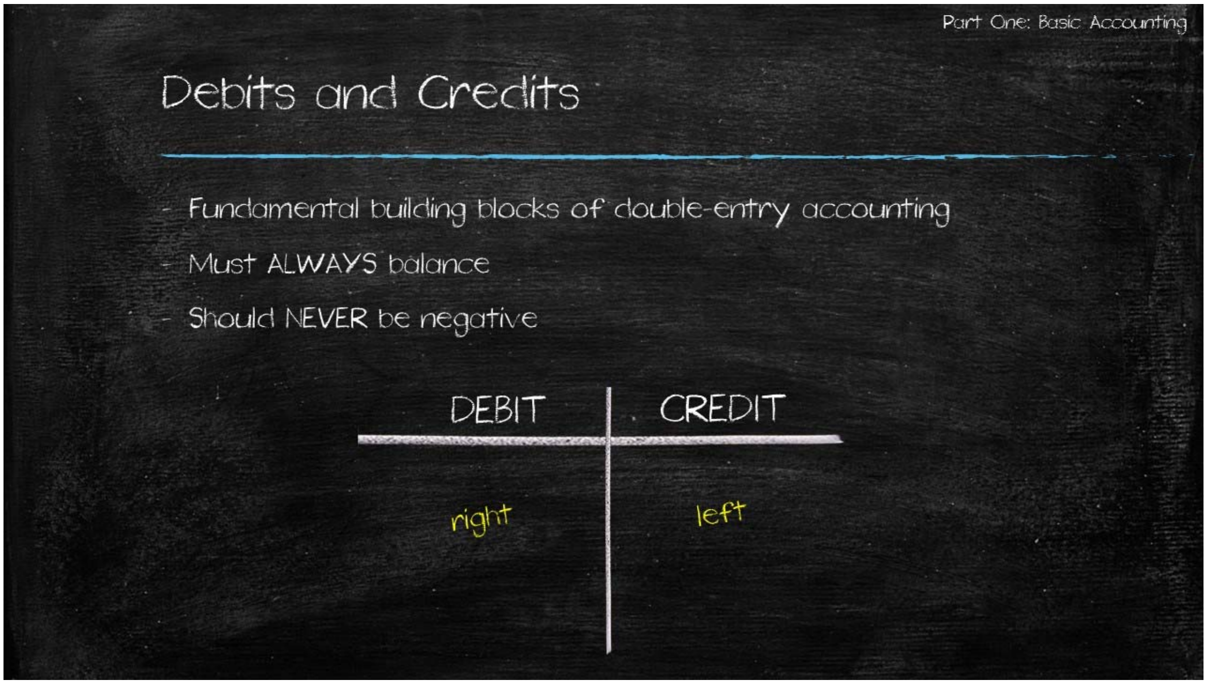
The first half of this seminar provides an introduction to basic accounting principles, as developed by the Financial Accounting Standards Board (FASB), and defines common terminology.

SEMINAR NOTES



Debits and credits are the fundamental building blocks of a double-entry accounting system. This system requires that you have offsetting amounts to keep everything in balance.

Debit and credit are used to denote *to* and *from*, *give* and *take, debtor* and *creditor*, to *owe* and to *entrust.*

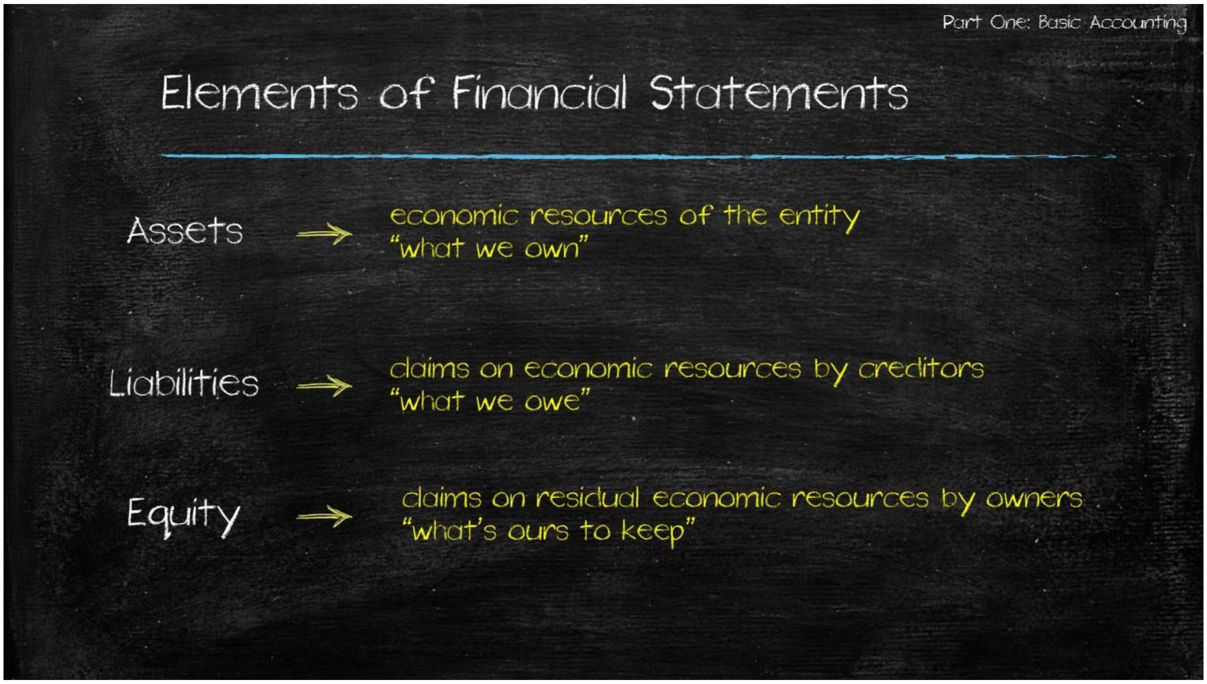
No one knows the actual origin of the terms debit and credit (although, the Latin words *debere* and *credere* are most often cited), but for our purposes it doesn't matter.

For us, debit means *left* and credit means *right*.

Debits must always equal credits.

All accounts use debits and credits to increase and decrease the account balance. Therefore, you should *never* have negative debits or negative credits.

SEMINAR NOTES

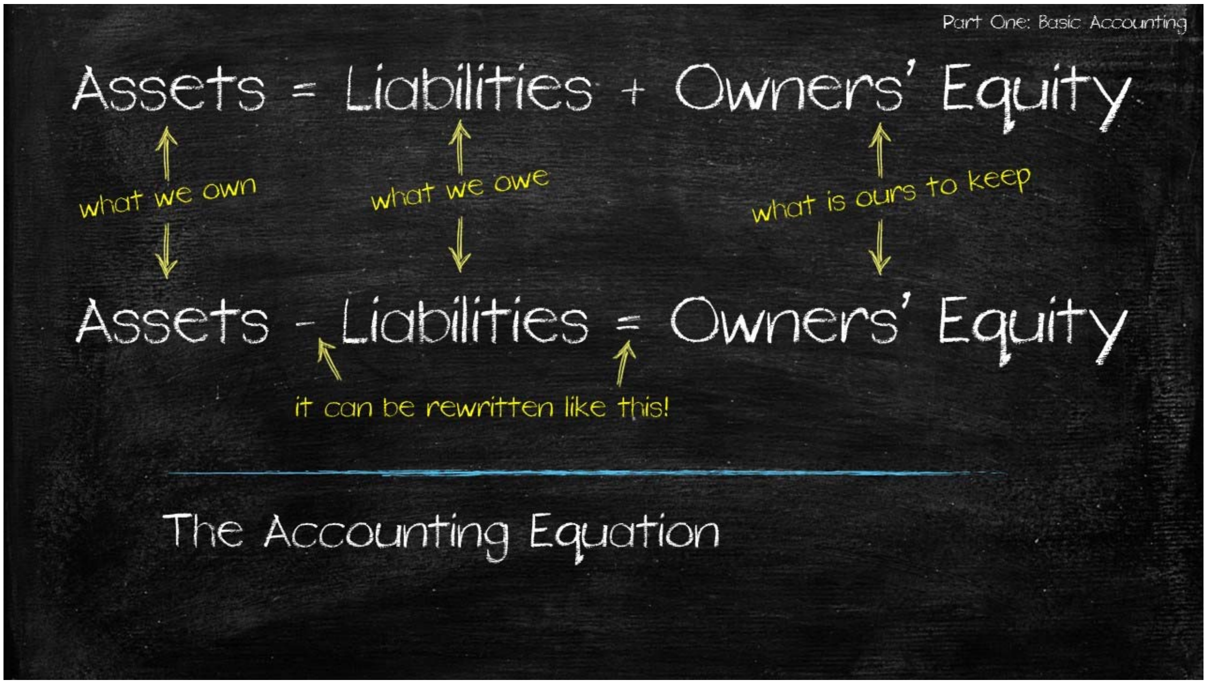


Assets are **economic resources** of the entity. They represent current ownership of resources for expected future benefit. Think of assets as "what we own."

Liabilities are **claims on economic resources** of the entity **by creditors**. They represent resources that the entity owes to others. Think of liabilities as "what we owe."

Equity are **claims on residual economic resources** of the entity **by owners**. They represent resources that owners of the entity will be left with after all creditors are paid. Think of equity as "what's ours to keep."

SEMINAR NOTES



Assets = Liabilities + Owners' Equity

- This equation can be read (backwards) as, "Our skin in the game plus the amounts we borrow equals all that we own."
- For example, a down payment on a house (equity) plus a mortgage on the house (liability) allows us to buy the house (asset).

