



Finance Committee

Discussion of Impact on Updated Accounting and Financial Reporting Requirements for Certain Governmental Revenues

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Title

Discussion of Impact on Updated Accounting and Financial Reporting Requirements for Certain Governmental Revenues

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Discuss the impact on the updated accounting and financial reporting requirements for certain governmental revenues.

Report

Issue:

Whether to discuss the impact on the updated accounting and financial reporting requirements for certain governmental revenues

Staff Contact:

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Presenter(s):

Debbie Sullivan, Administrative Service Director

Background and Analysis:

The City of Olympia recognizes and records all revenue in compliance with Generally Accepted Accounting Principles (GAAP). There are two accounting methods used to record revenue - full accrual and modified accrual. Full accrual accounting means that the transaction is recognized when the revenue or expense is incurred, not when the cash enters or leaves the City. The accrual method is used for the Utility Enterprise funds.

Modified accrual is a governmental accounting method where revenue is recognized when it becomes "measurable and available." This is the method used for non-proproprietary funds; primarily the

General Fund and those funds supported by taxes. The industry standard for measurable and available is revenue received within 60 days of the end of the fiscal year. This means we can recognize taxes collected in November and December even though they are not received by the City until January and February of the following year. The rationale is that the November and December taxes collected are “measurable” because we know the amount collected and “available” because they are received within 60 days of the end of year.

The State Auditor’s Office has been conducting a state-wide initiative to ensure local governments are recording these revenues in compliance with GAAP. Olympia currently records non-proprietary tax revenue when it is received (January 1 - December 31) rather than when it is collected by an outside agency (i.e. State). Starting in 2019, we have adjusted our accounting methodology to recognize revenue when it is received within 60 days of the end of the fiscal year (March 1 - February 29 of the following year).

The impact of this accounting reconciliation will result in a one-time recognition of 14 months of certain tax revenue, resulting in a significantly larger fund balance available at the end of 2018. Although the City is recognizing these additional two months of, it is important to note that the overall amount of revenue available to the City remains the same because this is an accounting reconciliation.

Staff will present the identified revenues subject to this accounting change, including all recognized restrictions. Staff will also discuss a recommendation on how to designate the additional two months of revenue in 2018.

Neighborhood/Community Interests (if known):

N/A

Options:

1. Discuss staff recommendation on 2018 end-of-year Finance Committee recommendations to Council based on adjusted end-of-year fund balance.
2. Direct staff to forward March 20 Finance Committee 2018 end-of-year recommendations to full Council.
3. Direct staff to schedule future meeting to discuss how to designate the additional two months of revenue in 2018.

Financial Impact:

None

Attachments:

None