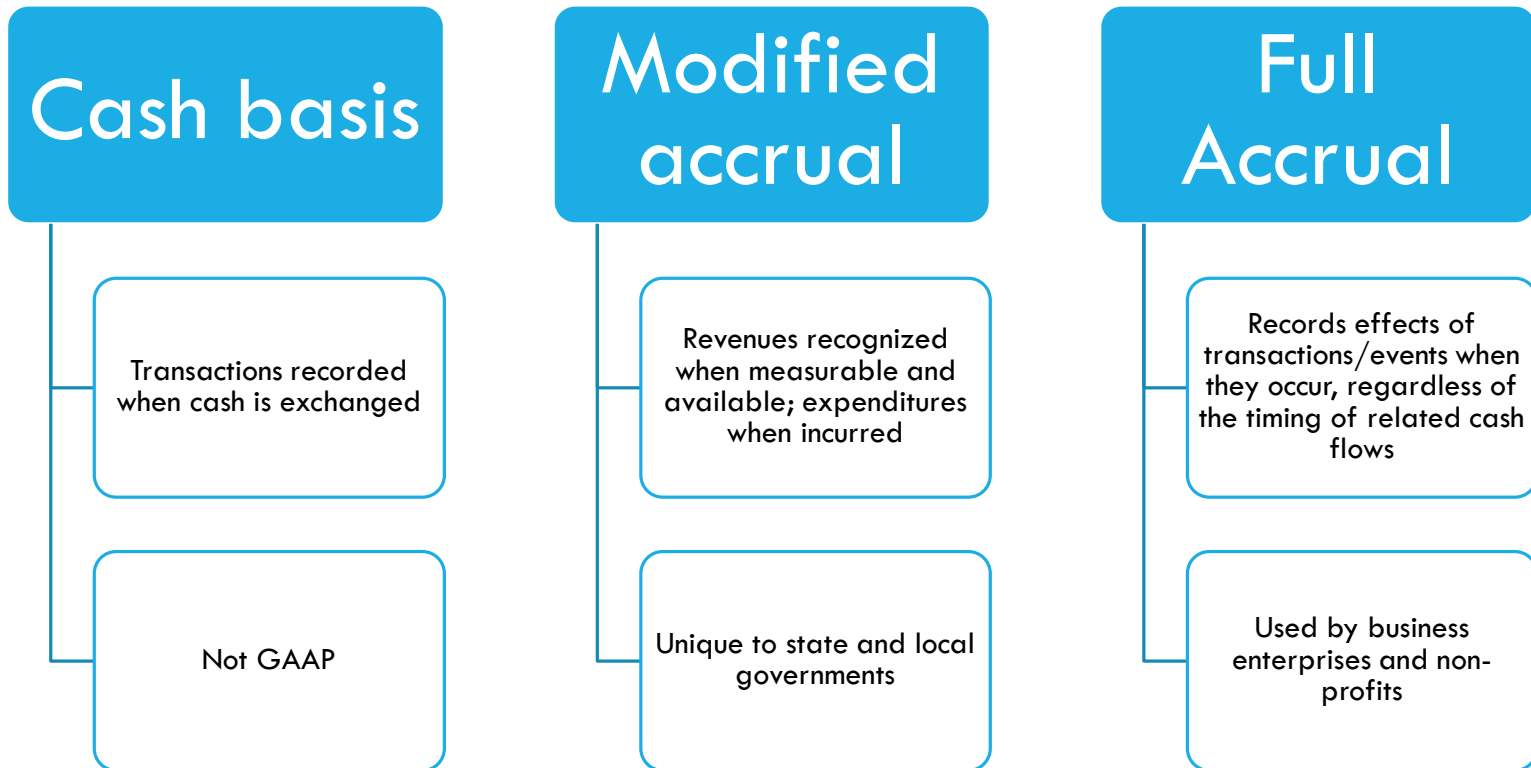


GOVERNMENTAL ACCOUNTING 101

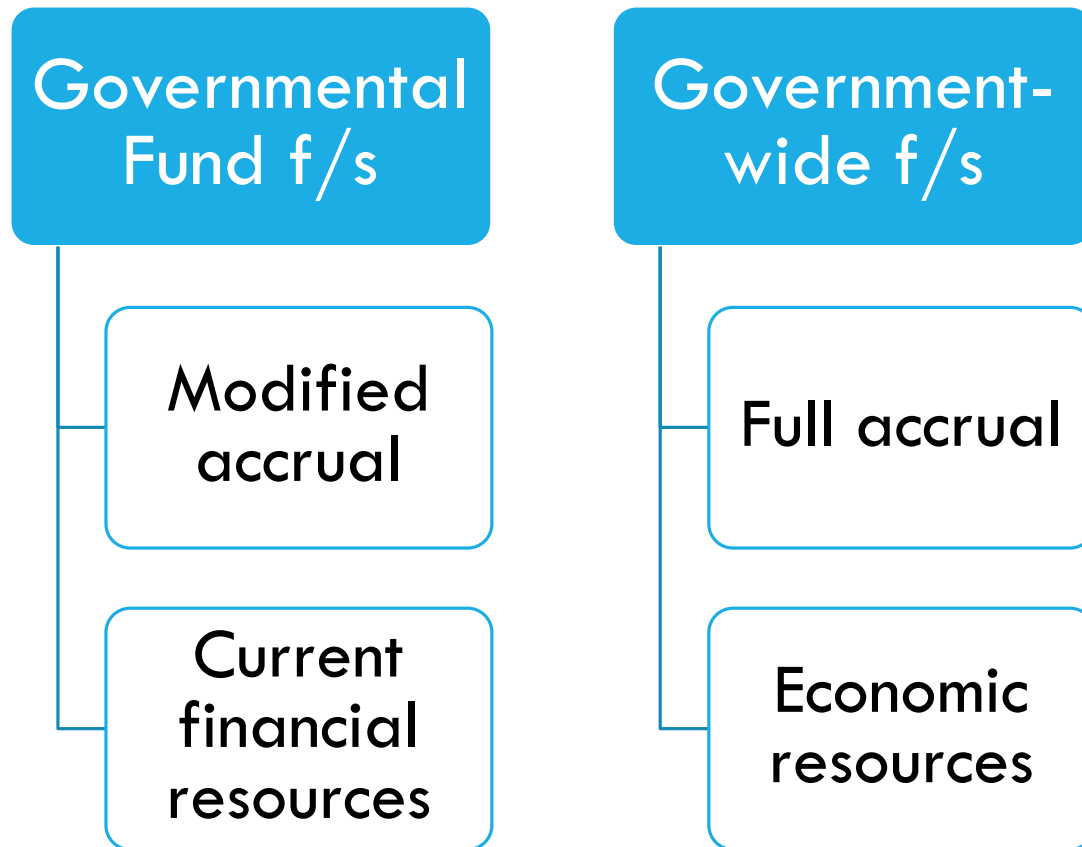
PRESENTED BY:
STEVEN D PALMER, CPA

HintonBurdick CPAs &
Advisors

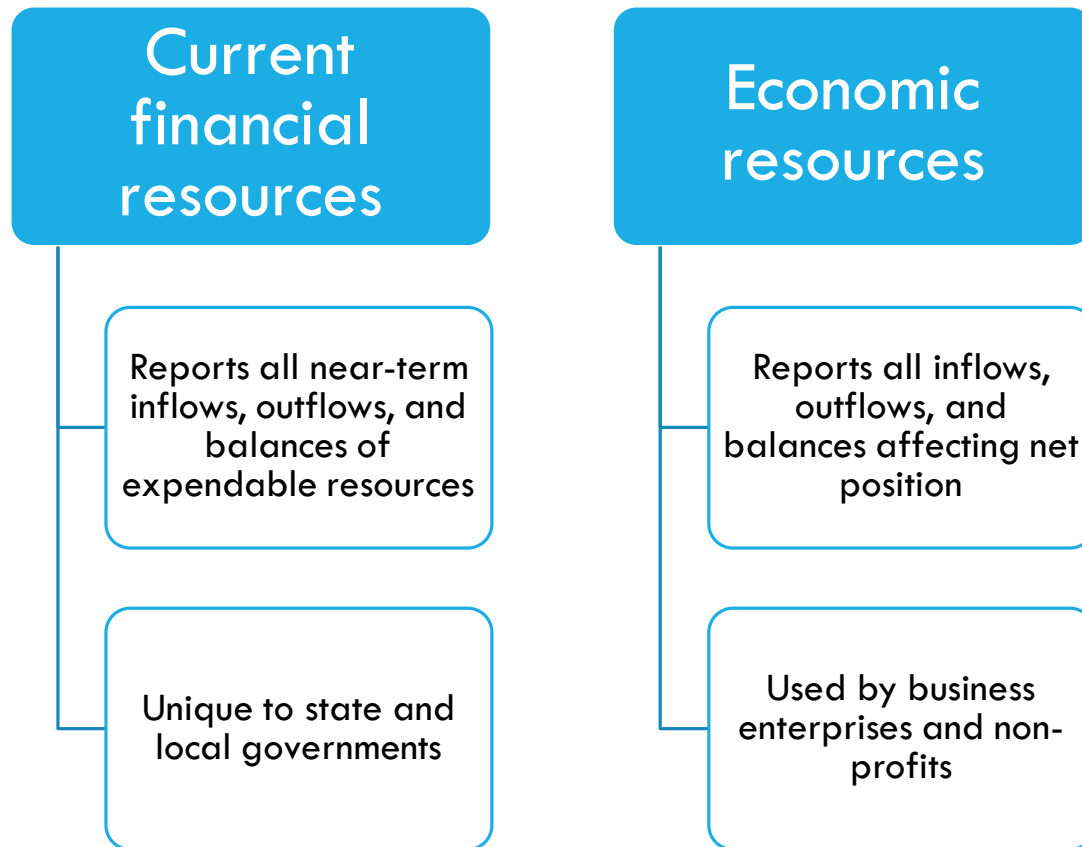
BASIS OF ACCOUNTING



GOVERNMENTAL FUND FS VS. GOVERNMENT-WIDE FS



MEASUREMENT FOCUS



FUND ACCOUNTING

Governmental accounting systems are organized and operated on a *fund* basis.

A fund is defined as:

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

FUND TYPES

There are three types of funds:

Governmental Funds

Proprietary Funds

Fiduciary Funds

FUND TYPES

- CONTINUED -

These fund types correspond to the activities of the government.

- Governmental Funds are used to account for governmental activities.
- Proprietary Funds are used to account for business-type activities
- Fiduciary Funds are used to account for fiduciary type activities (government is holding assets in a custodial capacity for others)

GOVERNMENTAL FUNDS

Examples of governmental funds:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds

GOVERNMENTAL FUNDS

- CONTINUED -

General Fund

The general fund accounts for all financial resources except those required to be accounted for in another fund. Common activities accounted for in the general fund are:

- > Public Safety (Police, Fire)
- > Administrative Services (Finance, Human Resources)
- > Public Health
- > Public Works (Facility Maintenance)

GOVERNMENTAL FUNDS - CONTINUED -

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources that are restricted for specified purposes. In some cases legal requirements specify a revenue source must be accounted for in its own fund (HURF). Other times, Special Revenue Funds are established so restricted revenues are segregated from other funds.

Examples include:

Highway Users Revenue Fund (HURF)

Library Funds

Miscellaneous Grants

GOVERNMENTAL FUNDS - CONTINUED -

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major facilities (other than those financed by proprietary funds).

GOVERNMENTAL FUNDS - CONTINUED -

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

WHICH FUND TYPE SHOULD I USE?

When determining which type of fund is appropriate for a specific activity consider the following criteria:

1. What will be the activity's main type of revenue?

Taxes (GF)

Grants (GF, SRF)

Charges for services (UF)

Debt proceeds (GF, CPF, SRF, UF)

QUIZ TIME

A government has received a very large grant which is legally required to be used exclusively in preserving the habitat of the ring-tailed blue sloth. Which type of fund would be most appropriate in accounting for the revenue and expenditures of this activity and why?

Answer: Special Revenue Fund

QUIZ TIME

Scenic City receives property tax revenues which may be used at their discretion.
Where should these revenues be recorded?

Answer: **General Fund**

QUIZ TIME

Scenic City receives proceeds from a bond. The bond proceeds are to be used to construct a new library. Where would the bond proceeds most likely be recorded?

Answer: Capital Projects Fund

QUIZ TIME

Scenic city receives bond proceeds to be used in constructing a power generation facility. Where would these bond proceeds most likely be recorded?

Answer: Utility Fund (Enterprise Fund)

QUIZ TIME

Scenic City has assessed a 2% sales tax which is restricted for debt service. In which fund would this revenue most likely be recorded?

Answer: Debt Service Fund

REVENUE IN GOVERNMENTAL FUNDS

Revenue in governmental funds include all financial resource inflows – all amounts that increase the equity of the fund – thus, items such as debt proceeds and interfund transfers (in), as well as taxes, licenses, permits, fines etc. are considered to be revenues.

