



# Town of Dewey Beach Governmental Accounting Presentation

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**MITCHELL TITUS**  
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# Accounting, financial reporting, & the financial statement audit: An overview

## The financial statement audit

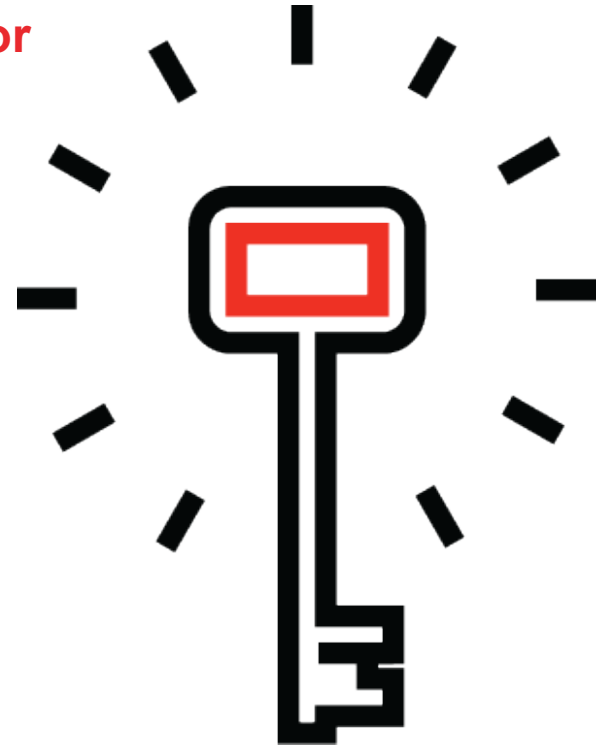
- Audit provides reasonable assurance that the financial statements are free of material misstatement
- Management is primarily responsible for:
  - Financial reporting
  - Comprehensive framework of internal control
  - Monitoring and oversight of financial reporting and internal control



# Government industry & impact on accounting & financial reporting

## Key industry differences between private sector and state & local government

- Profit motive vs. service motive
- Return on investment vs. stewardship
- Appropriated budget vs. financial plan
- Use of more than one measurement focus
- Fund accounting
- Budgetary reporting



# Funds, fund types & interfund activity

## Fund and fund types

- Definition of a fund
- Number of funds – Establish and maintain only minimum number of funds required by law and sound financial administration

Fund Type	Purpose
Governmental	Account for activities primarily supported by taxes, grants and similar revenue sources
Proprietary	Accounts for activities that receive significant support from fees and charges
Fiduciary	Accounts for activities conducted by a government or its component units for the benefit of those outside of the government and for certain pension and OPEB arrangements

# Funds, fund types & interfund activity

*(continued)*

## Governmental Funds

Fund	Purpose
General Fund	Main operating fund – reports all activity not reported in another fund
Special Revenue Fund	Accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects
Debt Service Fund	Reports and accounts for resources set aside for principal and interest payments
Capital Projects Fund	Reports and accounts for resources set aside for capital outlays
Permanent Fund	Report and account for resources restricted to the extent that only earnings may be used

# Funds, fund types & interfund activity

*(continued)*

## Proprietary fund types

Fund	Purpose
Enterprise Fund	Activities are paid for by external users through fees charged to the user
Internal Service Fund	Reports activities that provides goods or services to other funds, depts, or agencies of the primary government and its component units, or other governments, on a cost-reimbursement basis

# Basic financial statements included in the financial statement

- Government-wide balance sheet
- Government-wide statement of activities
- Fund balance sheet
- Reconciliation between fund balance sheet & the statement of net position
- Statement of revenues, expenditures & changes in fund balance
- Reconciliation statement of rev, expenditures & changes in fund balance to the Statement of activities
- Statement of Revenues expenditures & changes in fund balance – budget vs. actual



