



CITY COUNCIL ACTION FORM

DEPARTMENT	PRESENTED BY	DATE
Finance	Aimee Tihonovich - Finance Director	March 15, 2022

ITEM

Modify the "Measurement Focus and Basis of Accounting" language in the City's Financial Policies.

Consent Agenda

BACKGROUND

The City of Salida records its transactions following the "modified accrual basis" basis of accounting which is Governmental Accounting Standards Board requirements for governmental accounting. However, in order to best present some revenues in the fiscal year that those revenues were earned in, some modification to the standard rules need to be made. Often, certain revenue amounts are not received within the 60 day after year end general rule. The below policy modification (shown in red) will update the policy adopted by council on September 21, 2021 accordingly.

MEASUREMENT FOCUS and BASIS OF ACCOUNTING

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus.) Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

For budgeting purposes, all funds use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within 60 days after December 31). **A few exceptions to this general rule involve the treatment of expenditure-driven grants, accrued interest and reimbursement of expenditures. Expenditure driven grants are recognized as revenue when qualified expenditures have been incurred and all other grant requirements have been met. Accrued interest at year end is recorded as a receivable even if not paid within the 60 day timeframe. Finally, a reimbursement of expense is recorded in the period the original expenditures were incurred if the reimbursement amount is measurable within 60 days after December 31.**

Expenditures are generally recognized when the related liability is incurred. Capital purchases are shown as a capital expense. Both principal and interest payments are budgeted as current year expenses. New debt proceeds are shown as revenues.

At year-end, the Utility (Water and Wastewater) funds are converted to the long-term economic focus and accrual basis of accounting for audited financial statement presentation purposes since these funds have

“business-type” activities. Throughout the year, however, the budgets for the Utility funds are monitored using the basis and measurement focus described in the previous paragraph.

FISCAL NOTE

There is no fiscal impact.

STAFF RECOMMENDATION

Adopt the policy language modification.

SUGGESTED MOTION

A Council person should make a motion to “combine and approve the items on the consent agenda”.