EXPENDITURES IN GOVERNMENTAL FUNDS

Expenditures in governmental funds include all financial resource outflows – all amounts that decrease the equity of a fund – thus, items such as debt principal payments, purchases of capital (fixed) assets, and interfund transfers (out) are considered to be expenditures.

EXERCISE

The Town of Pink bought a fire truck for \$100,000. The purchase was financed by a loan from a local bank. The transaction is being recorded in the Town's General Fund.

Write the journal entry.

SOLUTION

First, record the debt proceeds:

Cash	\$100,000	
	Debt Proceeds (Revenue)	\$100,000

SOLUTION (CONTINUED)

Next, record the purchase of the fire truck:

Capital Outlay (Expenditure)	\$100,000	
Cash		\$100,000

Note: Although the Town has a new fire truck and \$100,000 in debt, neither the Town's Assets, Liabilities, nor Equity have changed. (The debt proceeds revenue was off-set by the capital outlay expenditure. The debit and credits to cash also net to zero.)

So..... How does the government account for capital assets and debt????????????????????

ACCOUNTING FOR CAPITAL ASSETS AND LONG-TERM DEBT OF GOVERNMENTAL FUNDS

General Fixed Asset Account Group (GFAAG)

General Long-Term Debt Account Group (GLTDAG)

These account groups are only accounting entities, not fiscal entities, and therefore they are not Funds.

THE GENERAL FIXED ASSET ACCOUNT GROUP

The General Fixed Asset Account Group accounts for capital assets acquired by governmental funds. The offset (or the credit) is an account called “investment in general fixed assets”.

THE GENERAL FIXED ASSET ACCOUNT GROUP — CONTINUED—

For example, a governmental entity purchased a police car for \$50,000 cash. The entries to record the transaction would be as follows:

<u>General Fund</u>		<u>DR</u>	<u>CR</u>
Capital Outlay (Expenditure)	\$50,000		
Cash			\$50,000
<u>GFAAG</u>			
Police Car (Capital Asset)	\$50,000		
Investment in GFA			\$50,000

THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

The General Long-Term Debt Account Group accounts for the long-term debt of governmental funds. The offset (or the debit) is an account called “amount to be provided”.

THE GENERAL LONG-TERM DEBT ACCOUNT GROUP - CONTINUED -

For example, a governmental entity issued a \$5,000,000 bond to build a new library. The construction will be accounted for in a capital project fund. The bond would be recorded as follows:

Capital Projects Fund

	<u>DR</u>	<u>CR</u>
Cash	\$5,000,000	
Bond Proceeds (Revenue)	\$5,000,000	

GLTDAG

Amount to be provided	\$5,000,000	
Library bond payable		\$5,000,000

PROPRIETARY FUNDS

Proprietary Funds (also called Enterprise Funds or Utility Funds) are used to account for a government's business-type activities. Examples include:

- ⦿ Power Funds
- ⦿ Water/Sewer Funds
- ⦿ Refuse Collection Funds

These funds use the accrual basis of accounting. Therefore, unlike governmental funds, they account for their capital assets and long-term debt in the same manner as other business entities.

ACCOUNTING FOR CAPITAL ASSETS IN A PROPRIETARY FUND

A government purchased a new truck for \$50,000 cash to be used by the Water Fund. The entry to record the transaction would be as follows:

<u>Water Fund</u>		<u>DR</u>	<u>CR</u>
Vehicles (Capital Asset)		\$50,000	
	Cash (Asset)		\$50,000

ACCOUNTING FOR CAPITAL ASSETS IN A PROPRIETARY FUND

Suppose the same situation as in the previous slide except the government only paid \$10,000 in cash and signed a note payable for the remaining \$40,000.

Water Fund

	<u>DR</u>	<u>CR</u>
Vehicles (Capital Asset)	\$50,000	
Cash (Asset)		\$10,000
Note Payable (Liability)		\$40,000



FINANCIAL STATEMENT PRESENTATION

CENTRAL TREASURY

Rather than establish separate bank accounts for each individual fund it is common practice to have funds “share” bank accounts. These shared bank accounts are called the “Central Treasury”. The funds in these bank accounts are allocated to the various funds participating in the Central Treasury.

