are capitalized and converted to an asset
 - GASB Implementation Guide 2021-1 capitalization of group purchases required starting FY 2024
- Capital Asset Footnote (Exhibit C – Page 8)
 - Difference between “Additions” and “Capital Outlay Expenditure” total

Capital Assets

- Do not represent financial resources available for expenditure, but are items for which financial resources have been used.
 - Purchased from General or Capital Projects Funds
 - Land, Buildings, Equipment
 - Includes “right of use assets” related to Leases and SBITAS (GASB 87/96)
 - Historical Costs only
 - Need to Depreciate
 - Valuation Methods
 - Management Software

Reconciling Capital Outlay and Fixed Assets

- Capital Assets
 - Net Capital Assets (Cost less Accum. Depreciation) to STMT OF NET POSITION
 - Depreciation Expense to STMT OF ACTIVITIES
 - Remove proceeds from fixed asset sales from fund level
 - Add gain/loss on sale (Cost-Accum. Depreciation plus proceeds (if any))

Reconciling Capital Outlay and Fixed Assets (cont'd)

- ASSET INFO:
 - Original purchase price - \$10,000
 - Depreciation through sale date - \$5,000
 - Sales price - \$8,000

	FUND LEVEL	FULL ACCRUAL
COST	\$10,000	\$10,000
DEPRECIATION	N/A	<u>(\$5,000)</u>
NET BOOK VALUE	N/A	\$5,000
SALES PRICE	\$8,000	\$8,000
REVENUE	\$8,000	\$3,000

Payments on Long-term Debt

- Fund level statements reflect payments of principal and interest on bonded debt or notes payable
- Compensated Absences – payments are recorded as an expenditure in the funds
- Early retirement incentive payments
- Leases/SBITAS

Payments on Long-term Debt (cont'd)

- Under FULL ACCRUAL:
 - Payments on debt → converted from an expenditure to a liability reduction
- Long Term Debt Footnote
 - Principal payments shown as reduction of long term liabilities
- New debt issues
 - Funds reflect this as revenue (other financing source)
 - Full accrual reflects this as increase in liability

Reconciling Items in Long Term Debt

- Long-term Debt
 - “Proceeds from debt issuance” becomes an addition to long term debt
 - “Principal payments on debt” becomes a reduction to long term debt
 - Accrued interest
 - Interest expense = Amt. per funds + change in accrued interest from PY to CY
 - GASB 65 – Changed treatment of issuance costs – expense on full accrual funds

EXERCISE #1 & #2

EXHIBIT E/F

Compensated Absences

Key considerations for determining if a liability exists for sick and vacation time:

- Current Employees:
 - Fund Level - Liability at the time it comes due for payment (i.e. when days are taken)
 - District Wide:
 - Evaluate how vacation and sick time is earned?
 - Allowed to be carried over from year to year? Is there a cap?
- Terminated/Retired Employees:
 - Fund Level - Record the vested sick and vacation at the retirement/termination date (or pay out date as stipulated by contract)
 - District Wide:
 - Evaluate how vacation and sick time is earned?
 - Allowed to be carried over from year to year? Is there a cap?

Compensated Absences (Cont.)

GASB 101 – Lessons Learned

- FIFO vs. LIFO – accounting policy election with a potentially massive impact on the measurement of the liability
 - Point of confusion – the accounting policy of FIFO vs. LIFO does not need to be "proven" by the data
- Longevity Payouts
 - In many cases, these payouts were being accrued for as part of compensated absences
 - Depending on the contract language, they typically do NOT meet the definition of a compensated absence under GASB 101
- "Master" sick banks
 - May or may not be detailed in the collective bargaining agreement
 - May or may not apply under GASB 101 (they most likely apply)

Receivables

- Most common receivables
 - Property taxes
 - Due from other governmental units
- Fund accounting – 60 day rule
 - RULE: if the cash is not received within 60 days of year end, it is not considered available for use → therefore becomes Deferred Inflow of Resources (GASB 65) (vs. Revenue)

Full accrual → NO 60 day rule

Interfunds

- Operating Transfers
 - Transfers in = Transfer out
 - Net effect in total = 0, therefore eliminated when converted to full accrual
- Due To and Due From
 - Eliminate when converted to full accrual
 - If they do not equal, likely relates to Fiduciary / Custodial receivable/payable

EXERCISE #3 & #4

EXHIBIT E/F

Net Pension/OPEB Liability

- Net Pension/OPEB Liability
 - As a result of GASB 68 and 75, the district is required to record additional liabilities on the Government-wide Statements
 - Represents the district's proportionate share of the MPERS Pension/OPEB Liability
 - The district is also required to record Deferred Inflows and Outflows related to the plan, including district level items

Reconciling Items for Net Pension/OPEB Liability

- Reconciling Items
 - The District's share of the Net Pension/OPEB Liability becomes an addition to noncurrent liabilities
 - Contributions made to the Plan from 10/1 – 6/30 become Deferred Outflows
 - Certain revenues received to fund contributions made from 10/1 – 6/30 become Deferred Inflows
 - Pension/OPEB investment returns and changes in actuarial assumptions/proportionate share become Deferred Inflows/Outflows
 - The change in pension/OPEB expense related to this Net Pension/OPEB Liability are recognized as additional expenditures

DISTRICT WIDE:

Statement of Net Position

- Total from Governmental Funds Balance Sheet PLUS Internal Service Fund (if applicable)
- Capital Assets
- Leases/SBITAs
- Long term debt
- Certain accrued liabilities
- Net Pension/OPEB Liability

DISTRICT WIDE: Statement of Net Position

- **Net Position Broken into 3 pieces**

- Net investment in capital assets:

- Net fixed assets less outstanding debt, such as bonded debt, bus notes, capital leases

- Restricted Net Position:

- Externally imposed restriction of Net Position such as construction contracts and debt millage

- Unrestricted: Remainder

NOTE: Districts should remember to allocate NPL among these categories as necessary (not recommended for ACFR)

DISTRICT WIDE: Statement of Activities

- Presented on functional level
- All expenses in one column
- Revenue is broken out into 4 categories:
 - Charges for services
 - Operating Grants/Contributions
 - Capital Grants/Contributions (rare)
 - General revenues

STATEMENT OF ACTIVITIES: FUNCTIONS

- Instruction
- Support Service
- Community Service
- Food Service
- Athletics
- Interest
- Depreciation (unallocated)

Reconciliation Statements

- Balance Sheet to Statement of Net Position
 - Begins with FUND BALANCE
 - Net investment in capital assets is added
 - Long term liabilities are subtracted
 - Accrued interest payable is subtracted
 - Net pension/OPEB liability is subtracted
 - Reconciles to NET POSITION
 - Hint: Reconciling amounts come from footnotes

Reconciliation Statements

- Statement of Revenue, Expenditures, and Changes in FB to Statement of Activities
 - Begins with Net Change in Fund Balance
 - Depreciation expense subtracted
 - Capitalized capital outlay added
 - Payments on debt added
 - Net Pension/OPEB Liability and Compensated absences (may be added or subtracted)

Key Take Aways

- An understanding of the following:
 - 5 “typical” reconciling items
 - Differentiate between fund level and district wide financial statements
 - 2 different accounting methods
- Tools available for reference – Exhibit G

QUESTIONS