



# Introduction to Governmental Accounting and Financial Reporting

Los Angeles Municipal Accountants and Auditors Association (LAMAAA)  
Presentation

March 28, 2019

Presented by  
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Pr. Deputy Controller

slido

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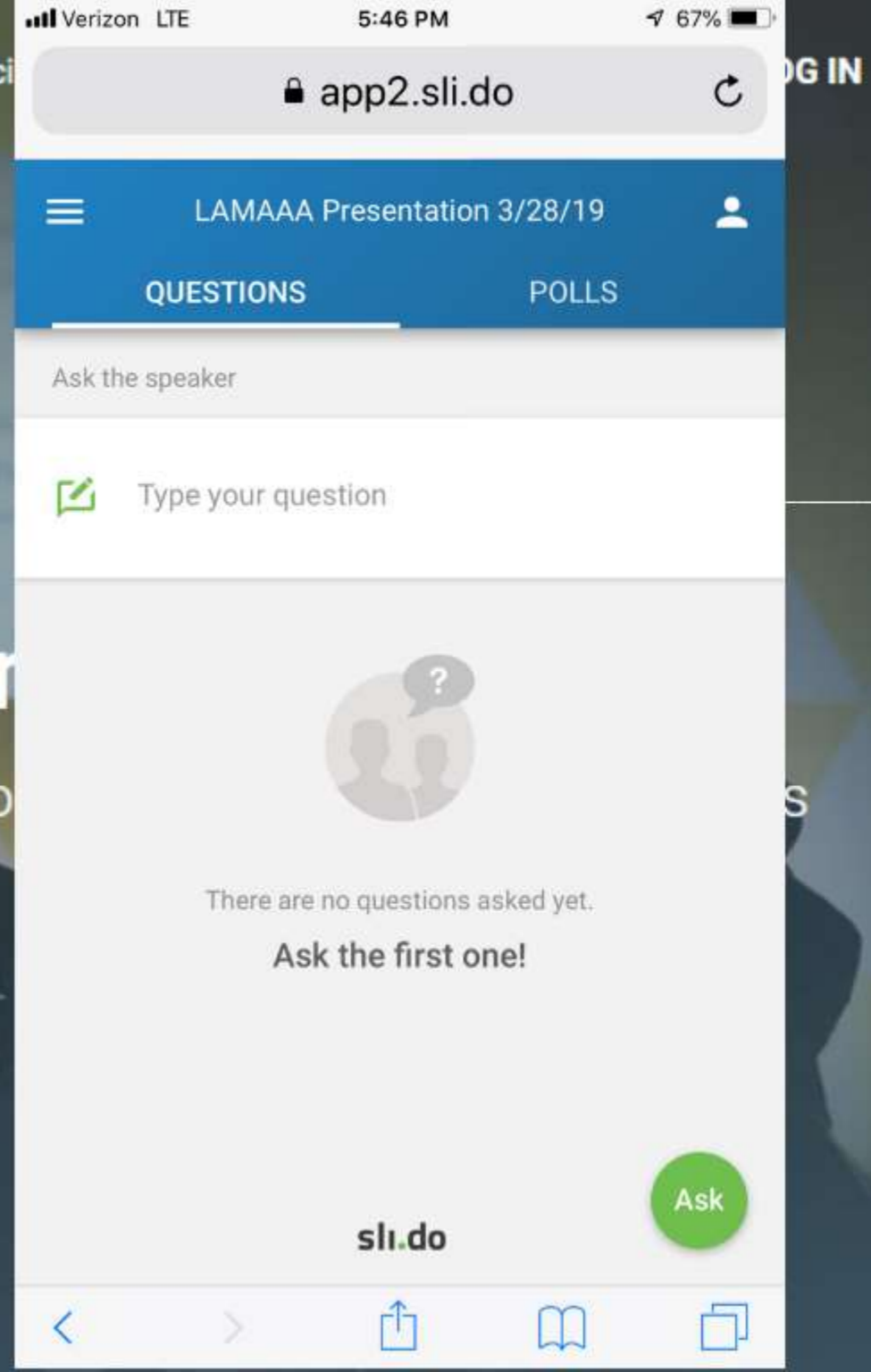
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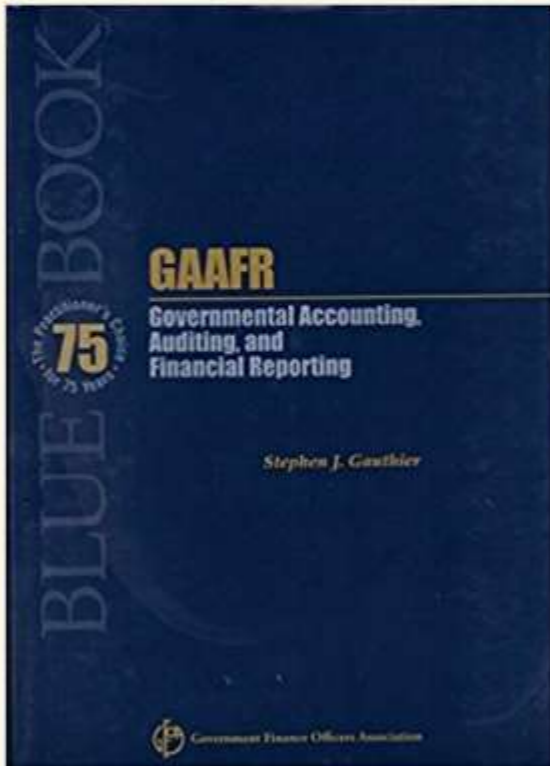


