

FUND ACCOUNTING -101

THE BASICS

Kristen Klein, CPA Author
Guadalupe County Auditor

Janet S. Martin, CPA, CFE
Presenter
Ellis County Auditor

PREREQUISITES

Since This is an Introductory Class, There is No Prior Knowledge of Fund Accounting Required.

OVERVIEW & OBJECTIVES

1. Theory
2. Types of Funds Used
3. Basis of Accounting / Measurement Focus
4. Financial Reporting

THEORY – OF GOVERNMENTAL ACCOUNTING

1. Accountability – use of separate funds.
2. Compliance – using revenues per statutes.
3. Meeting Fiduciary Responsibilities

THEORY

KEY DIFFERENCES BETWEEN GOVERNMENTS AND FOR PROFIT BUSINESSES

- Legal structure
- Political process
- Lack of profit motive

IN GOVERNMENTAL ACCOUNTING THE EMPHASIS IS ON:

- Measuring yearly results and beginning of year financial status.
- The budget
- Accountability and transparency are critical
- No emphasis on performance.
- GASB 34 added longer term emphasis.

WHY IS GOVERNMENTAL ACCOUNTING DIFFERENT?

Government Accounting has different purposes than business accounting:

- Different purposes,
- Different processes of generating revenues,
- Different stakeholders,
- Governments have budgetary obligations (usually legally imposed)

WHO'S THE BOSS?

ANSWER:

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

....“THE GASB”....

FUND ACCOUNTING

Governmental accounting systems should be 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.

WHAT DOES A FUND LOOK LIKE?

The image shows a screenshot of a fund structure chart. A green arrow points to the '201 - CETRZ FUND' level. A red box labeled 'Revenue and Expenditure Lines' is connected by a red bracket to a list of revenue and expenditure items. A blue box labeled 'Balance Sheet Accounts' is connected by a blue bracket to a list of balance sheet items.

Account Number	Description
100 - GENERAL FUND	
200 - ROAD & BRIDGE FUND	
201 - CETRZ FUND	
100 - SPECIAL REVENUE	
300.7110	Revenues Current Taxes / Real f
520.3705	Oper Exp Culverts
520.3708	Oper Exp Base Material
520.3710	Oper Exp Surfacing Material
520.3712	Oper Exp Seal Coating
520.4022	Oper Exp Engineering Services
520.4998	Oper Exp Bridge Construction
101.0000	Cash in Bank Cash Operating Fund
103.0002	Money Market Schertz Bank & Trus
104.0002	Certificates of Deposit Schertz Bar
202.0000	Accounts Payable Accounts Payab
290.0200	Fund Balance Restricted for Opera
290.0206	Fund Balance Road and Bridge
202 - TxDOT INFRASTRUCTURE GRANT	

FUND TYPES

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Projects Funds
5. Enterprise Funds (Proprietary)
6. Internal Service Funds (Proprietary)
7. Fiduciary Funds

THE GENERAL FUND

This is the primary operating fund for all governments.

As a rule, all activities should be accounted for in the General Fund unless they are specifically required by law to be in a separate fund, or if the measurement focus or basis of accounting is different.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenue sources that are restricted for limited purposes.

Same accounting as the General Fund.

Road and Bridge, Courthouse Security, and Record Management Funds are examples.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to meet the goals of demonstrating accountability and compliance, and are used to account for monies of specific revenue sources that are restricted or committed for specified purposes other than debt service or capital projects

TAC's (Texas Association of Counties) Publication "*Special & Dedicated Funds*" lists Special Revenue Funds.

- *Texas Association of Counties/Legal/Legal Publications/Special & Dedicated Funds*

CAPITAL PROJECT FUNDS

Are used to account for resources that are used to acquire or construct major capital facilities and infrastructure.

Generally, each separate debt issue will require a separate capital project fund. The funds are closed when the projects are completed.

Allow for separate, multi-year accounting for projects.

CAPITAL PROJECT FUNDS

No fixed assets or depreciation are recorded. No long term debt.

A capital budget is prepared for selling bonds and for controlling the project.

Capital budget may be formally recorded.