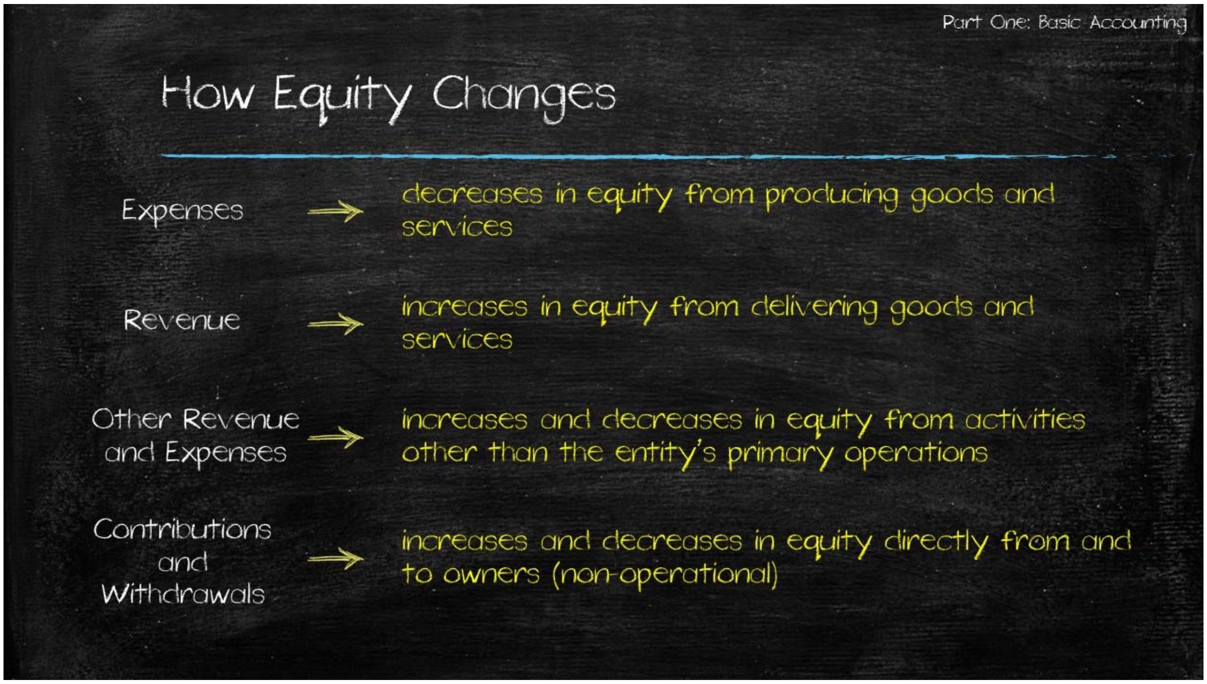
The equation could be rewritten as Assets – Liabilities = Owners' Equity

- This could be read as, "What we own less what we owe is what is ours to keep."
- For example, if I have $200 (asset) and owe Joe $50 (liability), then what's mine to keep is $150 (equity).

Each of the components of the equation are made up of debits and credits. In the end, if you were to net each of the components' debits and credits, you would find that net debits and credits of assets is equal to the net debits and credits of liabilities plus the net debits and credits of owners' equity.

Owners' Equity is further broken down by the periodic (or, temporary) accounts. Owners' Equity is the sum of Revenues and Equity Contributions less the sum of Expenses and Equity Withdrawals.

SEMINAR NOTES



Most transactions are recordings of how equity has changed through business activities.

Expenses

- Decreases in equity from *producing* goods and services.
- Use up assets or incur liabilities.

Revenue

- Increases in equity from *delivering* goods and services.
- Create assets or reduce liabilities.

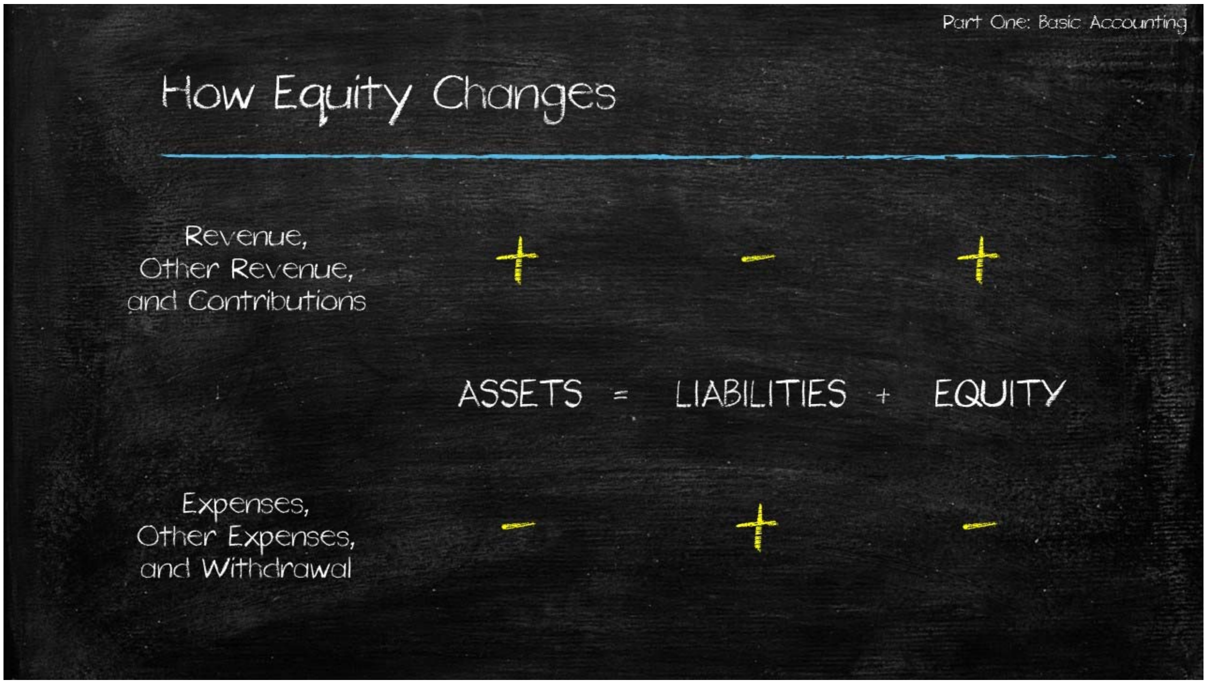
Other Revenue and Expenses

- Increases or decreases in equity from activities other than through primary operations.

Contributions and Withdrawals

- Increases or decreases in equity directly from and to owners.
- Note that this is the only *non-operational* type of change in equity – all other types are changes in equity as a result of conducting business activities.

SEMINAR NOTES

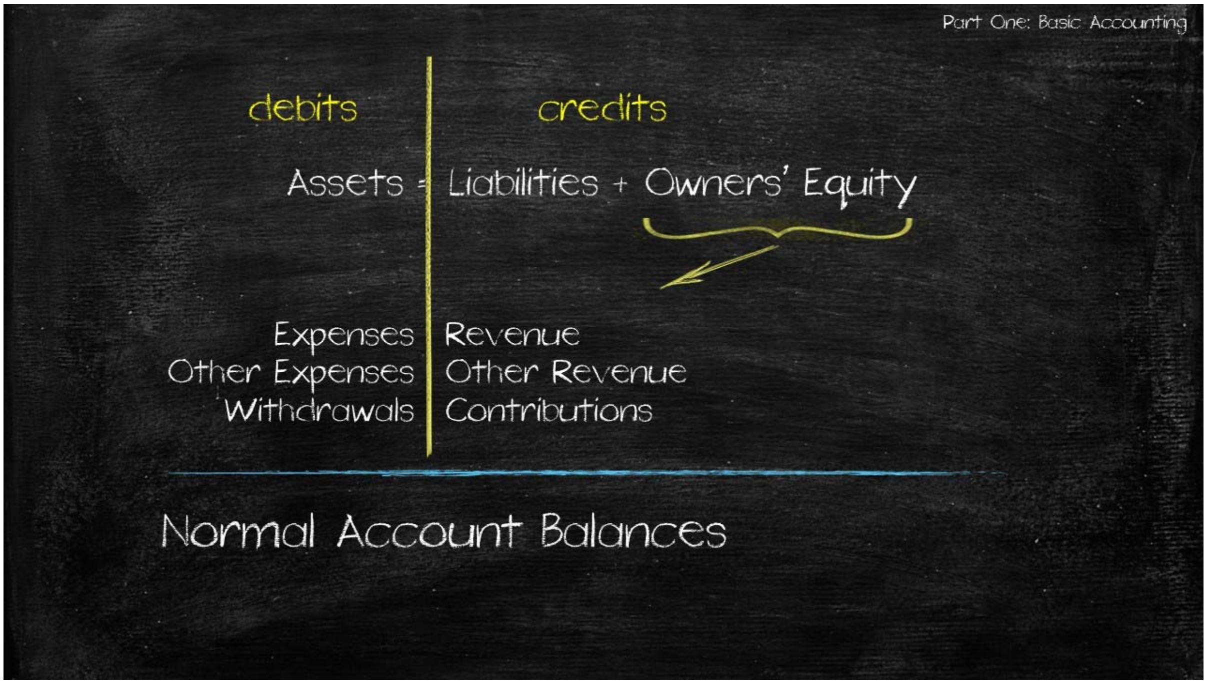


It's critical to understand that these terms represent *changes in equity*.

- Revenues, other revenues, and contributions are *increases* in equity.
- Expenses, other expenses, and withdrawals are *decreases* in equity.

Changes in equity (e.g., revenues, expenses, etc.) *always* effect a change in assets and/or liabilities.

SEMINAR NOTES



An account's normal balance the expectation that a particular accounting will have either a debit or credit balance, based on its classification.

- Assets are expected to have a debit balance.
- Liabilities and owners' equity are expected to have credit balance.
- These expectations keep the accounting equation in equity.

An account's normal balance indicates how the account is *increased*.

- Assets are increased by debits.
- Liabilities and owners' equity are increased by credits.

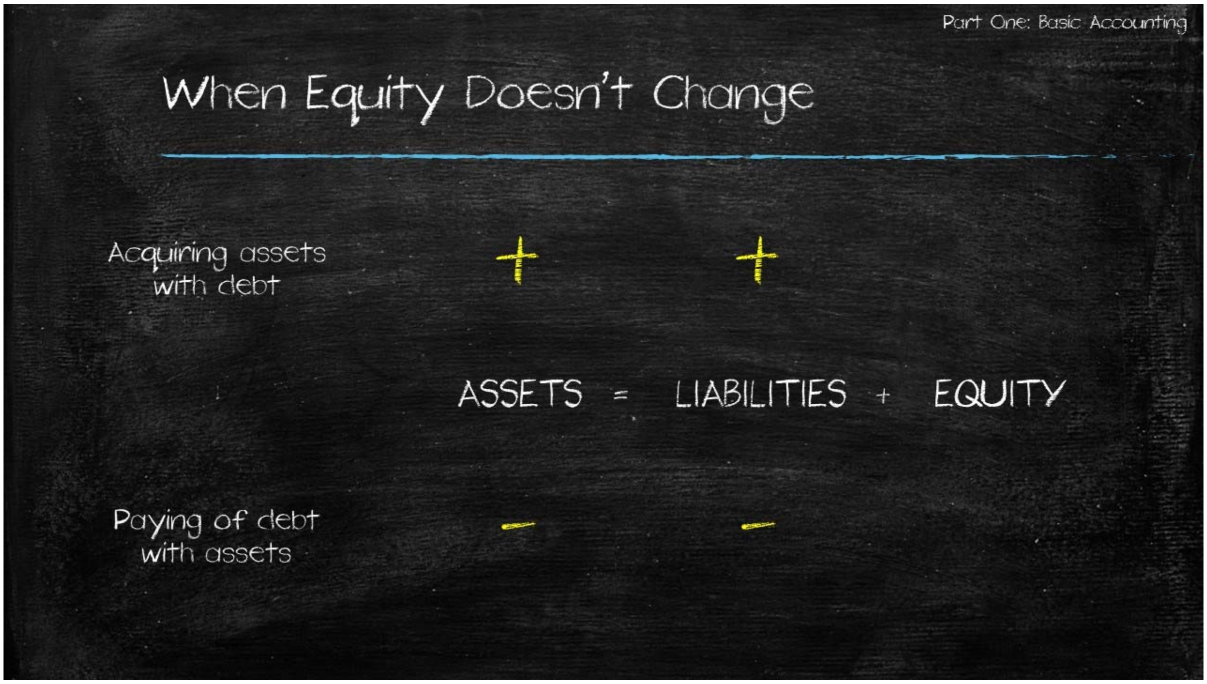
The opposite of an account's normal balance indicates how the account is *decreased*.