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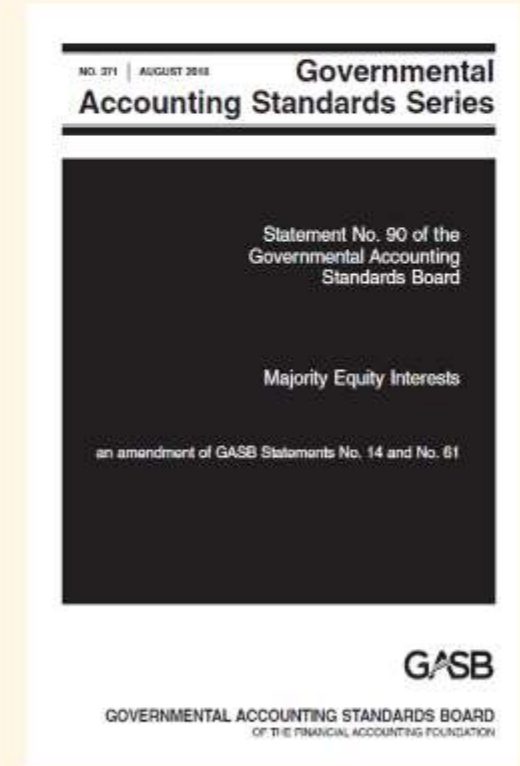
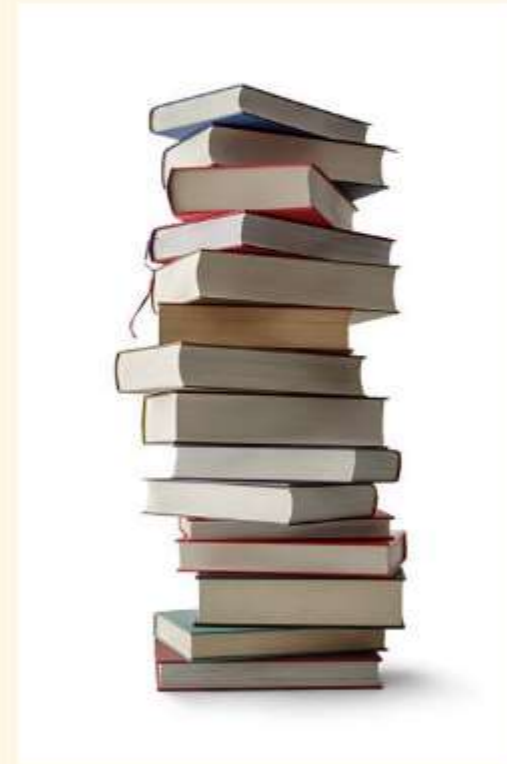
This Presentation is Boring



# Resources for Governmental Accounting



This presentation draws heavily on this resource



**GASB Library:** 90 Pronouncements + Concept Statements, Interpretations, Technical Bulletins, Implementation guides

# Presentation Outline



Governments and  
their Environment



Major Accounting  
Concepts



Q&A

# Types of Governments



Federal



State



Local Governments

- Counties
- Cities
- Schools
- Special Districts
- Community Colleges
- Joint Power Authorities
- Council of Government
- Other Regional Agencies