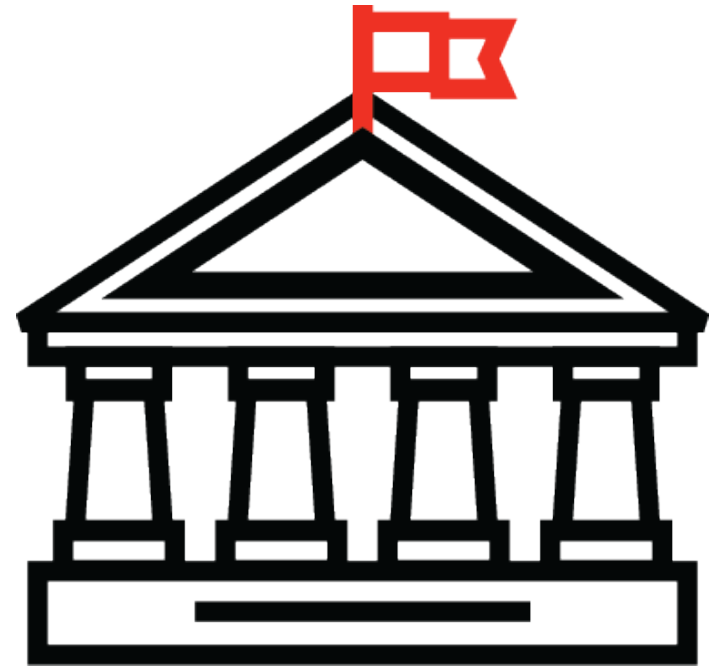
# Government-wide financial reporting

- Purpose of the government-wide statement is to present the financial position and the operating results of the primary government
- The government-wide statements are expected to provide users with operational accountability.
  - Two essential facets of accountability:
    - Fiscal accountability = compliance
    - Operating accountability = meeting objectives with resources
      - Fiscal accountability = fund accounting (i.e., modified accrual/cash basis)
      - Operating accountability = entity wide statements/enterprise funds
- The government-wide statements will also enable users to perform the following:
  - Understand the true financial position of the governmental entity as a whole, including capital and financial assets and long-term as well as short-term liabilities
  - Determine whether the entity is able to continue to provide current levels and meets its obligations as they become due
  - Determine the operating results of the entity, including the economic cost and the net cost of services, and assesses the economy, efficiency, and effectiveness of the operations.

# Government-wide financial reporting

*(continued)*

- Convert to economic resources measurements and accrual basis of accounting for governmental activities
- Effects of most inter-fund activity is eliminated
- Direct/Indirect costs included as part of governmental activities are to be allocated to appropriate functions
- Consideration of blended component units
- Consolidating governmental and enterprise fund data
- Consolidating internal service funds



# Measurement focus and basis of accounting

## Measure focus

- Describes the types of transactions and events that are reported
- Answers the question for a government fund –
  - *“What are the transactions or events of the period that have increased or decreased the net resources available for spending in the near future?”*
- Answers the question for a proprietary fund –
  - *“What transactions and events have increased or decreased the fund’s total economic resources during the period?”*



# Measurement focus and basis of accounting *(continued)*

## Basis of accounting of different funds

- Tied to the measurement focus of the fund
- Focus on current financial resources = modified accrual basis
  - Revenue is recognized when measurable and available
  - Liabilities are recognized as expenditures when due
- Focus on total economic resources = accrual basis of accounting
  - Revenue is recognized when earned, regardless of timing of cash flow
  - Expenses are recognized as soon as a liability is incurred, regardless of timing of cash flows

## Differences

- Economic resources = all assets & all liabilities
- Current financial resources measurement focus = only financial assets & liabilities normally expected to be paid with current year resources
- Four major differences:
  - Issuance of long-term debt
  - Repayment of principal of long-term debt
  - Capital outlay
  - Depreciation and amortization

# Revenue recognition in governmental funds

## Revenue recognition

- Modified accrual
- Susceptible to accrual
- Availability criterion
- 60 day rule

## Derived tax services

- Sales taxes
- Income taxes

## Imposed nonexchange revenues

- Property taxes  
(earlier of legal claim established or start of the period they are intended to finance)

# Expenditure recognition in governmental funds

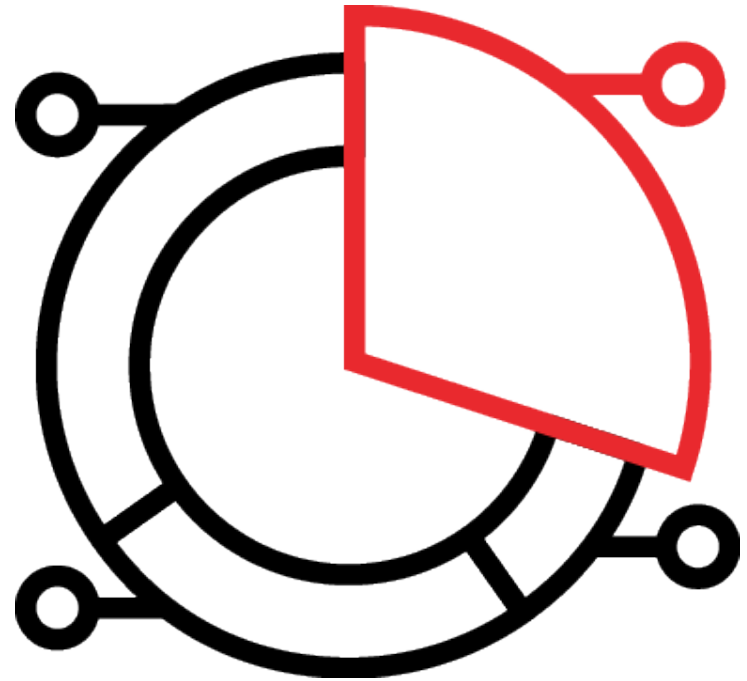
## Expenditure recognition

- Generally recognize on accrual basis
- Exceptions:
  - Debt service on long-term debt
  - Certain accrued liabilities
  - Pension and OPEB
  - Operating leases with scheduled rent increases
  - Prepays