- Assets are decreased by credits.
- Liabilities and owners' equity are decreased by debits.

Likewise, accounts that represent *changes in equity* also have a normal balance.

- Revenue, other revenue, and contributions are increased by credits (seeing as these represent increases in equity).
- Expenses, other expenses, and withdrawals are increased by debits (seeing as these represent decreases in equity).

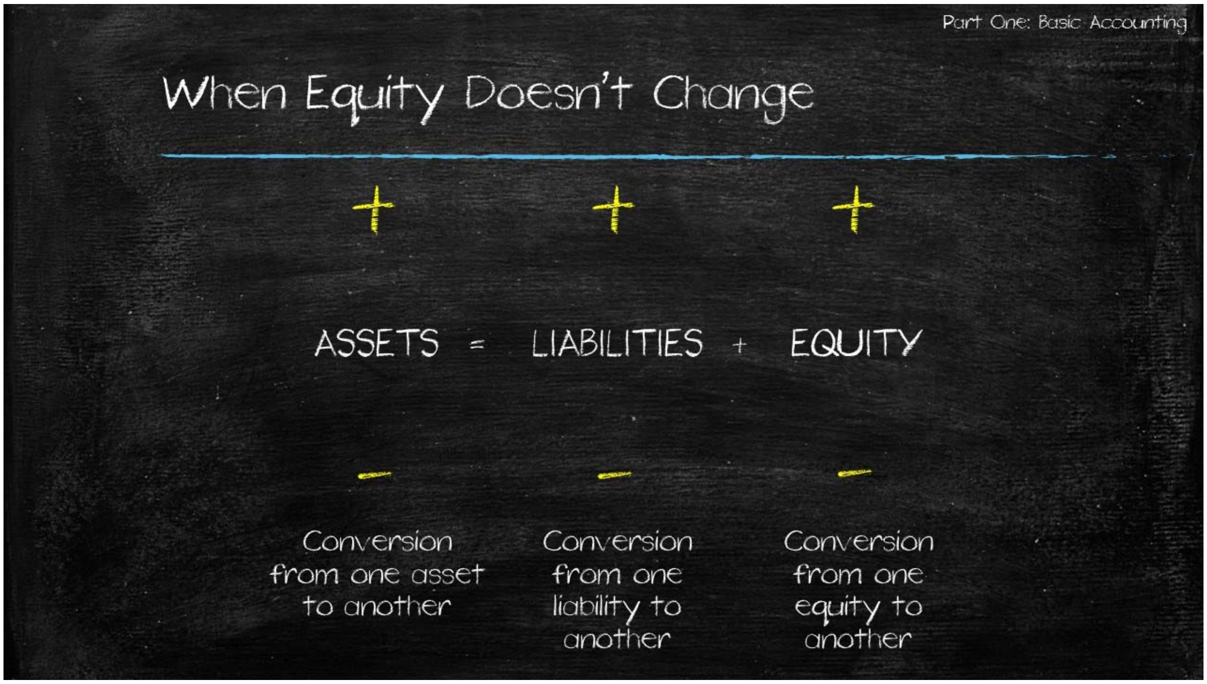
SEMINAR NOTES



Other types of transactions that a business regularly engages is do not affect equity.

- Incurring debt to acquire assets increases both assets and liabilities and has no effect on equity.
- Paying off debts with assets decreases both assets and liabilities and has no effect on equity.

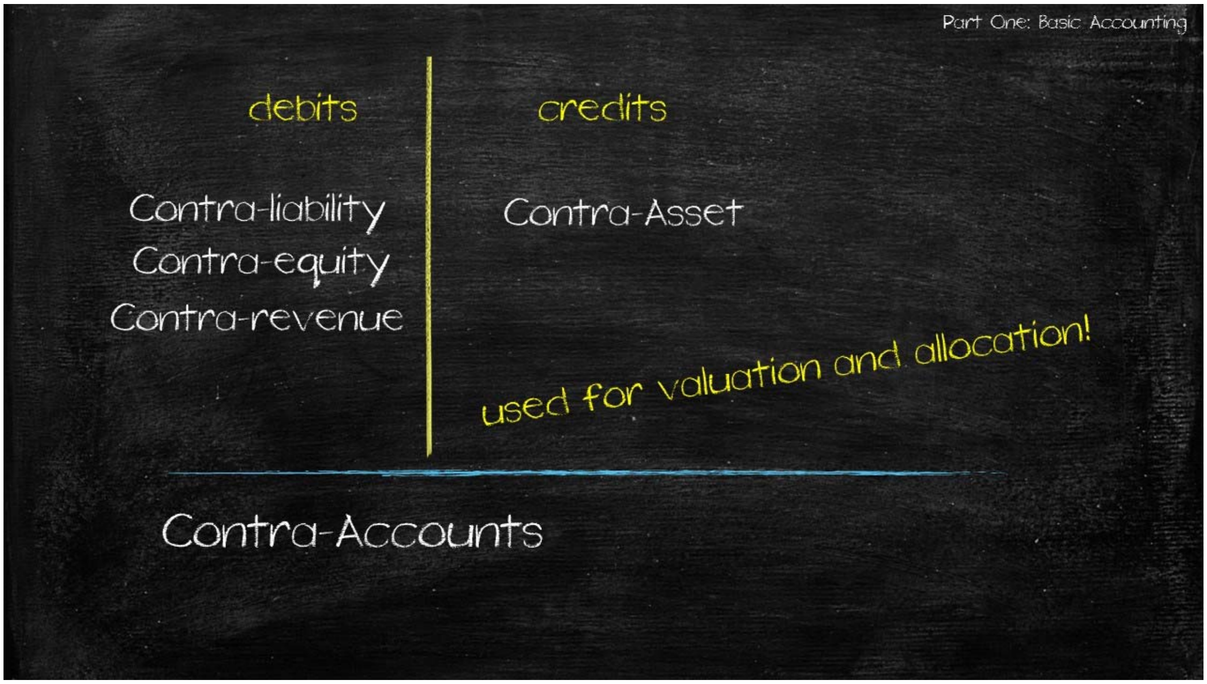
SEMINAR NOTES



Additionally, converting an asset into another (such as selling a piece of equipment for cash), or converting a liability into another (such as refinancing a payable as a long-term debt), or converting equity into another form of equity (such as reserving net assets for a specified purpose) – these transactions have no net effect on any of the elements, including equity.

And, a **rare,** but possible, transaction is when you have a simultaneous revenue and expense (such as when you receive an in-kind contribution – e.g., when a plumber fixes your plumbing for free, you have simultaneously received donation revenue and incurred a plumbing expense). This type of transaction does not affect equity.

SEMINAR NOTES



Contra-accounts are accounts that are specifically set up to offset a related account. They are used for valuation and allocation purposes.

Their normal balances are *opposite* of the normal balance of the account they're related to.

They are *not* assets, liabilities, equity, or revenue because they don't meet the definition of those types of accounts.

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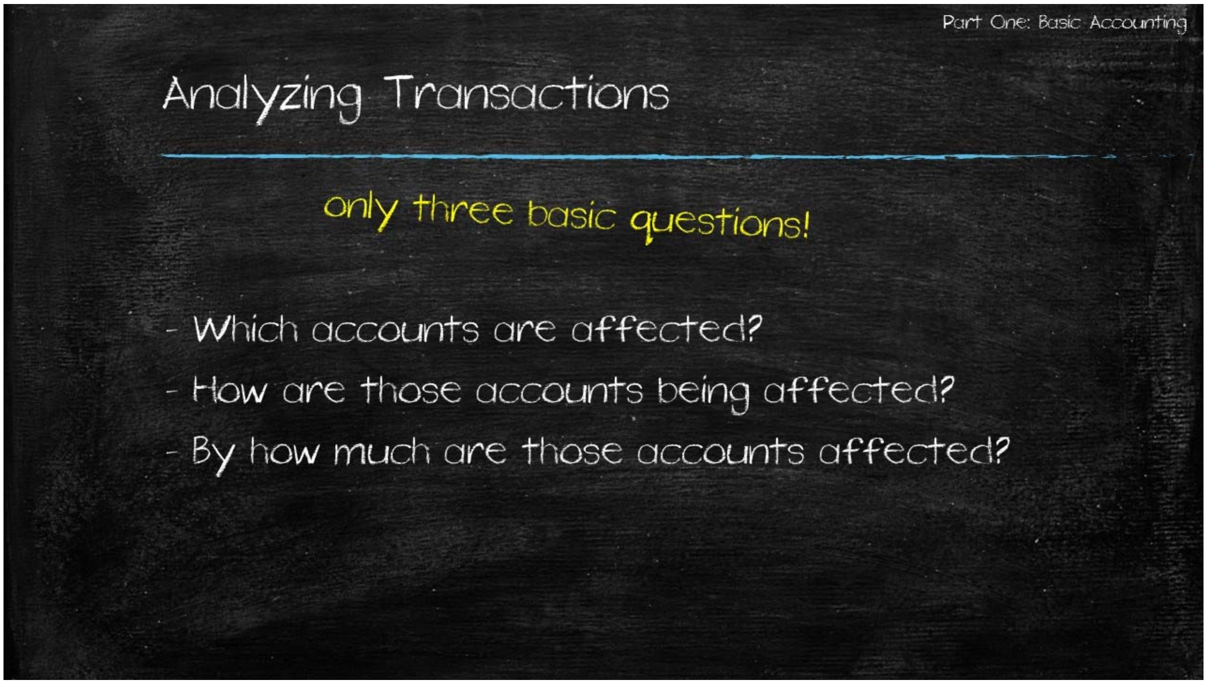


Which accounts are being affected?

- You should try to identify *change in equity* accounts first (if any) – is a revenue being recorded or an expense? Because if you know that, it can help you identify the other accounts affected. Remember, changes in equity *always* affect either an asset or a liability.
- You should be mindful of the *type* of account that's being affected. For example…
    - Cash > asset
    - Sales > revenue
    - Accounts payable > liability
- Be sure to identify all accounts being affected. Often, a transaction affects more than just two accounts.