- Charter
- General Law

City of Los Angeles  
is a  
Charter City

## Governments (Interesting Facts)

	US	California
Total Local Governments	90,056	4,425
Total Municipalities (cities/towns)	35,879	482
Total Local Governments per 100k*	29	12

\*North Dakota (per 100k-383)

\*Hawaii (per 100k-1.5)

\*Source: Governing survey 2012



Why is  
Accounting  
Different for  
Governments?



## Governments are different

Governments operate in a very different environment; *governance structure, stakeholders and their expectations, restrictions, laws, regulations and sources of income* are very different



# Governmental vs. Private Sector



Governmental Accounting, Financial Reporting, and Auditing are different because governments are different than private sector in following respects:

- Service motive vs Profit motive
- Stewardship vs Return on Investment
- Budget (legal) vs Financial Plan
- Stakeholders, owners, customers?
- Governance?
- Nature of revenues and limitations/restrictions on increases
- Restrictions on use of resources
- Standards GASB vs FASB



# Environment - Impacting Governments

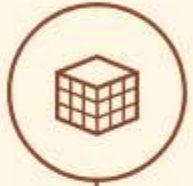
For Governments, there is greater expectation for

- Accountability, Transparency, and Public Purpose
- Expanded Legal Compliance
  - Conflict of interest code
  - California Public Records Act
  - Numerous Federal, State, and Local Laws
    - (prevailing wages, EOO, labor laws, employee benefits, contracts, measures and propositions)

The environment in which local governments operate creates varied expectations, numerous, challenges, limitations and restrictions, therefore Governmental Accounting, Reporting and Auditing must provide assurances that various applicable expectations are being met



# Discussion Topics



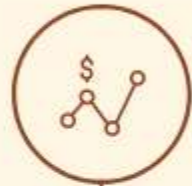
GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms



# GAAP (Generally Accepted Accounting Principles)

What and Why?

Types of Financial Reporting

Type	User	Contents
Internal	Management	Set by Management
External	Special Purpose	Those in position to set their own reporting requirements (grantors and regulators)
	General Purpose	Citizens Legislative and oversight bodies Investors and creditors
		Set by GAAP

# GAAP (Generally Accepted Accounting Principles)

An entity's financial statements must be prepared in conformity with GAAP

GAAP are standards that govern the content and format of general purpose external financial statements (GPEFR)

GAAP are minimum standards to meet the needs of GPEFR users



# Discussion Topics



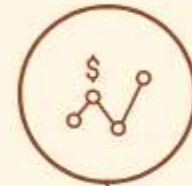
GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms



# Funds

What are Funds Why we need them?

What?



A fund is a fiscal and accounting entity, with self balancing set of accounts recording cash and other financial resources along with all related liabilities and residual equities and balances and changes therein, which are segregated for the purpose of carrying on specific activities, or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Why?



Unlike the private sector, there are restrictions and limitations on how government can spend resources. Sometimes, these restrictions are placed by other agencies or governments (federal, State, County, or other granting agencies). In other cases, the governing body (e.g., Council) exercises “power of the purse” and places restrictions through the budgetary process or otherwise on how much money can be collected and how much can be spent and on what.

For example, salaries budget may not be spent to buy equipment without approval. Similarly, funds approved for a particular department or program may not be used for another program or department.

Funds help in ensuring compliance with these limitations / restrictions and demonstrate accountability.

# Fund Categories

## Fund Categories

### 1. Governmental

Governmental Funds are used to account for activities primarily supported by taxes, grants and similar revenue sources

### 2. Proprietary

Proprietary Funds are used to account for activities that receive significant support from fees and charges

### 3. Fiduciary

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support the government's own programs



