

## **FUND FINANCIAL STATEMENTS**

### **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

Governmental funds, with their traditional measurement focus on current financial resources and their use of the modified accrual basis of accounting, continue to have an important role to play in ensuring and demonstrating fiscal (and sometimes legal) accountability. One interesting change is that under GASB Statement No. 34, a budgetary operating statement for governmental funds will not be required to be presented as a basic financial statement. Instead, the budgetary comparison statement will be presented as “Required Supplementary Information.”

Fund financial statements are the most familiar part of the financial reporting “house.” Yet, even this part has undergone some remodeling. A new fund type has been added – Permanent Funds, and a wall has been moved – the budgetary comparison statement. Conspicuously absent from the fund financial statements are the General Capital Assets and General Long-term Debt Account Group columns, whose information will only appear in the government-wide financial statements, from now on.

#### **STATEMENTS REQUIRED**

The required fund financial statements remain similar between the old and the new reporting models.

For Governmental Funds, the required financial statements are:

The Governmental Fund Balance Sheet; and,  
The Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

#### **MAJOR FUND REPORTING**

While the basic fund financial statements remain relatively unchanged, there has been a significant shift from reporting combined financial information in separate columns by fund type, to reporting individual “major” funds in separate columns. The traditional combined financial statements presented aggregated information by fund type. Under the new reporting model, fund-based financial reporting will focus on “major individual funds” rather than on fund types. By definition, the General Fund will always be considered to be a “major fund.” Other major governmental funds will be those that meet the following criteria:

An individual fund that reports at least 10 percent of any of the following:

- a. total governmental fund assets, or
  - b. total governmental fund liabilities, or
  - c. total governmental fund revenues, or
- total governmental fund expenditures, and

at least 5 percent of any of the following:

- a. total assets for governmental and enterprise funds, or
  - b. total liabilities for governmental and enterprise funds, or
- total revenues for governmental and enterprise funds, or  
total expenditures/expenses for governmental and enterprise funds,

Both the 10 percent and 5 percent thresholds must be exceeded by the SAME preceding element in order to be a major fund.

Nonmajor funds may be reported singly, or combined into a “nonmajor governmental funds” column, and a “nonmajor proprietary funds” column. If an entity has only a few governmental funds, each fund may be presented in its own column.

## GOVERNMENTAL FUNDS BALANCE SHEET

Governmental funds will continue to report a traditional balance sheet (assets = liabilities plus fund equity) as their basic statement of position. Assets and liabilities will be presented in the order of liquidity, or nearness to cash. For example, accounts receivable are more likely to be converted to cash sooner than property, plant and equipment, and accounts payable are more likely to be paid with cash before the non-current portion of a long-term debt issue. Some of the key features of the remodeled governmental balance sheet are as follows:

Information will now be reported; by major individual fund rather than by fund type, and the presentation of a total column is now mandatory.

Governmental funds will continue to exclude capital assets and most long-term liabilities.

The difference between assets and liabilities will continue to be reported as “fund balance,” which in turn is divided between nonspendable, restricted, committed, assigned and unassigned fund balance.

A reconciliation to explain the difference between the numbers reported on the governmental fund balance sheet and the numbers reported for “governmental activities” in the government-wide statement of net position must be presented in an accompanying schedule immediately following the balance sheet. Most of the differences result from differences in measurement focus and basis of accounting between the governmental fund financial statements and the government-wide financial statements. Another cause of difference is the fact that the residual balances of internal service funds normally are reported as part of governmental activities in the government-wide financial statements, even though internal service funds themselves are accounted for as proprietary funds rather than governmental funds.

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Governmental funds will continue to report a statement of revenues, expenditures and changes in fund balances. This statement will be presented at the same level of detail currently found in Exhibit III (revenues reported by major source, and expenditures reported by sub-function/department). Some of the key features of this revised statement are as follows:

The basic format used must be “revenues minus expenditures, plus or minus other financing sources and uses, plus beginning fund balance equals ending fund balance.” This is the format that has typically been used in South Dakota for many years.