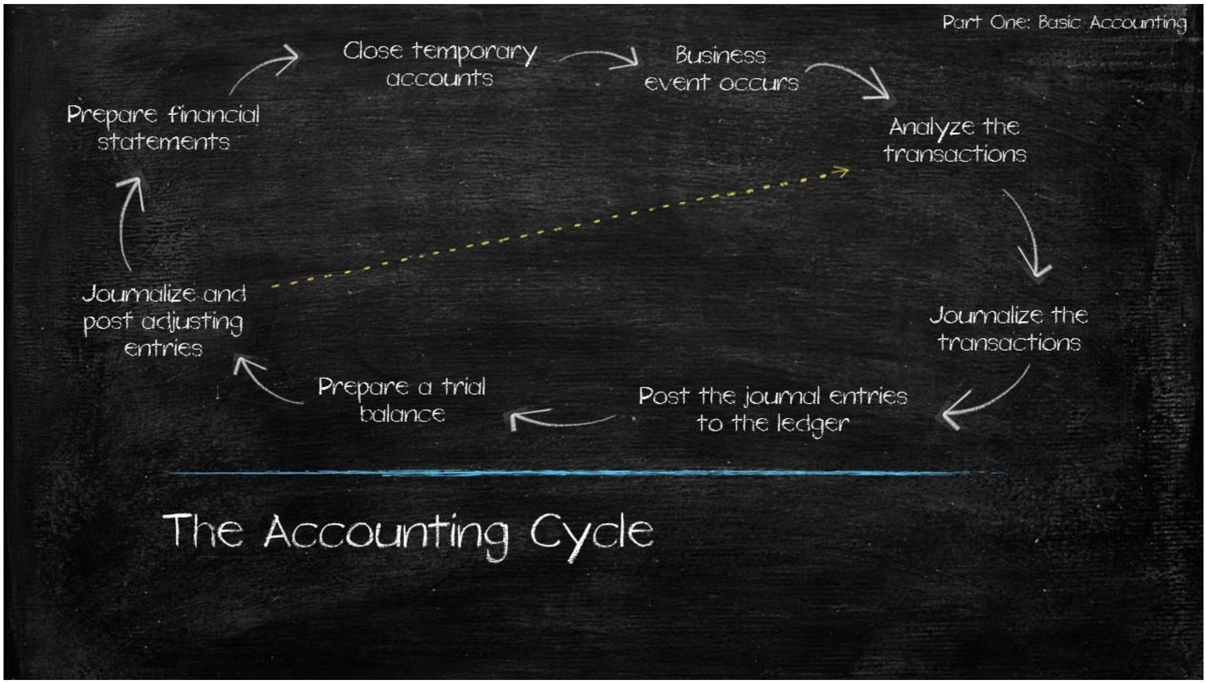
How are the accounts being affected?

- Is the account increasing or decreasing?
- Knowing the account type now will let you know whether it's being debited or credited. For example…
    - Accounts receivable (asset) is decreasing > it will be credited
    - Long-term debt (liability) is decreasing > it will be debited
    - Rent expense (expense) is increasing > it will be debited

By how much are the accounts being affected?

- Dollar amounts will be assigned to each account being affected.
- Remember that *all the debits must equal all the credits* in the transaction.

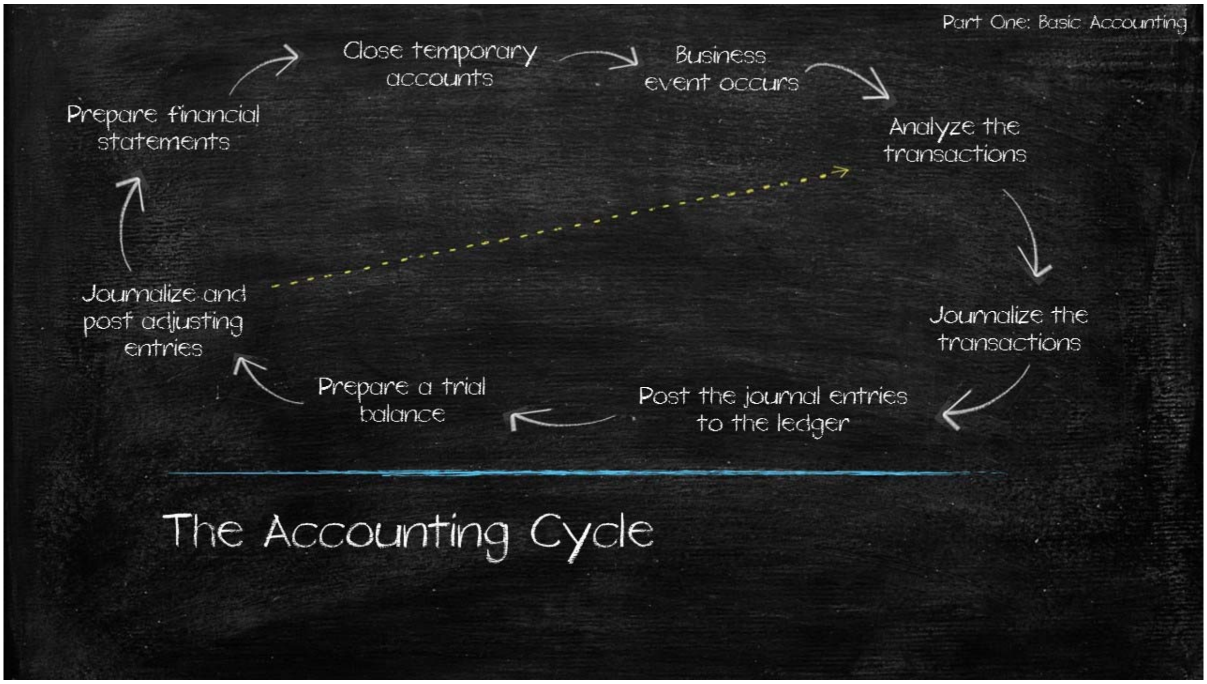
SEMINAR NOTES



The accounting cycle describes the on-going process of how business events are journalized as transactions, posted to the accounting records, and then reported in the financial statements.

- An event occurs
  - Is it a transaction or not?
  - Not all events are transactions and, therefore, do not get recorded.
- Analyze the transaction
  - Which accounts?
  - How are they affected?
  - By how much?
- Journalize the transaction
  - Journal is a chronological list of transactions.
  - Record the accounts and the debit and credit amounts.
  - The sum of all debits *must* equal the sum of all credits in a journal entry.
- Post the journal entries to the ledger
  - Ledger is the collection of accounts showing running balances.
  - The journal entries' debits and credits are recorded to the accounts they affect.
  - Computer software journalizes and posts all in one process.

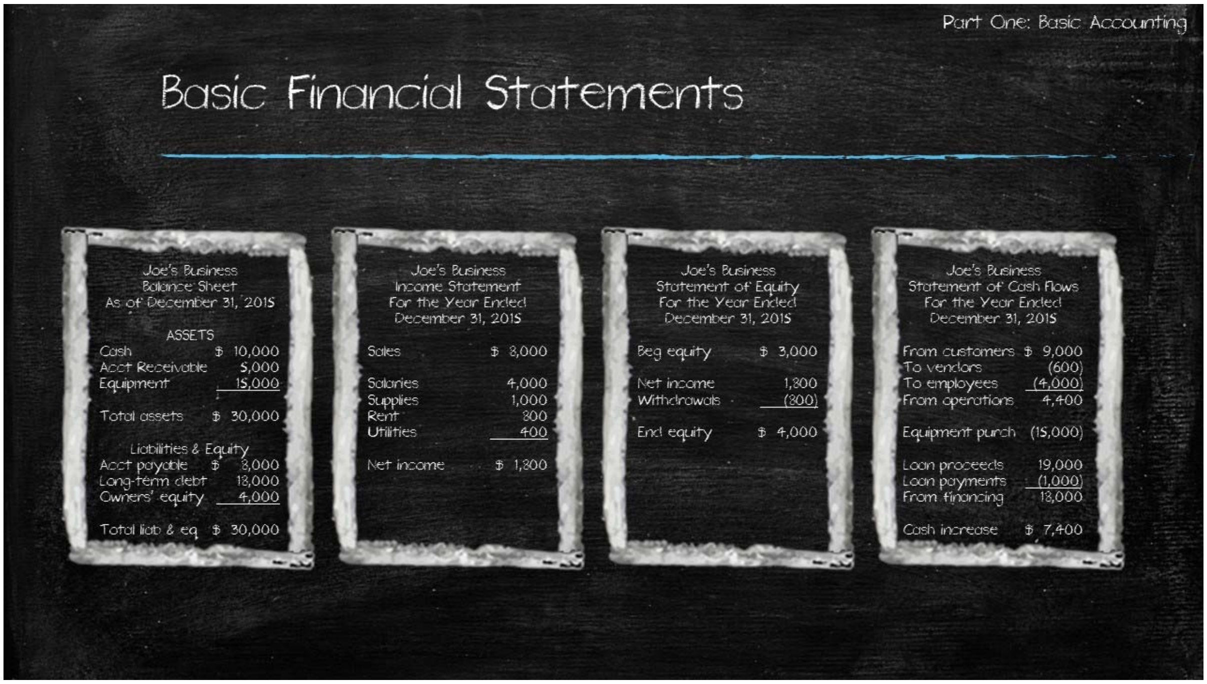
SEMINAR NOTES



- Prepare a trial balance
    - Using the ledger's account balances at any given point, a trial balance can be created.
    - Sum of all account balance debits *must* equal the sum of all account balance credits
- Journalize and post adjusting entries
    - Accrual basis accounting requires that end-of-period adjustments be made in order to properly recognize revenues earned, expenses incurred, and other events.
    - At this point, you have to analyze the transaction and go through the process until all adjusting journal entries are recorded.
- Prepare financial statements
    - Using the adjusted trial balance, create a balance sheet, income statement, statement of owners' equity, and statement of cash flows.
    - Reports the entity's financial position at a particular point in time and describes the entity's activities over a period of time.
- Close temporary accounts
    - Accounts that represent changes in equity are considered temporary accounts.
    - Their balances are zeroed out (closed) by adjusting equity.

Then, the cycle starts all over again.