# Fund Types



Governmental

1. General
2. Special Revenue
3. Capital
4. Debt Service
5. Permanent



Proprietary

6. Enterprise
7. Internal Service



Fiduciary

8. Pension and Employee Benefits
9. Investment Trust
10. Private Purpose Trust
11. Agency

# Governmental Funds

General Fund	<u>Main</u> operating fund used to account for and report all financial resources not accounted for and reported in another fund
Special Revenue Funds	Used to account for and report the proceeds of <u>specific revenue sources</u> that are <u>restricted or committed</u> to expenditure for specific purposes <u>other than debt service or capital projects</u>
Capital Projects Funds	Used to account for and report financial resources that are <u>restricted, committed, or assigned</u> to expenditure for <u>capital outlays</u> , including the acquisition or construction of capital facilities and other capital assets
Debt Service Funds	Used to account for and report financial resources that are <u>restricted, committed, or assigned</u> to expenditure for <u>principal and interest</u>
Permanent Funds	Used to account for and report resources that are <u>restricted</u> to the extent that <u>only earnings, and not principal</u> , may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry

# Proprietary Funds

## Enterprise Funds

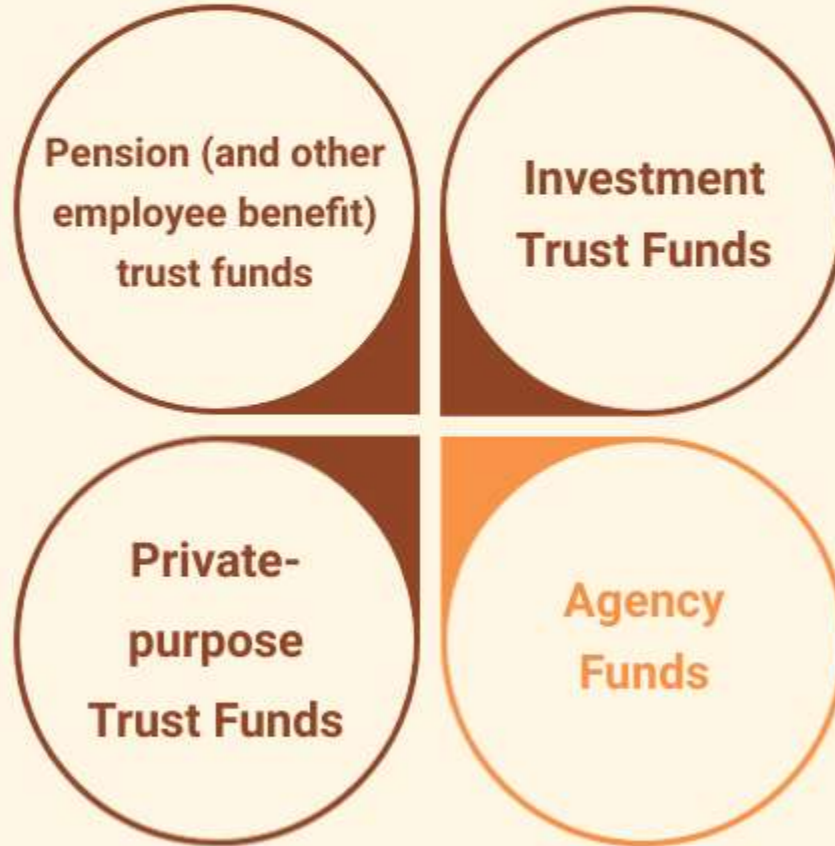
Used to report any activity for which a fee is charged to external users for goods or services

## Internal Service Funds

Used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis

# Fiduciary Funds

To report resources that are required to be held in trust for the members and beneficiaries of pension plans, and other postemployment benefit plans, or other employee benefit plans



To report the external portion of investment pools reported by the sponsoring government

To report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments

To report resources held by the reporting government in a purely custodial capacity



## Some Examples of Funds:

- Gas Tax Special Revenue Fund
- GO Bond Series 2010 Capital Projects Fund
- 2018 GO Bond Debt Service Fund
- Water Enterprise Fund
- Fleet Internal Service Fund
- Public Works Trust Fund

# Fund Balance

**Fund Balance** is the difference between assets and liabilities (equity or capital in private sectors) Only used in Governmental Funds. (Other funds report **Net Position**)

## *Five Components of Fund Balance*

- *Non Spendable*
- *Restricted*
- *Committed*
- *Assigned*
- *Unassigned*

# Discussion Topics



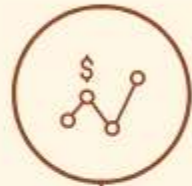
GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms



# Measurement Focus and Basis of Accounting

- Measurement Focus refers to what is expressed (or Which resources are measured?) in reporting an entity's financial performance and position (GASB 11)
- Basis of Accounting refers to when effects of transactions are recognized (GASB 11)

One Measurement Focus and one Basis of Accounting for private sector  
Different Measurement Focus and different Basis of Accounting for Governments



# Measurement Focus

## Current Financial Resources MF (Government)

- Focuses on increases and decreases in spendable resources (long-term assets and liabilities not expected to be paid from current resources are not recorded).
- The governmental fund operating statements only measure those transactions and events that will increase or decrease the resources available for spending in the near future

## Economic Resources MF (private enterprise)

- Focuses on all of economic resources

# Measurement Focus-Reporting Differences

## Statement of Resource Flows

(statement of revenues, expenditures and changes in fund balances/statement of revenue, expenses and changes in net position)

Item	Economic Resources?	Current Financial Resources?
Issuance of long-term debt	x	√
Repayment of the principal of long-term debt	x	√
Capital outlay	x	√
Depreciation / Amortization	√	x

# Measurement Focus- Reporting Differences

## Statement of Financial Position

(Balance Sheet/Statement of Net Position)

Item	Economic Resources?	Current Financial Resources?
Financial Resources	√	√
Capital Assets	√	×
Liabilities normally expected to be liquidated currently with expendable available financial resources	√	√
Liabilities normally <u>NOT</u> expected to be liquidated currently with expendable available financial resources	√	×

# Discussion Topics



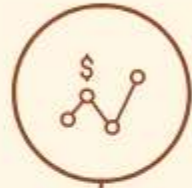
GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms



# Basis of Accounting



## Basis of Accounting

Basis of Accounting determines when inflow becomes revenue and outflow becomes expense or expenditure. Governments use two main types of GAAP-compliant Basis of Accounting:

Accrual and Modified Accrual

## Accrual Basis of Accounting

Transactions are recognized when they occur, regardless of when cash is received or disbursed. Accrual basis of accounting is consistent with economic resource measurement focus





## Modified Accrual Basis of Accounting

**Revenues** are recognized when they become both measurable and available to finance the expenditures of the fiscal period. Revenue is considered available when it is “collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. (City uses 60 days)

**Expenditures** generally are recorded when liability to pay is incurred.

Exceptions; Debt service expenditures are normally not recorded until due, same is true for accrued vacation. Inventories may be recognized when purchased.

# Basis of Accounting (Cash Basis)

Under the cash basis of accounting, transactions are recognized only when cash is received or disbursed.

Cash basis accounting and reporting may create distortions in financial statement due to timing of cash receipts and disbursements, therefore the cash basis of accounting is generally used for budgetary purposes and is considered non-GAAP.



# Result of Applying Revenue Recognition Criteria

Basis of Accounting	Amounts Recognized as Revenue		
Cash	Earned and collected during the current period		
Modified Accrual	Earned and collected during the current period	Earned and collectible soon enough after the current period to be used to pay liabilities of the current period	
Accrual	Earned and collected during the current period	Earned and collectible soon enough after the current period to be used to pay liabilities of the current period	Earned, but not collectible soon enough after the current period to be used to pay liabilities of the current period



# Discussion Topics



GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms





# CAFR



City of Los Angeles, California  
**Comprehensive Annual  
Financial Report**  
Fiscal Year Ended June 30, 2018



**RON GALPERIN**  
LA CONTROLLER

# CAFR

CAFR or Comprehensive Annual Financial Report is an annual financial report produced by State and local governments. CAFR must be prepared in accordance with standards issued by GASB and must be in conformity with GAAP and audited by an independent auditor.

CAFR consists of three sections



1. Introductory



2. Financial



3. Statistical

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**CAFR**

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# CAFR

CITY OF LOS ANGELES  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2018

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# Financial Statements

Different measurement focus and accounting for different set of financial statements



**Government-wide**  
Financial Statements

**Fund**  
Financial Statements

Measurement  
Focus

Basis of  
Accounting



# Measurements Focus and Basis Accounting-Fund Types

- Proprietary funds use economic resources MF and accrual basis of accounting and recognize revenues as soon as they are earned and expenses are recognized as soon as liability is incurred irrespective of timing of receipt or payment
- Governmental funds use current financial resources MF and modified accrual basis of accounting, recognize revenues when they are both measurable and available and expenditures are recognized when the fund liability is incurred (some exceptions apply)
  - However, in government-wide financial statements the governmental funds use economic resources measurement focus and accrual basis of accounting.



