

4. REPORTING

4.4 Conversion and Reconciliation between Government-Wide and Fund Financial Statements

4.4.10 The first step in preparing the government-wide financial statements is to convert the data in the governmental fund financial statements. This data is presented using the modified accrual basis and adjustments are necessary to transition it to the statements which are on the full accrual basis.

None of the conversions should be performed for individual funds. They should be converted at the total governmental fund summary level. It is also not necessary to convert day to day accounting records.

None of the adjustments should be applied to immaterial items.

Conversion from the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position

4.4.20 The following table describes the assets and liabilities that need to be converted to the full accrual basis for the government-wide statement of net position. Also, the table lists possible adjustments to reconcile fund balances in governmental funds to the net position in governmental activities in the statement of net position.

Assets and Liabilities	Conversion	Reconciliation
		Start: Fund Balances - Governmental Funds
Capital assets of general government	Report capital assets, net of accumulated depreciation/amortization	<u>Add</u> : carrying value of capital assets
Deferred outflow for issuance costs (insurance)	Report unamortized balances of deferred outflow for debt issuance costs (insurance)	<u>Add</u> : unamortized balances of deferred outflow for debt issuance costs (insurance)
Inventories and prepaid items	Report outstanding inventories and unamortized portions of prepaid items	<u>Add</u> : outstanding inventories and unamortized portions of prepaid items
Unmatured long-term debt net of unamortized premiums, discounts, and similar items	Report unamatured long-term debt net of unamortized premiums, discounts, and similar items	<u>Less</u> : net unamatured long-term debt
Accrued interest	Report liability for accrued interest payable	<u>Less</u> : accrued interest payable
Accrued obligations not normally recorded in governmental funds (e.g., compensated absences, claims and judgements, operating leases with scheduled rent increases, special termination benefits, government's net pension obligations as an employer, landfill closure and postclosure care costs, etc.)	Report accrued liabilities outstanding	<u>Less</u> : accrued liabilities not reported in governmental funds

Assets and Liabilities	Conversion	Reconciliation
		Start: Fund Balances - Governmental Funds
Assets of internal service funds that primarily serve governmental funds	Report assets of internal service funds	<u>Add</u> : assets of internal service funds that primarily serve governmental funds
Liabilities of internal service funds that primarily serve governmental funds	Report liabilities of internal service funds	<u>Less</u> : liabilities of internal service funds that primarily serve governmental funds
Liability of unearned revenue	Remove liability	<u>Add</u> : unearned revenue
		End: Net Position - Governmental Activities

Conversion from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities

4.4.30 The following table lists adjustments needed to convert the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities. Also, the table lists possible reconciliation items.

Transaction/Event	Conversion	Reconciliation
		Start: Net Change in Fund Balances -Governmental Funds
Capital outlays	Remove capitalizable expenditures incurred for the acquisition or construction of capital assets	<u>Add</u> : capitalizable expenditures incurred for the acquisition or construction of capital assets
Debt service principal payments and refunding payments	Remove expenditures and other financing uses for debt service principal and refunding payments	<u>Add</u> : expenditures and other financing uses for debt service principal and refunding payments
Other financing sources, uses, and expenditures resulting from debt issuance	Remove other financing sources, uses, and expenditures resulting from debt issuance	<u>Less</u> : other financing sources for debt and related premiums <u>Less</u> : excess of carrying value of refunded debt over reacquisition cost of refunded debt <u>Add</u> : other financing uses for discounts <u>Add</u> : expenditures for issuance costs <u>Add</u> : excess of reacquisition cost of refunded debt over carrying value of refunded debt
Donations of capital assets	Record donations of capital assets	<u>Add</u> : donations of capital assets

Transaction/Event	Conversion	Reconciliation
		Start: Net Change in Fund Balances -Governmental Funds
Sales of capital assets	Replace amount of proceeds by gain or loss on transaction	<u>Less:</u> sale proceeds minus gain and sale proceeds plus loss
Sales of fund assets (foreclosure assets held for resale)	Reclassify revenues and expenditures (or reduction of revenue) related to fund asset sales as gains or losses	No effect
Revenues and expenditures related to prior periods	Remove revenues and expenditures related to prior periods	<u>Less:</u> revenues related to prior periods <u>Add:</u> expenditures related to prior periods
Revenues earned during the period but not yet available	Record revenues earned during the period but not yet available	<u>Add:</u> revenues earned during the period but not yet available
Expenses incurred during the period but not normally expected to be liquidated with expendable available financial resources (unless they are due for payment in the current period)	Record expenses incurred during the period related to liabilities that are still outstanding at year-end that are normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	<u>Less:</u> expenses incurred during the period related to liabilities that are still outstanding and not yet due at year-end for: accrued interest, compensated absences, claims and judgements, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases, net pension obligation
Depreciation	Record depreciation expense	<u>Less:</u> depreciation expense
Amortization of issuance costs, premiums, discounts, and similar items	Adjust revenues and expenses for amortization	<u>Less:</u> amortization of issuance costs and discounts (and net refunding difference if a debit) Add amortization if premiums (and net refunding difference if a credit)
Consumption of inventories and amortization of prepaids	Record expense for inventories consumed during the period and for amortization of prepaids ¹	<u>Less:</u> inventories consumed during the period and amortization of prepaids
Activities of internal service funds properly included within governmental activities	Record internal service fund revenues and expenses not subject to consolidation	<u>Add:</u> net profit <u>Less:</u> net loss
		End: Change in Net Position-Governmental Activities

¹ Not applicable if a government uses consumption method.

Reconciliation to the Government-Wide Financial Statements

- 4.4.40 Differences in the classification, as well as differences in the measurement focus and basis of accounting cause the amounts reported in the governmental activities in government-wide financial statements and governmental funds financial statements to differ significantly. To explain this discrepancy, a government is required to provide a summary reconciliation between those statements. The reconciliation can be presented on the face of the governmental funds balance sheet and the statement of revenues, expenditures, and changes in the fund balances or as accompanying schedule (a page immediately following the statements).
- 4.4.50 If the aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item, a government should present a more detailed explanation in the notes to the financial statements.
- 4.4.60 The summary reconciliation of the difference between the governmental funds balance sheet and the government-wide statement of net position should address separately at least the following items:
1. Reporting capital assets at historical cost and depreciating them instead of reporting capital acquisition as expenditure when incurred.
 2. Adding general long-term liabilities not due and payable in the current period.
 3. Reducing unearned revenue for those amounts that were not available to pay current-period expenditures.
 4. Adding internal service fund net position balances.
- 4.4.70 The summary reconciliation of the difference between the governmental funds statement of revenues, expenditures and changes in the fund balances and the government-wide statement of activities should address separately at least the following items:
1. Reporting revenues on full accrual basis.
 2. Reporting annual depreciation expenses instead of expenditures for capital outlays.
 3. Reporting long-term debt proceeds in the statement of net position as liabilities instead of other financing sources; also reporting debt principal payments in the statement of net position as reduction of liabilities instead of expenditures.
 4. Reporting other expenses on the full accrual basis.
 5. Adding the net revenues (expense) of internal service funds.
- 4.4.80 There may be a difference between total enterprise funds and business-type activities, in that case, governments have to reconcile the enterprise funds financial statement with the business-type activities column on the government-wide financial statements.