SEMINAR NOTES



Balance Sheet

- A snapshot in time of the entity's financial position
- It reports the accounting equation – assets equal liabilities and owners' equity

Income Statement

- Shows the entity's revenues, expenses, and other revenue and expenses over a period of time

Statement of Owners' Equity

- Shows how the entity's equity has changed over a period of time

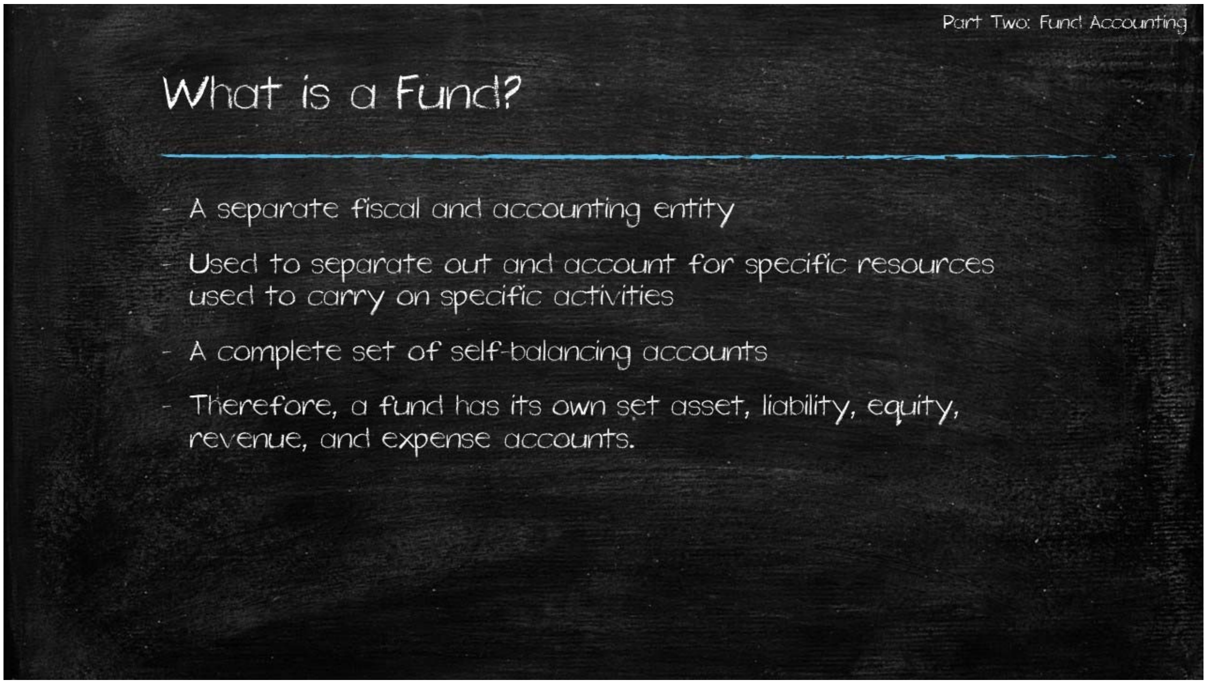
Statement of Cash Flows

- Show the inflows and outflows of cash over a period of time

SEMINAR NOTES

The second half of the seminar provides an introduction to fund accounting for state and local governments, as developed by the Government Accounting Standards Board (GASB), and defines common terminology.

SEMINAR NOTES

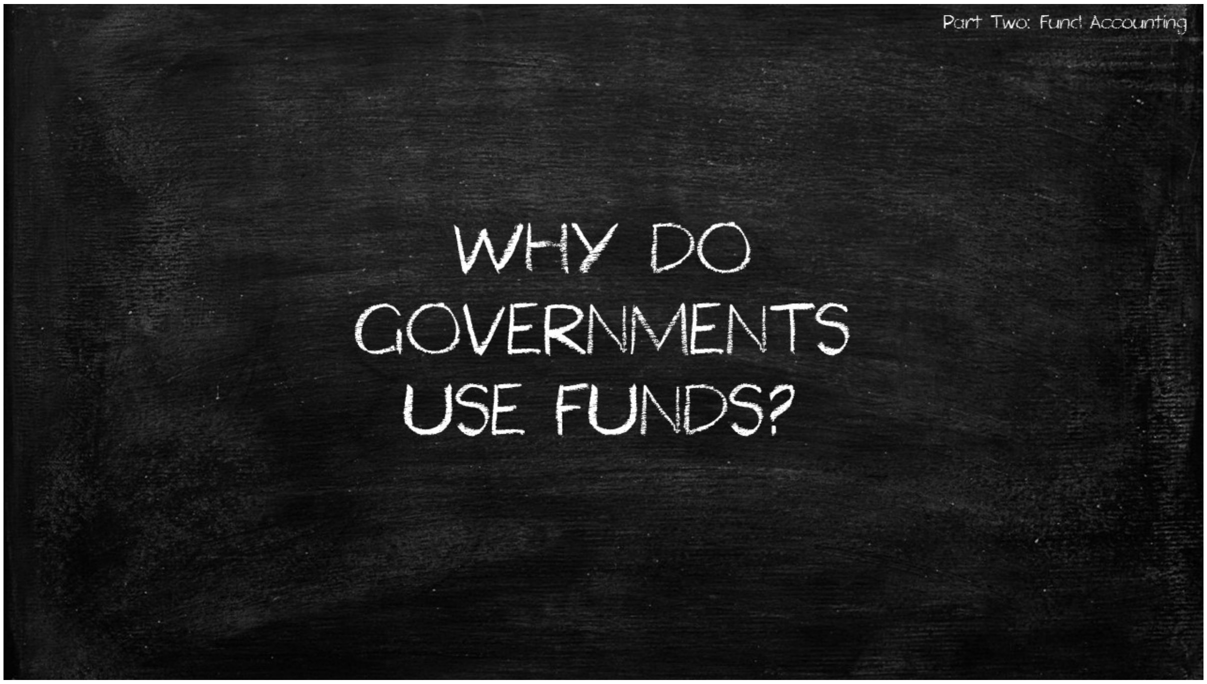


A fund is separate fiscal and accounting entity.

It is used to separate out and account for specific resources used to carry on specific activities by a government.

A fund is a *complete* set of self-balancing accounts. Therefore, a fund has its own set of asset, liability, equity, revenue, and expense accounts.

SEMINAR NOTES



Governments use funds because…

Their **operations are diverse** by nature. A government can collect taxes and provide basic municipal services like fire and police, but it can also have a sewer department or a water department or a school department.

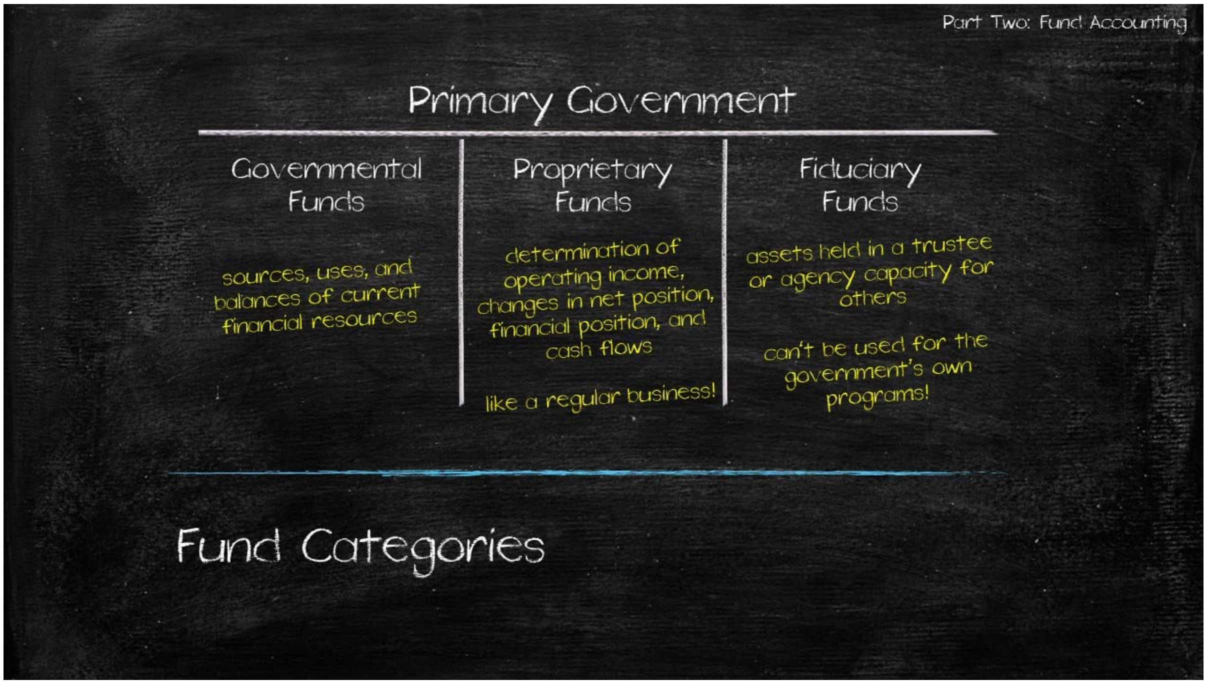
Often there are statutory or other **legal requirements** to account for resources using funds.

Certain governmental assets, liabilities, equity or other balances may be **designated for specified purposes**.

From an accounting and financial management viewpoint, a government is a combination of several distinctly different fiscal and accounting entities.

All funds must function independently.

SEMINAR NOTES



Governmental Funds

- Focus on the sources, uses, and balances of *current* financial resources.
- Keep track of expendable assets, deferred outflows of resources, current liabilities, and deferred inflows of resources.
- Use current financial resources measurement focus and modified accrual basis of accounting.
- Reported in a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance.

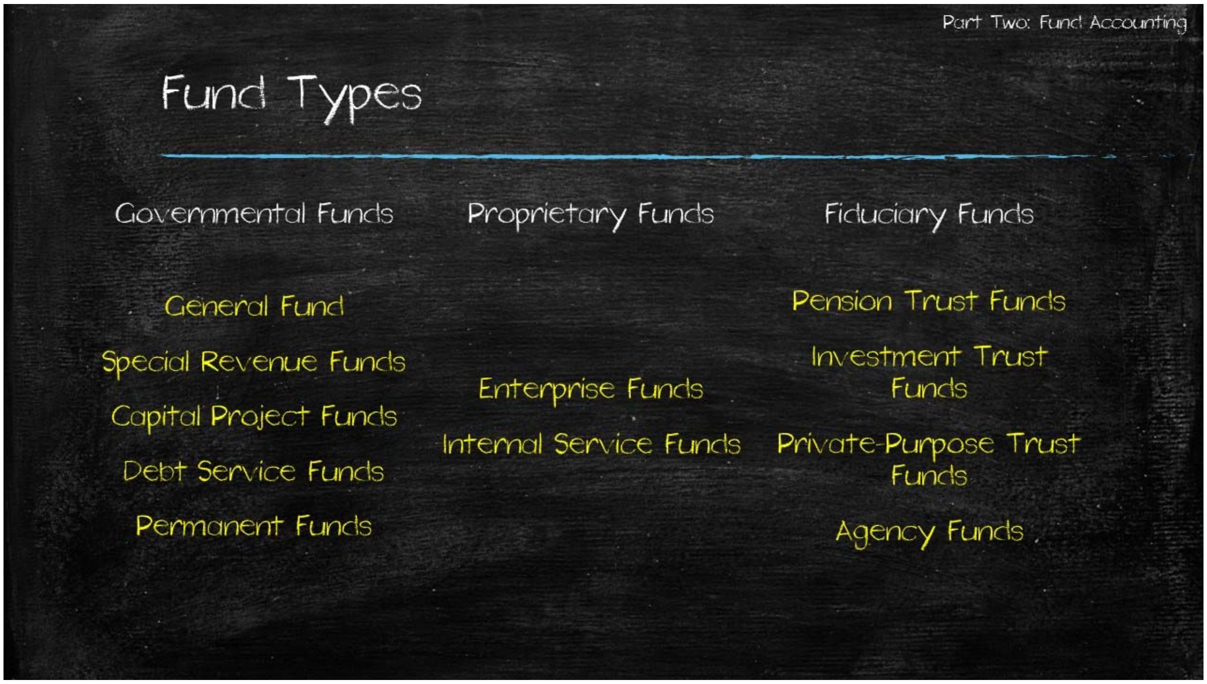
Proprietary Funds

- Focus on the determination of net income, changes in net position, financial position, and cash flows (essentially, just like a business).
- Use the economic resources measurement focus and accrual basis of accounting.
- Reported in a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Fiduciary Funds