COMBINED CASH ACCOUNTS

CHECKING - SUNSTATE BANK	2,031,965.84
TOTAL COMBINED CASH	2,031,965.84 (A)
CASH ALLOCATION TO OTHER FUNDS	(2,031,965.84)
TOTAL UNALLOCATED CASH	<u>.00 (B)</u>

CASH ALLOCATION RECONCILIATION

ALLOCATION TO GENERAL FUND	1,669,713.94
ALLOCATION TO STREETS FUND	378,510.31
ALLOCATION TO LTAF FUND	(206,676.45)
ALLOCATION TO PARKS & REC IMPACT FEE FUND	12,203.00
ALLOCATION TO LIBRARY IMPACT FEE FUND	911.00
ALLOCATION TO MUNI FAC & EQUIP IMPACT FUND	129,336.82
ALLOCATION TO POLICE IMPACT FEE FUND	42,909.00
ALLOCATION TO WATER IMPACT FEE FUND	44,830.00
ALLOCATION TO SEWER IMPACT FEE FUND	48,246.14
ALLOCATION TO GRANTS FUND	(289,026.44)
ALLOCATION TO JCEF FUND	6,186.21
ALLOCATION TO COURT RECOVERY FUND	19,064.78
ALLOCATION TO 100 YEAR WATER STUDY FUND	.34
ALLOCATION TO TOLTEC SEWER GRANT FUND	145,612.79
ALLOCATION TO WATER/SEWER MASTER PLAN FUND	(31,302.31)
ALLOCATION TO WATER FUND	264,942.22
ALLOCATION TO SEWER FUND	(130,153.35)
ALLOCATION TO SANITATION FUND	(29,411.93)
ALLOCATION TO CEMETERY FUND	16,033.79
ALLOCATION TO AIRPORT FUND	(52,136.53)
ALLOCATION TO PERPETUAL CARE FUND	(7,827.49)
TOTAL ALLOCATIONS TO OTHER FUNDS	<u>2,031,965.84 (A)</u>
ALLOCATION FROM COMBINED CASH FUND - 01-1110001	(2,031,965.84)
ZERO PROOF IF ALLOCATIONS BALANCE	<u>.00 (B)</u>

(A) These #'s should always be equal.
 (B) These #'s should always be zero.

CENTRAL TREASURY, CONTINUED

1. Not all bank accounts are included in the Central Treasury. For various reasons, Funds also have their own bank accounts that are used only by that fund.

Examples include:

- a. Debt Reserves
- b. Customer Deposits
- c. Volunteer Fire Pensions

CENTRAL TREASURY, CONTINUED

Interest Allocation

Since the funds in the Central Treasury are allocated to the participating Funds, the interest earned must also be allocated. This is typically done on a monthly basis and is based on the average balance in each fund.

CENTRAL TREASURY, CONTINUED

Interest Allocation, continued

Total Combined Cash - End of Month = 10,000,000
 Interest Earned for the Month = 37,500

	Beginning Combined Cash	Ending Combined Cash	Average Balance	Average Balance Percentage	Central Treasury Interest Allocated
General Fund	2,880,000	3,200,000	3,040,000	32.00%	12,000
Capital Project Fund	1,350,000	1,500,000	1,425,000	15.00%	5,625
HURF Special Revenue Fund	765,000	850,000	807,500	8.50%	3,188
LTAF Special Revenue Fund	225,000	250,000	237,500	2.50%	938
Debt Service Fund	1,530,000	1,700,000	1,615,000	17.00%	6,375
Power Fund	1,080,000	1,200,000	1,140,000	12.00%	4,500
Water Fund	1,170,000	1,300,000	1,235,000	13.00%	4,875
	<u>9,000,000</u>	<u>10,000,000</u>	<u>9,500,000</u>	<u>100.00%</u>	<u>37,500</u>

CENTRAL TREASURY, CONTINUED

Journal Entries

Problem:

While reviewing the month's transactions you discover an expenditure in the General Fund that should have been in the Water Fund.

Write the journal entry to correct the error.

CENTRAL TREASURY, CONTINUED

Journal Entries, continued

Expenditure (Water Fund)	\$10,000	
Expenditure (General Fund)		\$10,000
Cash – Central Treasury (General Fund)	\$10,000	
Cash – Central Treasury (Water Fund)		\$10,000

Note that if we hadn't booked the adjustment to the Central Treasury we would have made a one-sided journal entry to each of these Funds causing the funds to be out of balance.