# Financial Statements

## Measurement Focus and Basis of Accounting



**Government-wide**  
Financial Statements

Economic Resources MF &  
Accrual Basis of Accounting

Proprietary & Fiduciary  
Funds Economic Resources  
MF & Accrual Basis of  
Accounting

**Fund**  
Financial Statements

Governmental Funds Current  
Financial Resources MF &  
Modified Accrual Basis of  
Accounting



# Government-wide Financial Statements

CITY OF LOS ANGELES			
Statement of Net Position			
June 30, 2018			
(amounts expressed in thousands)			
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Pooled Investments	\$ 4,461,832	\$ 2,828,120	\$ 7,289,958
Other Investments	—	2,167	2,167
Receivables, Net	2,435,222	1,621,758	4,056,980
Due from Fiduciary Funds	185	—	185
Inventories	33,004	223,801	256,805
Prepaid Items and Other Assets	8,838	748,934	757,772
Restricted Assets	20,354	4,055,397	4,075,751
Investment in Joint Ventures	—	5,733	5,733
Properties Held for Housing Development	111,808	—	111,808
Regulatory Assets	—	2,435,793	2,435,793
Capital Assets			
Not Depreciated / Amortized	2,241,866	7,520,491	9,762,357
Depreciated / Amortized, Net	5,650,964	30,382,116	36,033,080
<b>TOTAL ASSETS</b>	<b>14,964,073</b>	<b>49,624,316</b>	<b>64,788,389</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows from Debt Refunding	50,950	199,901	250,851
Deferred Outflows from Derivative Instruments	—	39,461	39,461
Deferred Outflows from Pensions	1,885,044	1,214,867	3,100,511
Deferred Outflows from OPEB	387,977	129,475	517,452
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2,333,590</b>	<b>1,583,704</b>	<b>3,917,294</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	504,147	974,533	1,478,680
Obligations Under Securities Lending Transactions	87,525	74,700	162,225
Accrued Interest Payable	26,303	370,027	396,330
Internal Balances	50,114	(50,114)	—
Unearned Revenue	35,364	—	35,364
Deposits and Advances	34,877	208,125	243,002
Other Liabilities	147,075	43,071	190,146
Advances from Fiduciary Funds	20,618	—	20,618
Derivative Instrument Liabilities	—	39,459	39,459
Long-term Liabilities			
Net Pension Liability	5,161,051	2,277,146	8,438,197
Net OPEB Liability	2,157,104	658,909	2,816,013
Other Long-term Obligations			
Due Within One Year	836,091	970,627	1,806,718
Due In More Than One Year	5,313,417	25,221,146	30,534,563
<b>TOTAL LIABILITIES</b>	<b>15,382,680</b>	<b>30,776,529</b>	<b>46,159,215</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows from Business Activities	—	103,720	103,720
Deferred Inflows from Debt Refunding	—	27,768	27,768
Deferred Inflows from Pensions	1,381,094	583,040	1,964,104
Deferred Inflows from OPEB	170,305	202,552	372,857
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,551,369</b>	<b>917,080</b>	<b>2,468,449</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,690,812	14,032,397	19,723,209
Restricted for:			
Capital Projects	90,894	—	90,894
Debt Service	208,037	797,375	1,005,412
Public Safety	150,452	—	150,452
Public Works and Sanitation	60,530	—	60,530
Transportation Programs	507,761	—	507,761
Culture and Recreation Activities	372,708	—	372,708
Community Development and Housing	1,286,684	—	1,286,684
Passenger/Customer Facility Charges	—	672,951	672,951
Other Purposes	—	531,598	531,598
Unassigned	(5,690,812)	3,680,122	(4,342,148)
<b>TOTAL NET POSITION</b>	<b>\$ 363,598</b>	<b>\$ 19,714,411</b>	<b>\$ 20,078,009</b>

The notes to the financial statements are an integral part of this statement.

# Financial Statements

TOTAL NET POSITION  
\$ 363,598

FUND BALANCE  
\$ 5,327,516

Why the difference?