- Focus on net position and changes in net position of assets held in a trustee or agency capacity for others.
- They are **other people's assets** that are being administered and/or managed by the government. They are **not the government's assets**.
- Use the economic resources measurement focus and accrual basis of accounting.
- Reported in a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

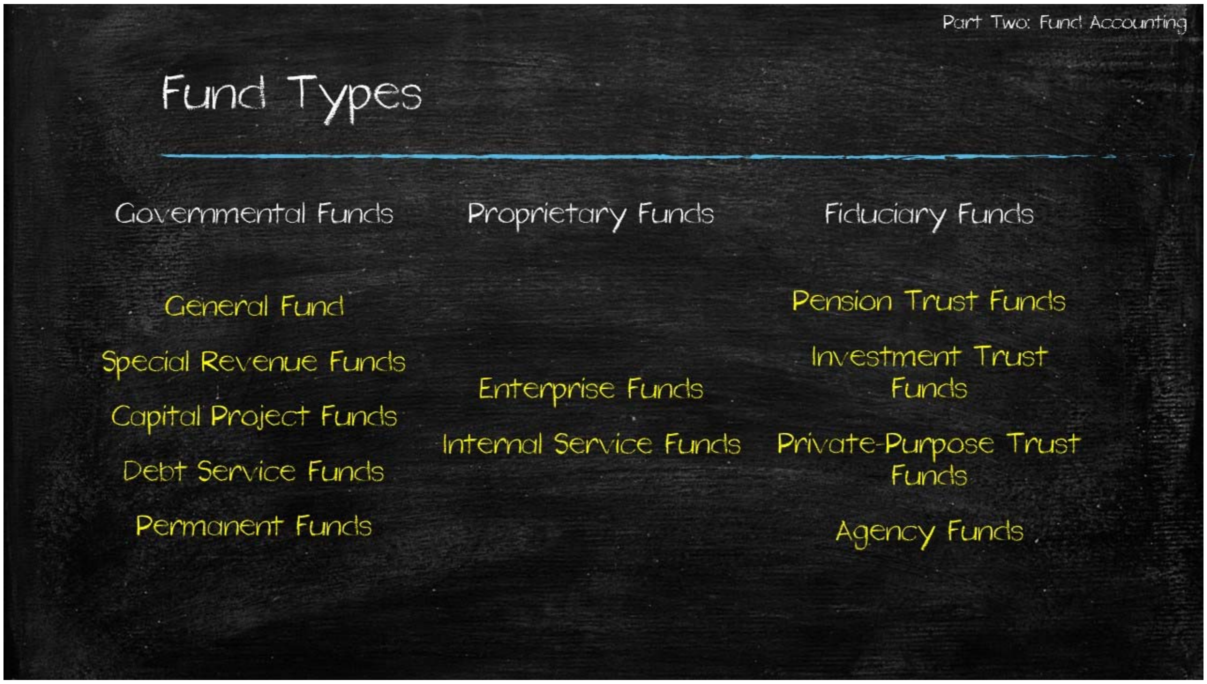
SEMINAR NOTES



Governmental Funds

- General Fund
  - The default fund for governmental funds.
  - Used to account for and report all financial resources not accounted for in other funds.
- Special Revenue Funds
  - Account for *proceeds of specific revenue sources* that are restricted or committed for specified purposes (other than debt service or capital projects).
  - The specific revenue source is the *foundation* of the fund.
  - Proceeds may be received in another fund and subsequently transferred in to the fund, but the *revenue* should be recognized in the special revenue fund, not the fund initially receiving the funds.
- Capital Projects Funds
  - Account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
  - Only used for governmental capital outlays – not proprietary or fiduciary fund capital outlays.
  - If a capital outlays are financed from general obligation bond proceeds, then they should be accounted for using a capital projects fund.
- Debt Service Funds
  - Account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
  - If funds are being accumulated to retire debt in future years, they should be accounted for in this fund type.

SEMINAR NOTES



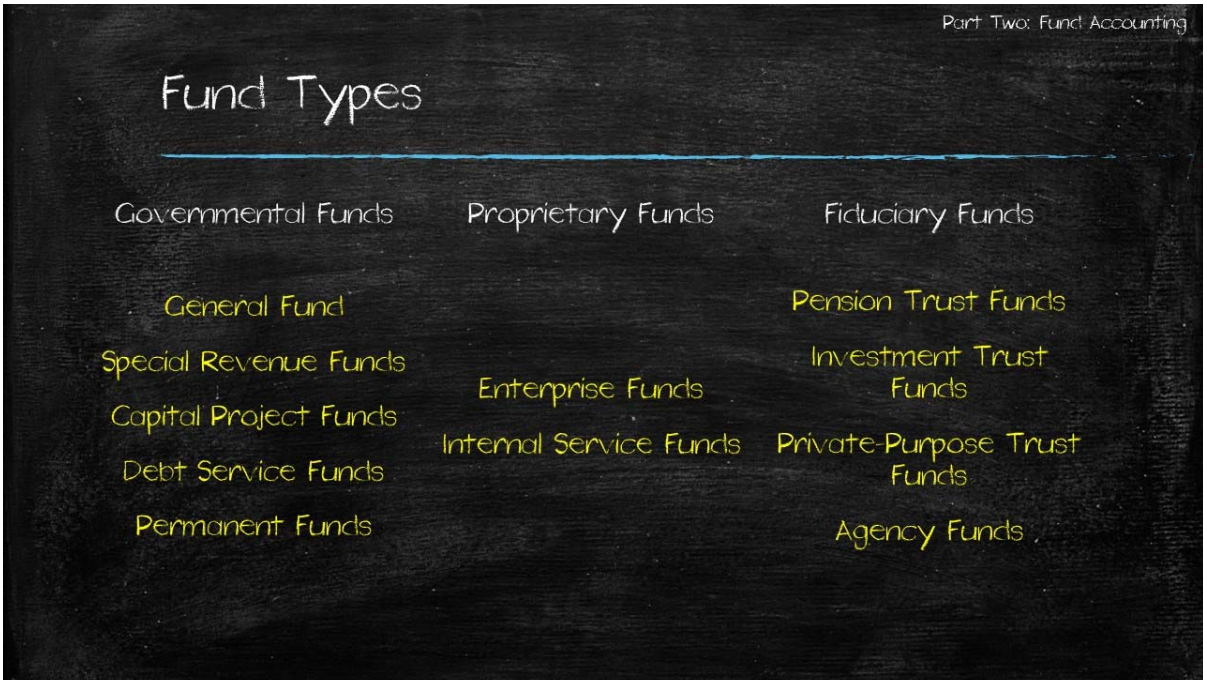
Governmental Funds (Continued)

- Permanent Funds
  - Account for financial resources that are restricted to the extent that only earnings, and not principal, may be used for government programs.
  - This differs from fiduciary funds in that the principal is an asset of the government and the earnings can be used for government programs.

Proprietary Funds

- Enterprise Funds
  - Account for any activity for which a fee is charged to *external* users for goods and services.
  - *Required* to be used if any of the following criteria is met in the context of the activity's *principal revenue sources*:
    - The activity is financed with debt that is secured *solely* by a pledge of the net revenues from fees and charges of the activity.
    - Laws or regulations require that the activity's costs of providing the goods and services be recovered with fees and charges, rather than with taxes or similar revenues.
    - The pricing policies of the activity establish fees and charges designed to recover its costs.

SEMINAR NOTES



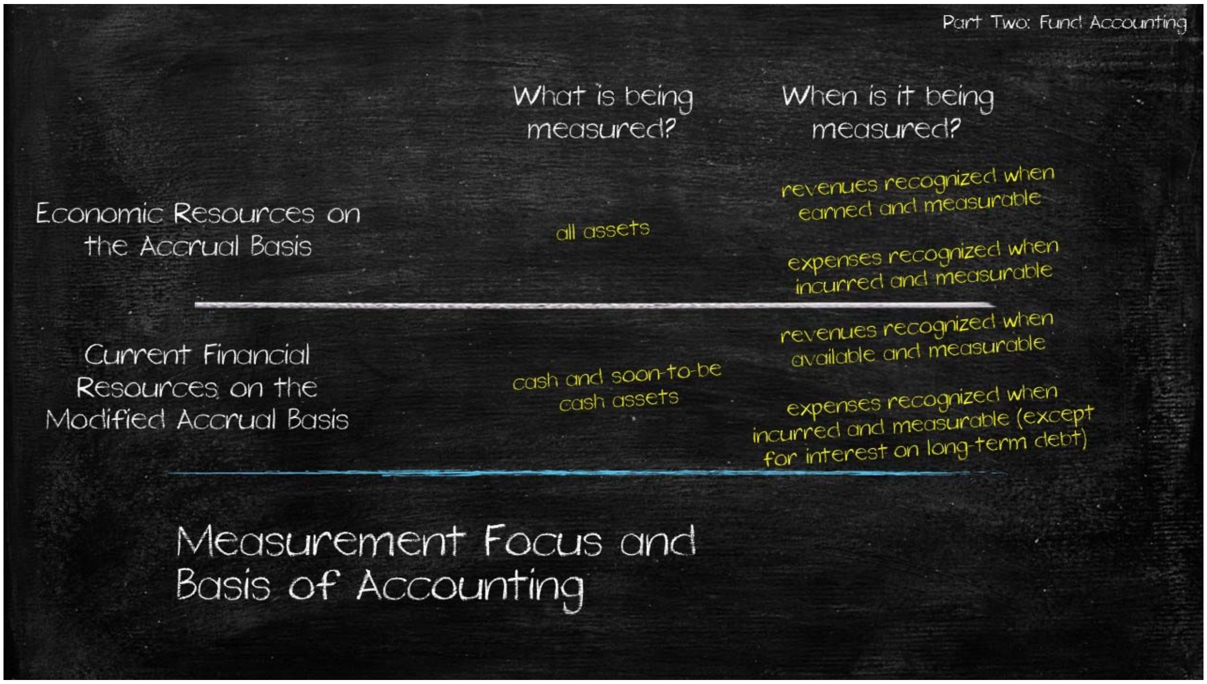
Proprietary Funds (Continued)

- Internal Service Funds
  - Account for any activity for which goods and services are provided to *internal* users on a cost-reimbursement basis.
  - Should only be used if the primary government is the *predominant* consumer of the goods and services – otherwise, an enterprise fund should be used.