Your accounting software will most likely automatically allocate the cash for you. However, it is still important to understand what the software is doing in the background.

INTERFUND TRANSACTIONS

Since each Fund is considered to be a separate entity, amounts owed by one Fund to another should be included as assets and liabilities of the Funds.

In addition, transfers of resources can occur between Funds for a number of reasons.

INTERFUND TRANSACTIONS, CONTINUED

Types of Transfers

Some transfers are made on an annual basis for the purpose of shifting resources from one fund legally required to receive certain resources to another fund authorized to expend the revenues. These are commonly referred to as operating transfers.

For example, the General Fund receipts property tax revenue. Management has chosen to use a portion of property tax revenues for debt service.

<u>General Fund</u>	
Transfers – out (expenditure)	\$1,000,000
Cash	\$1,000,000
<u>Debt Service Fund</u>	
Cash	\$1,000,000
Transfers – in (revenue)	\$1,000,000

INTERFUND TRANSACTIONS, CONTINUED

Quiz Time!!!!!!

Management has budgeted a \$50,000 transfer from the General Fund to the Council on Aging – Special Revenue Fund to help subsidize operations at the Senior Center. Book the transfer.

General Fund

Transfers – out	\$50,000	
Cash (Combined)		\$50,000

COA – SRF

Cash (Combined)	\$50,000	
Transfers – in		\$50,000

INTERFUND TRANSACTIONS, CONTINUED

Remember, internal balances should balance. In other words, The sum of all the “Due to” accounts should be equal to all of the “Due from” accounts. The sum of all the “Transfer – out” accounts should equal the sum of all the “Transfer – In” accounts.

GASB 34

Beginning in 2002 the Governmental Accounting Standards Board (GASB) began requiring governments to implement GASB 34. The main objective of GASB 34 was to bring governmental accounting and financial statements more in line with those of for-profit entities.

GASB 34, CONTINUED

GASB 34 requires:

1. Conversion of governmental activities from the modified accrual basis of accounting to the accrual basis.

2. This conversion resulted in two financial statements:

Statement of Net Position - (Balance Sheet)

Statement of Activities - (Income Statement)

The information on these statements is aggregated for the entity as a whole and is classified by activity, not by fund.

GASB 34, CONTINUED

GASB 34 also requires:

An adjustment be made so that debt obligations (including compensated absences, interest payable and pension liabilities (GASB 68)) are included on the Statement of Net Position.

An adjustment be made so that capital assets – including infrastructure- are included on the Statement of Net Position. Depreciation expense and accumulated depreciation must also be reported for governmental activities.

Interfund items (transfers and due to/from) are eliminated.

GASB 34, CONTINUED

GASB 34 also requires:

Revenues are reclassified to Charges for Services, Operating Grants and Contributions, Capital Grants and Contributions, and General Revenues (numerous sub-categories).

Expenses are classified by activity (Public Safety, General Government, Health and Welfare, etc.).

Management Discussion and Analysis (MD&A).

QUIZ TIME!!!!!!

Record the purchase of a \$50,000 truck by an Enterprise (Proprietary) Fund. The truck was partially financed by a \$30,000 note payable.

Solution

Truck (Capital Asset)	\$50,000
Cash (Asset)	\$20,000
Note Payable (Liability)	\$30,000

QUIZ TIME!!!!!!

Suppose the same set of circumstances as the previous example except, the truck was purchased by a Special Revenue Fund.

SOLUTION

SRF

Capital Outlay (Expenditure)	\$50,000	
Debt Proceeds (Revenue)		\$30,000
Cash (Asset)		\$20,000

GFAAG

Truck (Capital Asset)	\$50,000	
Investment in GFA		\$50,000

GLTDAG

Amount to be Provided	\$30,000	
Note Payable		\$30,000

QUIZ TIME!!!!!!

What basis of accounting is used for governmental type activities?

MODIFIED ACCRUAL

Name three examples of governmental funds:

- > General Fund
- > Special Revenue Funds
- > Capital Project Funds
- > Debt Service Funds

QUIZ TIME!!!!!!

You notice that the Town has made a mistake and recorded a \$5,000 General Fund Expenditure in the Capital Project Fund.

Fix it.

General Fund

Expenditures	\$5,000	
Cash (Combined)		\$5,000

Capital Project Fund

Cash (Combined)	\$5,000	
Expenditures		\$5,000



Questions?

Thank you!!!