

RECONCILING FROM FUND STATEMENTS TO ENTITY WIDE FINANCIAL STATEMENTS

CONVERTING FROM MODIFIED ACCRUAL BASIS TO ACCRUAL BASIS -

The accounting records for governmental funds are generally established by fund and are maintained on a day-to-day basis using the modified accrual basis of accounting. Adjustments are necessary to convert governmental fund financial statement totals prepared using the modified accrual basis of accounting to the government-wide financial statement amounts which, must be presented on the accrual basis of accounting.

PREPARATION AND PLACEMENT OF RECONCILIATION

To convert the fund financial statements from the modified accrual basis of accounting to the accrual basis of accounting a reconciliation must be prepared and presented with the basic financial statements.

The reconciliation explains adjustments made to total fund balance on the governmental funds balance sheet to arrive at total net position on the government-wide statement of net position. The reconciliation also explains adjustments made to the net change in fund balances on the statement of revenues, expenditures, and changes in fund balances of the governmental funds to arrive at the change in net position on the government-wide statement of activities.

The reconciliation shall be included with the basic financial statements in an accompanying schedule. The schedule should be considered a continuation of the fund financial statement; therefore, the schedule should be on the page immediately following the statement it supports. Presenting the reconciliation on a separate page allows extra room for explanations.

RECONCILIATION WORKSHEET

A reconciliation worksheet should be prepared to help in converting governmental fund financial statement amounts reported on the modified accrual basis of accounting to government-wide financial statement amounts reported on the accrual basis of accounting. This worksheet will not only help in keeping the financial statements in balance but, will provide adjustment explanations for audit purposes, and help in preparing the reconciliation presented as part of the basic financial statements.

The worksheet should consist of four columns. The first column would represent fund financial statement amounts by individual account. The next two columns would represent debit and credit columns. The adjustment amounts or reconciling items would be reflected in these columns. The fourth column would reflect government-wide statement amounts; the result of taking the fund statement amounts and either adding or subtracting debit and/or credit adjustments. One should be mindful of the fact that a debit and/or credit adjustment on the statement of net position worksheet may result in a corresponding adjustment on the statement of activities. Explanations for the debit and credit adjustments should be reflected on the worksheet. We also recommend a notation be made, off to the right of the worksheet, explaining how government-wide totals are reported on the statement of activities.

CONVERTING FROM THE MODIFIED ACCRUAL BASIS OF ACCOUNTING TO THE ACCRUAL BASIS OF ACCOUNTING - CONSIDERATIONS

Balance sheet / Statement of Net Position Considerations

- Property taxes and other receivables offset with deferred revenues under the modified accrual basis of accounting in the fund statements may be revenues on the government-wide statements under the accrual basis of accounting.

- Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital asset expenditures in the fund financial statements, are reported as assets on the government-wide statements, and depreciated (expensed) over their useful lives. Sales of capital assets result in removing the cost of the capital asset and accumulated depreciation, resulting in a gain or loss on the sale on the government-wide statements.
- Long-term debt is not reported on the fund statements but on the government-wide statements. However, the current portion is reported on both statements.

Statement of Revenues, Expenditures and Changes in Fund Balances / Statement of Activities Considerations

- Deferred revenues under the modified accrual basis of accounting may be revenues on the government-wide statements under the accrual basis of accounting.
- Depreciation expense not reported in the fund financial statements normally must be allocated to the various expense functions of governmental activities on the government-wide statement of activities. Sales of capital assets may result in a gain or loss in the government-wide statement, where in the fund statement revenue equals the cash recognized from the sale.
- The reporting of long-term debt in the government-wide financial statements results in the reduction of expenditures on the fund financial statements that relate to the annual installment payment.

RECONCILIATION FOR A LEASE-PURCHASE

Although not illustrated on the enclosed financial package, an additional reconciling item between the fund financial statements and the government-wide financial statements could be the presence of a lease-purchase. The fund financial statements under the modified accrual basis of accounting would record the lease-purchase as follows:

Capital Outlay Expenditures	XXXXX
Other Financing Sources	XXXXX

The government-wide financial statements under the full accrual basis of accounting would instead expense the asset by way of depreciation and also record the debt directly within the governmental activities column. The fund financial Statements would need the following adjustment to bring them up to full accrual:

Other Financing Source	XXXXX
Capital Outlay Expenditure	XXXXX

The capital asset and long-term debt results of this transaction would also be recognized when the reconciliation postings are performed for all of the General Capital Assets and General Long-term Liabilities.