# Fund Financial Statements

CITY OF LOS ANGELES		
Balance Sheet - (Continued)		
Governmental Funds		
June 30, 2018		
(amounts expressed in thousands)		
	Nonmajor Governmental Funds	Total
<b>ASSETS</b>		
Cash and Pooled Investments	\$ 3,245,240	\$ 4,461,832
Taxes Receivable	—	—
(Net of Allowance for Uncollectibles of \$14,249)	16,715	665,920
Accounts Receivable	—	—
(Net of Allowance for Uncollectibles of \$375,431)	101,150	208,781
Special Assessments Receivable	9,505	12,545
Investment Income Receivable	11,525	24,733
Intergovernmental Receivable	124,566	269,507
Loans Receivable	—	—
(Net of Allowance for Uncollectibles of \$945,339)	1,233,736	1,233,736
Due from Other Funds	114,731	230,018
Inventories	—	33,004
Prepaid Items and Other Assets	8,808	8,838
Advances to Other Funds	347	139,990
Restricted Assets	20,354	20,354
Properties Held for Housing Development	111,808	111,808
<b>TOTAL ASSETS</b>	<b>\$ 4,999,485</b>	<b>\$ 7,441,066</b>
<b>LIABILITIES</b>		
Accounts, Contracts and Retainage Payable	\$ 182,157	\$ 269,830
Obligations Under Securities Lending Transactions	53,716	87,525
Accrued Salaries and Overtime Payable	25,573	229,586
Accrued Compensated Absences Payable	—	9,254
Claims and Judgments Payable	—	69,831
Intergovernmental Payable	4,236	4,729
Due to Other Funds	126,891	264,785
Unearned Revenue	34,392	35,364
Deposits and Advances	25,783	34,877
Interest Payable	276	276
Advances from Other Funds	166,379	184,770
Other Liabilities	23,015	68,695
Liability for Excess CRA Bond Proceeds	78,180	78,180
<b>TOTAL LIABILITIES</b>	<b>721,400</b>	<b>1,337,906</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Real Estate Tax	14,063	76,737
Taxes Other than Real Estate	1,318	345,533
Receivables from Other Government Agencies	61,500	187,163
Other Deferred Inflows of Resources	82,426	165,211
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>159,307</b>	<b>775,644</b>
<b>FUND BALANCES</b>		
Nonspendable	8,808	50,656
Restricted	3,033,895	3,313,393
Committed	1,129,752	1,154,903
Assigned	1,770	290,850
Unassigned	(55,447)	537,714
<b>TOTAL FUND BALANCES</b>	<b>4,118,778</b>	<b>5,327,516</b>
<b>TOTAL GOVERNMENTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 4,999,485</b>	<b>\$ 7,441,066</b>

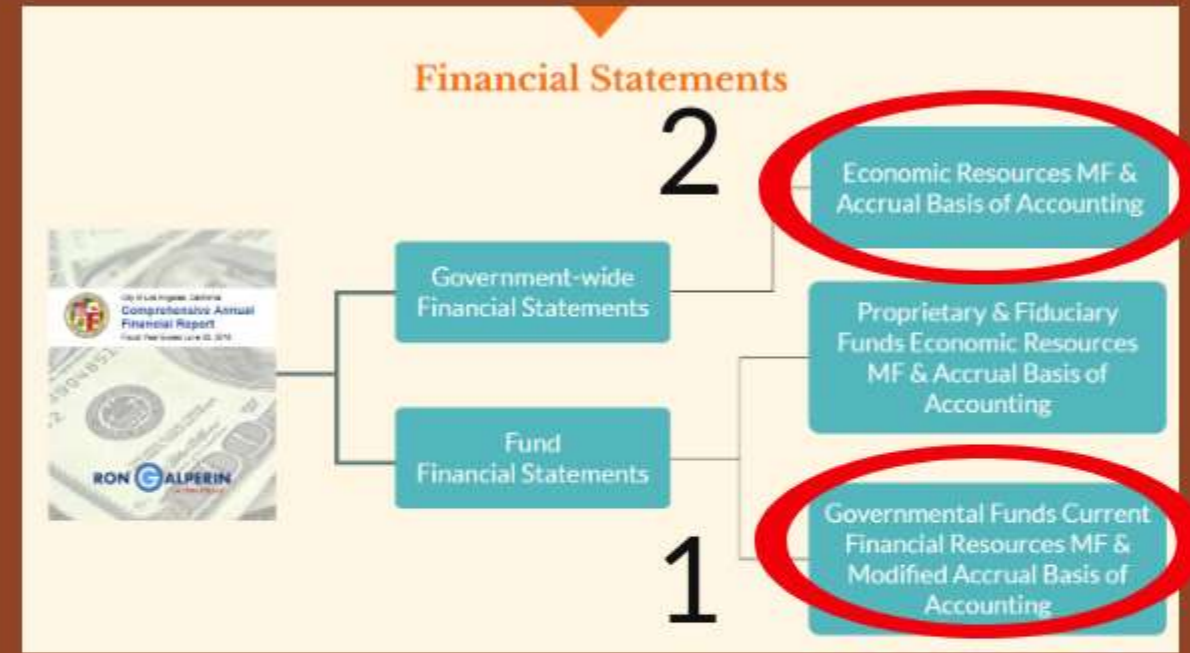
The notes to the financial statements are an integral part of this statement.