Again, information is reported by individual major fund rather than by fund type. The reporting of a total column is mandatory.

Distinguishing between operating and residual equity transfers is no longer required; instead, both will be treated simply as “transfers” and reported as other financing sources and uses, as appropriate.

“Special items” (transactions that are under management’s control, but that are either unusual in nature, OR infrequent in occurrence – but not both) are reported as a separate line item following other financing sources and uses. Similar treatment is afforded “extraordinary items” (transactions that are not under management’s control, and that are both unusual in nature, and infrequent in occurrence). A separate

line item would follow any "special items."

A reconciliation to explain the difference between the numbers reported on the governmental fund statement of revenues, expenditures and changes in fund balance and the numbers reported for "governmental activities" in the government-wide statement of activities must be presented in an accompanying schedule immediately following the statement.

## DEBT PROCEEDS

Underwriter fees are frequently withheld from the amount of debt issue proceeds transmitted to the issuer. Under current GAAP, many governments simply report the net proceeds (cash received) as an "Other Financing Source" (usually in a capital projects fund). Under GASB Statement 34, an "Other Financing Source" equal to the face amount of the debt will be reported in the governmental fund receiving the debt proceeds (usually a capital projects fund) in a caption such as "Bonds issued", or "Long-term notes issued." Any issuance costs paid out of debt proceeds, such as underwriter fees, should be reported as expenditures.

For example, assume a government issued \$5 million in General Obligation Building bonds, at a stated interest rate of 3%, dated September 1, 200X and maturing twenty-five years after that date. Assume bond counsel and underwriter fees are \$150,000, and the bonds were actually sold on November 1, 200X at 95. In General Journal format, the following entries would be made:

CAPITAL PROJECT FUND: dr. cr.

Cash	4,625,000	
Expenditures – Debt Issuance Costs	150,000	
OFU – Discount on Bonds	250,000	
OFS – Bonds Issued		5,000,000
Due to Debt Service Fund		25,000

DEBT SERVICE FUND:

Due from Capital Projects Fund	25,000	
Accrued Interest Payable–Bonds		25,000

GENERAL LONG-TERM LIABILITIES-SELF BALANCING ACCOUNTS:

Amount to be provided for payment of Bonds	5,000,000	
Bonds Payable		5,000,000

To record sale of G.O. Building Bonds at 95  
plus interest accrued to date of sale.

## DEBT REFUNDINGS

Under GASB Statement No. 34, all refundings that result in the defeasance or redemption of debt should be reported in the same way. Amounts of the new debt issued and placed into escrow, or used to retire debt should be reported as other financing sources or uses, as applicable.

## SALES OF CAPITAL ASSETS

The receipt of proceeds from the sale of capital assets (General Capital Assets) should be reported as an "Other Financing Source – Proceeds from Sale of Assets." The sale of a capital asset may be a "special item" if it meets those conditions.

Sales of capital assets accounted for in an enterprise fund will usually generate either a gain or a loss on the sale that will be reported on the operating statement of the enterprise fund. If, in compliance with SDCL 6-13-8, the governing board chooses to credit the proceeds from the sale of property recorded in an enterprise fund to the General Fund, the gain or loss from the sale of the property should be recognized in the enterprise fund that owned the property, and a transfer made to the General Fund for the amount of the proceeds from the sale.

#### CONCLUSION – GOVERNMENTAL FUNDS

GASB Statement No. 34 essentially retains the traditional accounting and financial reporting for governmental funds. The governmental fund financial statements are likely to be the most familiar piece of the new financial reporting model. However, some important changes have occurred, including the introduction of major fund reporting, the introduction of a new fund type (i.e., permanent funds) and the elimination of the requirement to include budgetary comparisons as part of the basic financial statements. In addition, GASB has clarified gaap related to the proper treatment of current debt refundings, the receipt of debt proceeds, and the receipt of proceeds from the sale of capital assets.