Fiduciary Funds

- Pension (and other employee benefit) Trust Funds
  - Account for resources held in trust for members and beneficiaries of defined benefit plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.
- Investment Trust Funds
  - Account for the external portion of investment pools reported by the sponsoring government.
- Private-Purpose Trust Funds
  - Account for any other trust arrangement where the principal and income benefit individuals, private organizations, or other governments.
- Agency Funds
  - Account for resources held in a purely custodial capacity for others.
  - Assets will only equal liabilities – no equity balance.

SEMINAR NOTES



Economic Resources Measurement Focus

- Measures *all* assets available to the entity, not just cash or soon-to-be cash assets.

Current Financial Resources Measurement Focus

- Measures only those assets that are cash and/or those assets that expected to be converted to cash within the accounting period, or shortly thereafter (usually within 60 days).

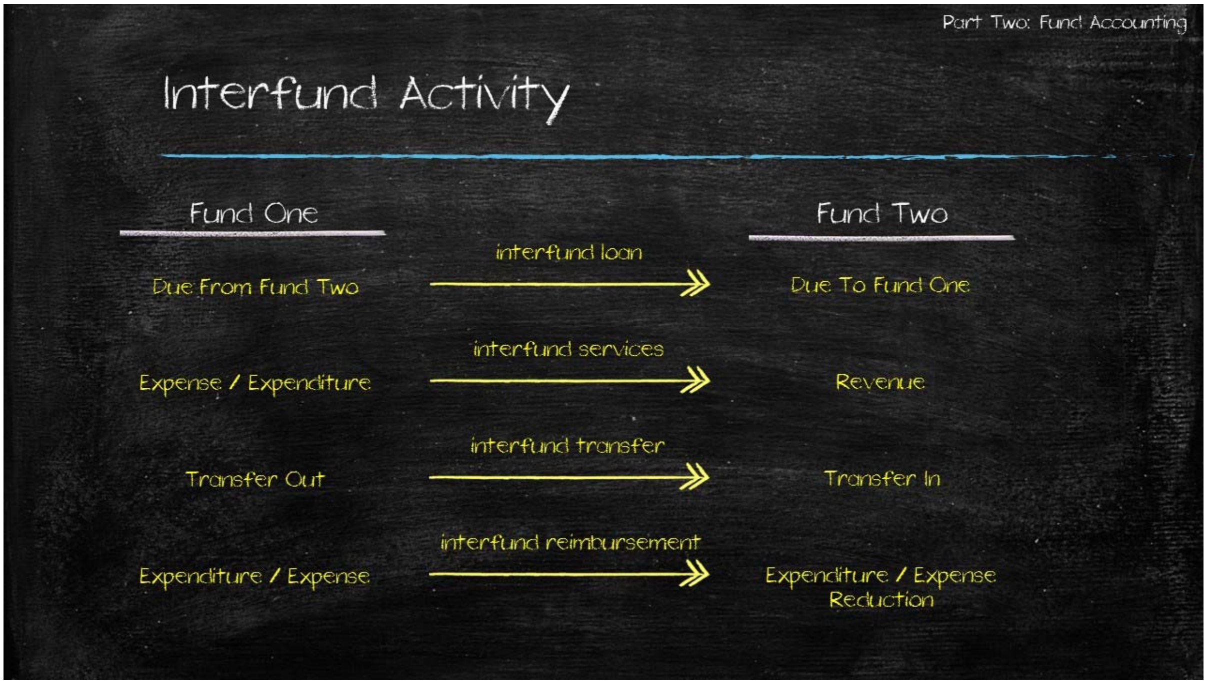
Accrual Basis of Accounting (sometimes referred to as full-accrual basis)

- Revenues should be recognized when earned and measurable.
- Expenses should be recognized when incurred and measurable.

Modified Accrual Basis of Accounting

- Revenues should be recognized when *available* and measurable.
- Expenses should be recognized when incurred and measurable except for unmatured interest on general long-term liabilities.
- *Available* means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.
- General long-term liabilities are only recognized *when due*.
- Compensated absences, expenditures for claims and judgments, special termination benefits, and landfill closure and post-closure costs should be recognized when *normally expected to be liquidated with expendable available financial resources.*

SEMINAR NOTES



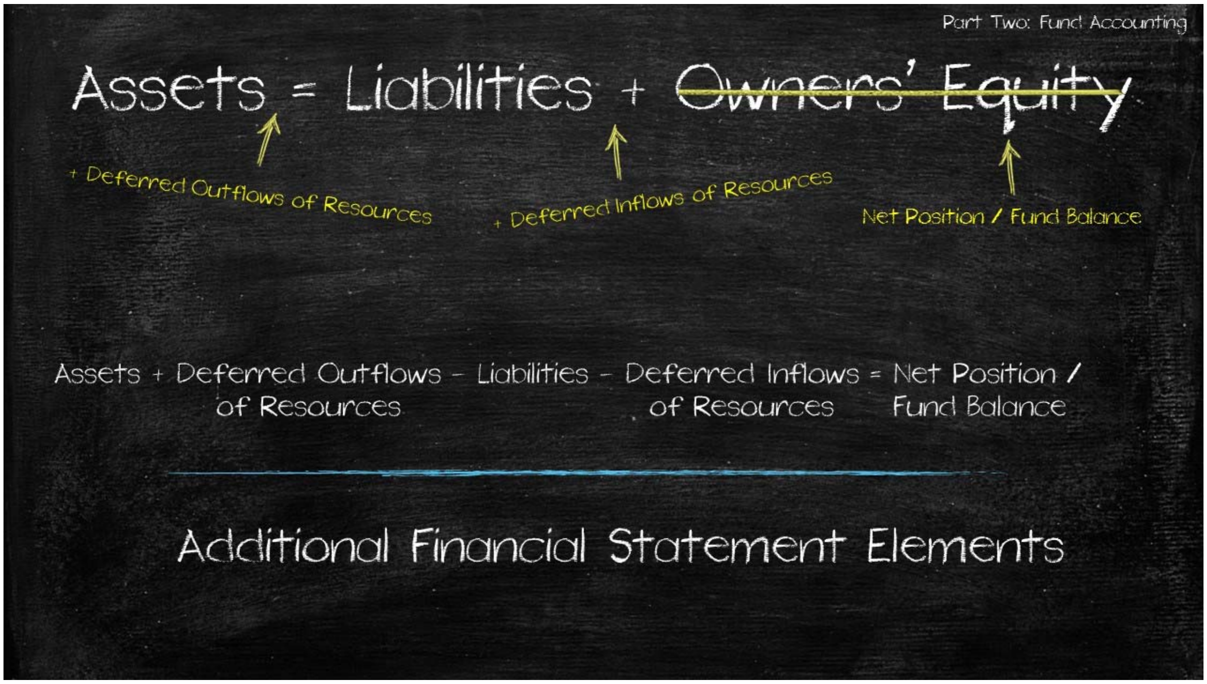
Reciprocal Interfund Activity

- Interfund loans
  - Creates a "Due To" liability account in one fund and a "Due From" asset in another fund.
  - *Not* considered "Other financing sources and uses."
- Interfund services provided and used
  - Creates a revenue in one fund and an expense in another fund.

Non-reciprocal Interfund Activity

- Interfund transfers
  - Flow of assets without the requirement for repayments. Creates a "Transfer In" in one fund and a "Transfer Out" in another.
  - Considered "Other financing sources and uses."
- Interfund reimbursements
  - Repayments from one fund for expenditures or expenses that another fund initially paid for.
  - Usually occurs as a correction to an accounting error. The original paying fund had recorded the outflow as an expenditure. The responsible fund will now record the expenditures and the original fund will record the reimbursement as a reduction to the expenditure line item.
  - Not displayed in the financial statements.

SEMINAR NOTES



Deferred Outflow of Resources

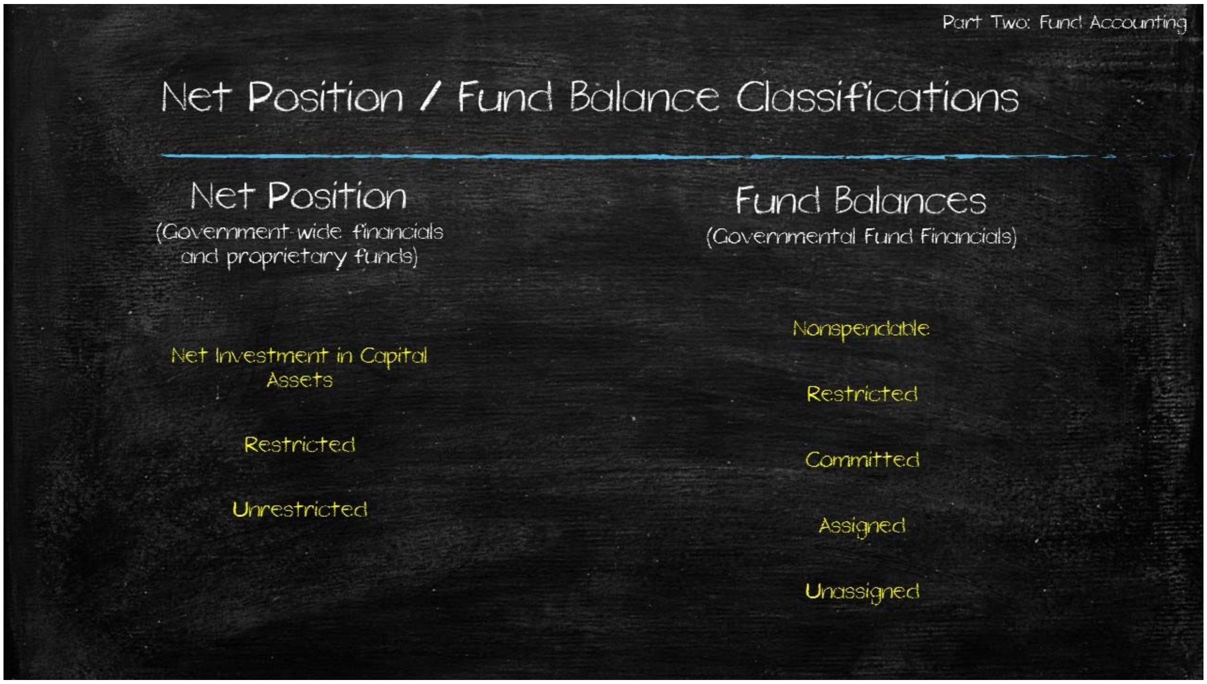
- *Not* assets or expenses/expenditures
- Outflows of resources that have already occurred in the current period, but are related to future periods *and* are not assets (resources that the government presently controls that can be used to provide services)
- Deferred recognition of the outflow as an expenses/expenditures

Deferred Inflow of Resources

- *Not* liabilities or revenue
- Inflows of resources that have already occurred in the current period, but are related to future periods *and* are not liabilities (requirements to give up resources that a government generally cannot avoid)
- Deferred recognition of the inflows as a revenue

These additional elements provide users with information to assess whether the government is achieving *interperiod* equity – That is, is the government raising sufficient resources to cover that year's costs, or is not doing so and must, therefore, consume surplus resources or push costs off to future years?