# Financial Statements

CITY OF LOS ANGELES	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2018 (amounts expressed in thousands)	
<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 5,327,516</b>
Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,892,830
Deferred outflows of resources reported in the statement of net position, but not recognized in the governmental funds.	2,333,580
Unavailable revenues are reported as deferred inflows of resources in the governmental funds, but are recognized as revenues when earned in governmental activities.	775,644
Deferred inflows of resources reported in the statement of net position, but not recognized in the governmental funds.	(1,551,369)
Long-term liabilities, including net pension and OPEB liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(14,414,603)
<b>Net Position of Governmental Activities</b>	<b>\$ 363,598</b>

1

2



# Discussion Topics



GAAP



Funds



Measurement  
Focus



Basis of Accounting



Financial Reporting



Few Key Terms



# Few Key Terms

## Appropriations and Encumbrances

Appropriation refers to the budget or amount allocated or authorized for a particular expenditure.

Encumbrance is an accounting tool to prevent inadvertent overspending of an appropriation. Encumbrance serves as a virtual expenditure in the interval between the issuance of contract or purchase order and its fulfillment. Appropriation is an allocation while encumbrance is a commitment against that allocation.

## Expenses vs. Expenditures

Expenses are charges for operations, maintenance, interest, and others charges.

Expenditures are expenses plus payment for acquiring assets and principal payment of debt.

## Transaction vs. Interfund Activities

Transactions are financial interactions with entities outside of the primary government.

Interfund activities are financial interactions between various funds.

# Few Key Terms

## Other Financing Sources (OFS) and Other Financing Uses (OFU)

Other Financing Sources (OFS) include items such as issuance of long term debt, sale of capital asset, insurance recoveries, and transfers in.

Other Financing Uses (OFU) includes items such as original issue, discount on debt, and transfers.

## GASB Governmental Accounting Standards Board

Standard-setting body for State and local governments

## FASB Financial Accounting Standards Board

Standard-setting body for private sector businesses and non-profits

# There is much more to Governmental Accounting

These are some other terms and concepts for future discussion

- ✓ • GAAP
- ✓ • Fund Structure
- ✓ • Measurement Focus and Basis of Accounting
- ✓ • Financial Statements
- ✓ • Treatment of Assets and Liabilities
- ✓ • Budgetary Compliance
- ✓ • Encumbrances
- ✓ • Standards (GASB, FASB)
- Auditing
- Financial Planning
- Legal environment (Prop 13, Prop 218)
- Special Items



# There is much more to Governmental Accounting

## Special Items

- Investments and Treasury Management
- Liability Claims and Workers Compensation
- Debt and Bonds
- Capital Projects
- Grants and Special Accounting (Quimby)
- Economic Development (DDA, OPA, tax-sharing agreements)
- Pensions and Other Post Employment Benefits (OPEB)
- Compensation and benefits (compensated absences)
- Endowments, trusts
- -----
- -----

# Resources used in this Presentation

GFOA Publication:

Governmental Accounting, Auditing and Financial Reporting,  
GAAFR

GASB Pronouncements

City of Los Angeles CAFR

Various websites and picture available on the intranet



# Questions?

No Thanks  
Had Enough





# Introduction to Governmental Accounting and Financial Reporting

Thank You

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