

# **Governmental Accounting & the City of Ione**

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# Accounting Needs for Private Sector vs. Government

## Private Sector

- Budget is sometimes used as a planning and tracking tool.
- Few revenues that are restricted to particular purposes.

## Government

- Budget is almost always used as the legal authority to spend.
- Many governments have restricted revenues.

# Accounting Needs for Private Sector vs. Government

## Private Sector

- Profit motive.
- Financial statements generally used by owners/potential owners and creditors.

## Government

- Break-even objective.
- Financial statements generally used by the citizens, news media, creditors (including bond-holders), grantors, oversight agencies.

# Accounting Needs for Private Sector vs. Government

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## Private Sector

- Equity of the owners is an important concept.

## Government

- Availability of resources is more important.



# Bases of Accounting

- Cash
  - Generally recognizes only cash received and cash disbursed.
- Modified Accrual
  - In addition to the cash basis, also generally recognizes transactions related to the current period but where cash will be received or paid in the *near future*. Receivables are generally recognized only if received 60 days or less after year-end.
- Full Accrual
  - Attempts to recognize all transactions related to the current period, regardless of when the cash will eventually be received or paid.

# Accounting Treatment under Various Bases of Accounting

Transaction	Cash Basis	Modified Accrual	Full Accrual
Pay an invoice for current service	Recognize at time of payment	Recognize when service performed	Recognize when service performed
Buy equipment	Recognize full cost at time of <u>payment</u>	Recognize full costs when ownership transfers	Recognize cost over the life of the equipment

# Accounting Treatment under Various Bases of Accounting

Transaction	Cash Basis	Modified Accrual	Full Accrual
Property tax revenue	Recognize only when cash received	Recognize when levied, if received within a certain time period	Recognize when levied, regardless of when received

# Differences in GAAP

## Private Sector

- Full accrual only
- Standards adopted by Financial Accounting Standards Board (FASB).

## Government

- Full accrual and modified accrual.
- Standards adopted by Governmental Accounting Standards Board (GASB).



# Fund Accounting

- Each fund is basically a separate set of books.
- Generally implemented to demonstrate compliance with legal or contractual requirements.
- Basis of accounting used depends on the type of fund.
- Industry standard requires that negative cash be eliminated with interfund loans.
- Cash from all funds is typically pooled into a small number of actual bank and investment accounts.

# City of Ione's Funds

## Modified Accrual

- General Fund
- Gas Tax Fund
- Public Safety
- Low Income Housing
- Measure M
- All Others

## Full Accrual

- Sewer Operating
- Sewer Capital
- Sewer Tertiary

# Key Distinctions

## Modified Accrual

- Earned revenue not recognized unless received within 60 days after year end.
- Reports acquisition of significant assets as expenditure when asset is purchased.
- Principal payments on long-term debt reported as expenditure; no liability generally recorded.
- Ending overall balance reported as **fund balance**.

## Full Accrual

- Revenue recognized in the period earned, regardless of when received.
- Acquisition of significant assets reported as depreciation expense spread out over asset life.
- Long-term debt recorded as a liability in the amount outstanding; payments reduce debt and are not expenses.
- Ending overall balance reported as **net position**.

# Cash Balance vs. Fund Balance

Actual Bank Balance  
+ Deposits in Transit  
- Outstanding Checks

**Cash Balance**



Cash Balance

+ Receivables owed to the City  
that will be received within  
approx. 60 days

+ Other current\* assets

- Current\* liabilities

**Fund Balance**

\*The word “current” is used for simplicity. There are circumstances in which noncurrent assets and liabilities would be included in this definition.



# Balance Sheet vs. Income Statement

## Balance Sheet

- Oriented toward the present and future (what do I have now).
- Transactions “stick around” until they are reversed.
- Account Examples: Cash, Receivables, Payables.

## Income Statement

- Oriented toward the past (what happened last year).
- Automatically rolls into fund balance at year-end.
- Account Examples: Property Tax Revenue, Payroll Expense

# Governmental Financial Statements

## Government-wide

- Statement of Net Assets (Balance Sheet)
- Statement of Activities (Income Statement)

## Fund

- Balance Sheet
- Statement of Revenues, Expenses, and Changes in Fund Balances/Net Assets (Income Statement)