# Asset and liability recognition and measurement in governmental funds

- Current Financial Resources Model
- Governmental fund assets-
  - Cash & investments
  - Receivable for property and similar ad valorem taxes
  - Receivable for debt proceeds
  - Receivable for guaranteed deficit
  - Receivable for unallowed costs
  - Pending contribution to an endowment (not a receivable)
  - Receivable for a lease



# Governmental fund financial statements

## Balance sheet

- Presentation of assets, deferred outflows, liabilities, and deferred inflows- do not present a classified balance sheet
- **Fund balance**
  - Constraints on how resources of the fund can be spent
  - The sources of those restraints
    - Nonspendable
    - Restricted
    - Committed
    - Assigned
    - Unassigned
- **Total and elimination columns**
  - Must report a total column
  - Interfund balances may not be reported on the entity wide statements
    - Can show as a single line on entity wide statements that nets to zero
    - Can show as an elimination column on fund balance sheet (not typically used)
- **Reconciliation to governmental activities**
  - Reconciles fund level balance sheet to entity wide statement of net position

# Governmental fund financial statements

(continued)

## Statement of revenues, expenditures, and changes in fund balance

- **Format**
  - Revenues
  - Expenditures
  - Excess (deficiency) of revenues over expenditures
  - Other financing sources and uses (included transfers)
  - Special and extraordinary items
  - Net change in fund balance
  - Fund balance- beginning of period
  - Fund balance- end of period
- **Revenues**
  - Presented by major revenue source (taxes, licenses and permits, etc.)
  - Loss on investment is show as a negative revenue
- **Expenditures**
  - Presented in the following form: current expenditures, capital outlays, debt service, and intergovernmental
  - Current expenditures presented by function (*i.e.*, general government, public safety, etc.)

# Differences between governmental and government-wide reports

## Governmental

Funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting. These funds are presented by general fund; major funds, and aggregated nonmajor funds.

## Government-wide

Financial statements consist of a *Statement of Net Position* and a *Statement of Activities*. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Each statement distinguishes between the governmental and business-type activities of the primary government and its discretely presented component units.

# Government-wide finance statements

**Statement of Net Position** - presents the local government as one economic unit rather than a compilation of different funds. The statement focuses on type of activities, rather than type of funds. Local governments should report all capital assets, including infrastructure assets in the government-wide statement of net position. The net position should be reported in three categories: net investment in capital assets, restricted and unrestricted.

**Statement of Activities** - report on the results of the local government's operations. The statement presents the cost of each function and the extent to which each of the local government's functions, programs or services either contributes to or takes away from the local government's general revenue.

# Government-wide finance statements

*(continued)*

## Government-wide statement of activities

- Presentation of expenses before revenue
- Direct vs. indirect expense
- Depreciation - governmental activities
- Interest expense - governmental activities
- Losses - governmental activities
- Gains - governmental activities
- Program revenues vs. Tax/general revenues
- Primary government total column
- Component units
- Entity wide total column and comparative data
- Contributions to principal/extraordinary/special
- Transfers



# Capital assets

- Definition
- Basic accounting and financial reporting
  - Situations capitalization not required
  - Situations depreciation not recognized
- Major asset classes
- Improvements vs. repairs
- Valuation
- Impairments
- Depreciation and amortization



# Differences between ACFR and a financial statement for a government audit

- Annual Comprehensive Financial Report is a set of financial statements for a state, municipality or other governmental entity that comply with the accounting requirements established by Governmental Accounting Standards Board (GASB). It presents a wide variety of important information intended for the reader to properly understand the basic financial statements. It must be audited by an independent auditor using generally accepted auditing standards. The ACFR consists of three sections:
  - Introductory Section
  - Financial Section
  - Statistical Section
- In comparison, a financial statement of a local government would typically only present basic financial statements about the government, therefore would exclude introductory and statistical sections.

# Popular financial reporting

## Popular Annual Financial Report (PAFR)

- Supplement to ACFR
- State and local governments are encouraged to issue in order to assist those that need a less detailed overview of the government's financial activities
- Narrower scope of information and a more narrative format to highlight and explain significant information
- Feedback from users is encouraged
- Data presented is derived from the CAFR
- PAFR award program



# Thank you

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