SEMINAR NOTES



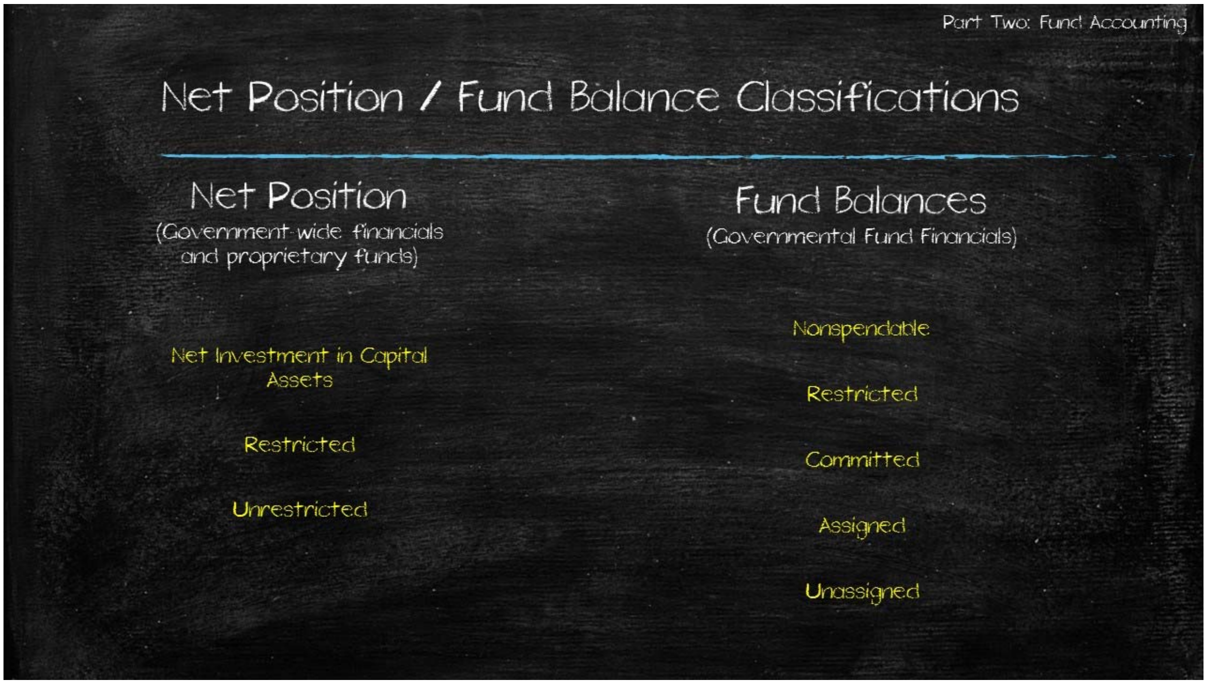
Classify net position for **government-wide financials** and **proprietary funds** as:

- Net investment in capital assets
  - All capital assets, net of depreciation, reduced by outstanding liabilities that are attributable to acquisition, construction, or improvement of those assets.
  - Includes deferred inflows or outflows of resources that are also related to acquisition, construction, or improvement of capital assets.

- Restricted
  - Net position that has *externally* imposed constraints on their use.
  - Constraints are imposed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or *enabling legislation.*
  - Enabling legislation is anything that authorizes the government to assess, levy, charge, or otherwise mandate payment of resources from external resource providers (like taxpayers) *and* includes a *legally enforceable* requirement that those resources be used only for specific purposes stipulated in the legislation.
  - Legal enforceability means that the government can be compelled by an external part (such as citizens, public interest groups, the judiciary, etc.) to use resources for the specified purpose.

- Unrestricted
  - Net position that is not *net investment in capital assets* or *restricted.*

SEMINAR NOTES



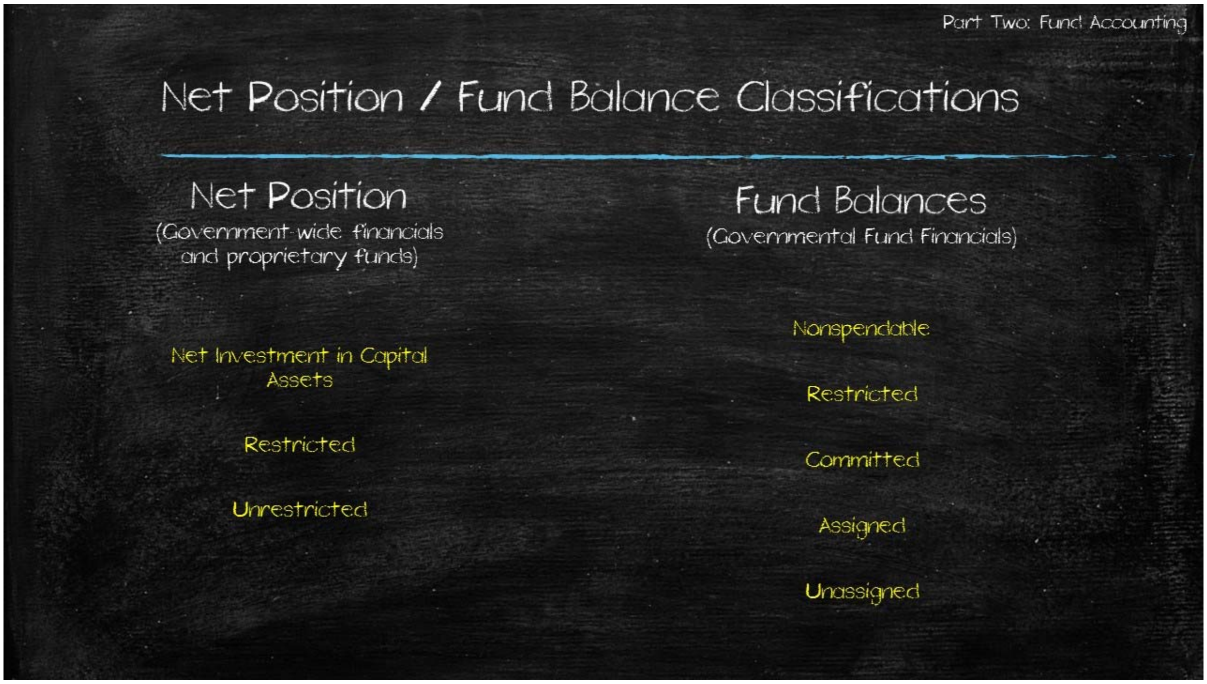
Classify fund balances of **governmental funds** as:

- Nonspendable
  - Portion of fund balance that is either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
  - Examples: Inventories and prepaid amounts are not in spendable form. The principal of a permanent fund is legally required to be maintained intact.

- Restricted
  - Portion of fund balance that has *externally* imposed constraints on their use (the same definition as restricted net position).

- Committed
  - Portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
  - Can only be un-committed by the government's highest level of decision-making authority through the same type of action that was employed to commit the funds.
  - Compliance is not considered *legally enforceable* (as defined for restricted net position and fund balances).

SEMINAR NOTES

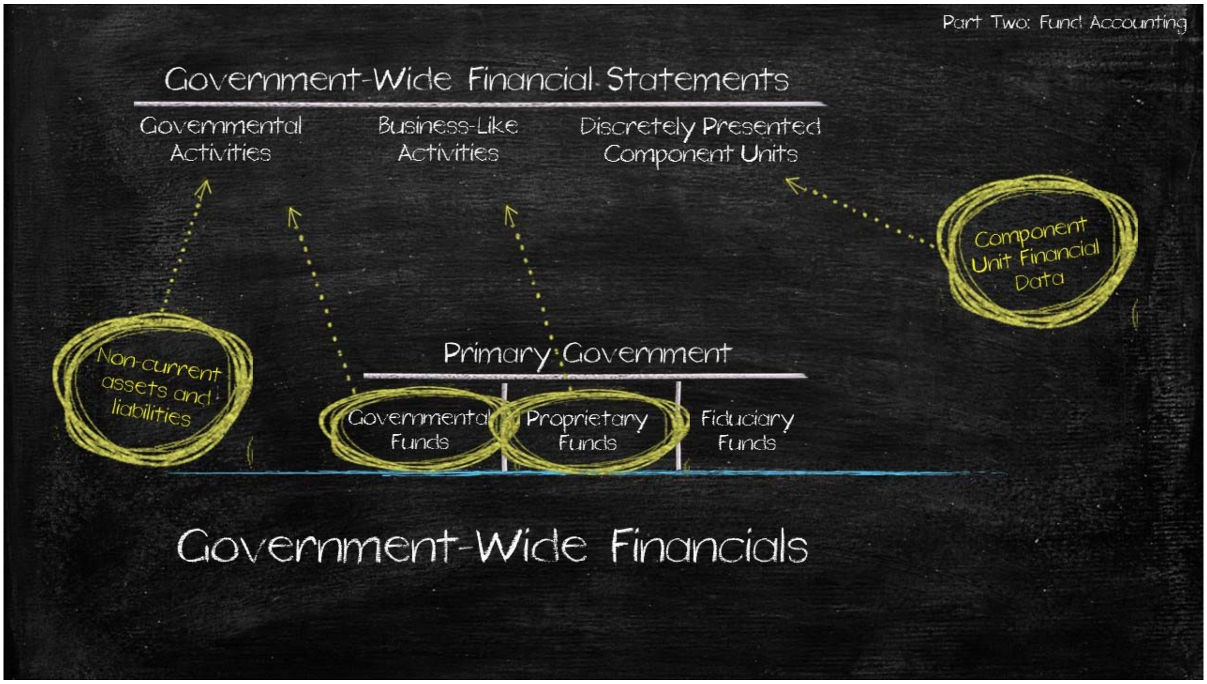


Classify fund balances of **governmental funds** as: (Continued)

- Assigned
  - Portion of fund balance that is constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed.
  - Intent is expressed by (a) the governing body itself or (b) a body (e.g., budget committee) or official to which the governing body has delegated authority to assign amounts.

- Unassigned
  - Residual classification of fund balance for the General Fund.
  - General Fund should be the *only* fund that reports a positive unassigned fund balance (all other types of governmental funds with positive fund balances after all other higher classifications are used will be classified as assigned).
  - If governmental funds other than the General Fund have negative fund balances, they will be classified as unassigned.

SEMINAR NOTES



Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

They consist of three parts:

- Governmental Activities
- Business-like Activities
- Discretely Presented Component Units

Governmental Activities are composed of the governmental funds plus any non-current assets and liabilities that are excluded from the governmental fund financial statements.

Business-like Activities are composed of the proprietary funds.

Discretely presented component units are separated from the primary government so that the users understand that they are separate entities.

Note that the government-wide financial statements exclude the fiduciary funds.