Note: Debt proceeds that are not spent in an 18-month or 2-year time period spending rules are subject to arbitrage (see IRS Publication 5271)

DEBT SERVICE FUND

Debt Service Funds are used to account for the revenues and expenditures related to the annual principal and interest payments on long-term debt – bonds, tax notes, certificates of obligation.

A separate debt tax rate must be adopted with the budget.

DEBT SERVICE FUNDS

A separate debt service fund for each debt issue may be used, or only one.

There are statutory limits on how much tax revenue may be budgeted each year.

There are IRS regulations limiting the amount of fund balance, and use of debt service funds.

ENTERPRISE FUNDS

For operations that are business-like.

Examples: Golf courses, parks, airports, convention centers.

Same accounting as a business.

Profit and loss measurement.

INTERNAL SERVICE FUNDS

For projects, departments, or operations, that exist to serve the County as a whole.

Examples: Insurance Funds, Vehicle Maintenance, Print Shops

Same accounting as Enterprise Funds.

AGENCY FUNDS (OOPS, NOW CALLED CUSTODIAL FUNDS!)

Agency/Custodial Funds are a type of Fiduciary Funds

Used for non-county funds held for the benefit of others.

- *Examples: Trust Funds, Tax Office Collections for other Taxing Entities and the State, Restitution.*

GASB Statement No. 84

- *Changes how fiduciary activities are reported*
- **Postponed by one year** until fiscal years beginning after Dec. 15, 2019, or fiscal year 2021 for all June and September year-ends.

BASIS OF ACCOUNTING / MEASUREMENT FOCUS

1. Measurement Focus
2. Basis of Accounting
3. The Goals of Governmental Accounting

MEASUREMENT FOCUS

Governmental funds use the “*flow of current financial resources measurement focus*” – emphasis on short term (one year)

Enterprise, Internal Service, and Fiduciary Funds use the “flow of economic resources” focus (like businesses) – longer term emphasis.

BASIS OF ACCOUNTING – MODIFIED ACCRUAL

Governmental funds – the modified accrual basis.

Only recognize revenues that will be received in cash within 30-60 days.

Only recognize liabilities that will be paid with “current financial resources.”

BASIS OF ACCOUNTING – FULL ACCRUAL

Enterprise & Internal Service funds use the full accrual basis of accounting.

Recognize revenues when receivable and measurable.

Recognize liabilities when incurred.

BASIS OF ACCOUNTING & MEASUREMENT FOCUS

Governmental Funds				Proprietary Funds	Fiduciary Funds				
Modified Accrual Basis of Accounting Current Financial Resources Measurement Focus				Full Accrual Basis of Accounting Economic Resource Measurement Focus					
General Funds	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Pension Trust Funds	Agency (Custodial) Funds	

Modified accrual is a combination of cash basis and full accrual basis.

- Revenues are recognized when they are both measurable and available.
- Measurable — the cash flow from the revenue can be reasonably estimated.
- Available — the revenue is available to finance current expenditures to be paid within 60 days.
- Expenditures are recognized in the period goods are received or services performed.

In **Full accrual** accounting:

- revenues are recognized as soon as they are earned, and
- expenses are recognized as soon as the related liability is incurred, regardless of the timing of related cash flows.

MODIFIED ACCRUAL VS FULL ACCRUAL

	Modified Accrual	Full Accrual
Measurement Focus	Current Economic Resources – transactions that affect current financial resources	Total Economic Resources – all transactions for that reporting period
Objective	Determine if current inflows are sufficient to cover current outflows	Match revenues with expenditures
Revenue Recognition	When earned, measurable and available – 60 days	When earned and measurable
Expenditure Recognition	When delivery has occurred or services have been rendered with several exceptions	When delivery has occurred or services have been rendered

FINANCIAL REPORTING

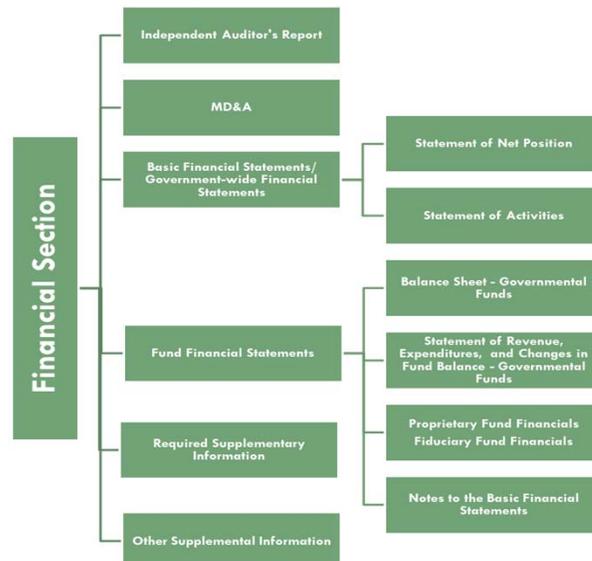
Effects of GASB 34:

- A major departure from the "current resources" focus.
- An attempt to report using both measurement focuses and both bases of accounting.

Now two (2) sets of financials statements are presented in the annual financial report.

- Government-wide statements, and
- Fund statements

COMPREHENSIVE FINANCIAL STATEMENTS



STATEMENT OF NET POSITION (GOVERNMENT-WIDE BALANCE SHEET???)

Full Accrual
Economic Resources

Guadalupe County, Texas
Statement of Net Position
September 30, 2019

One Column – all the funds
lumped together!

ASSETS

Cash and investments
Receivables
Taxes, net
Other
Prepaid items
Inventory

Capital assets, not being depreciated
Land
Infrastructure - roads
Construction in progress
Capital assets, net of accumulated depreciation
Furniture and equipment
Buildings and improvements
Infrastructure - bridges
Total assets

Includes Assets!

**Primary
Government
Governmental
Activities**

\$	65,054,922
	1,409,219
	3,700,929
	707,702
	168,924
	3,121,318
	33,627,936
	3,554,872
	5,268,983
	34,328,797
	2,011,237
	<u>152,954,839</u>

BALANCE SHEET GOVERNMENTAL FUNDS

Modified Accruals
Current Financial Resources

Guadalupe County, Texas
Balance Sheet
Governmental Funds
September 30, 2019

Major Funds

ASSETS

Cash and equivalents
Investments
Taxes receivable, net
Other receivables
Due from other funds
Inventory
Prepaid items
Total assets

No Capital Assets?!

	General Fund	Road and Bridge Fund	Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
Cash and equivalents	\$ 3,733,895	\$ 5,729,306	\$ 11,292,596	\$ 5,484,249	\$ 26,240,046
Investments	34,455,822	-	-	-	34,455,822
Taxes receivable, net	1,152,196	191,370	-	65,653	1,409,219
Other receivables	2,615,787	109,047	-	139,838	2,864,672
Due from other funds	137,889	-	240,400	114	378,403
Inventory	-	148,243	-	20,681	168,924
Prepaid items	610,373	9,029	25,000	13,300	657,702
Total assets	<u>\$ 42,705,962</u>	<u>\$ 6,186,995</u>	<u>\$ 11,557,996</u>	<u>\$ 5,723,835</u>	<u>\$ 66,174,788</u>

WHAT'S COMING TO A FINANCIAL STATEMENT NEAR YOU...

GASB Statement No. 98, *The Annual Comprehensive Financial Report*

Effective Date: The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* Effective Date: The requirements of this Statement are effective immediately.

GASB Statement No. 91, *Conduit Debt Obligations* Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 87, *Leases* Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

THE NEW GASB 34 & THE GREAT SHAKE UP

Financial Reporting Model—Reexamination of Statements 34, 35, 37, 41, and 46 and

Interpretation 6: The objective of this project is to make improvements to the financial reporting model, to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and to address certain application issues, based upon the results of the pre-agenda research on the financial reporting model.

- Article in *Journal of Accountancy* "Government financial reporting model would change under GASB proposal" July 27, 2020.

<https://www.journalofaccountancy.com/news/2020/jul/gasb-proposal-would-change-government-financial-reporting-model.html>

Revenue and Expense Recognition: The overall objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions

- Article in *Journal of Accountancy* "GASB delves into financial statement elements, revenue and expense models" July 1, 2020

<https://www.journalofaccountancy.com/news/2020/jul/gasb-financial-statement-elements-revenue-expense-models.html>

GOVERNMENTAL ACCOUNTING IN THE FUTURE

For the near term, the practical focus will remain year to year.

The annual budget will retain its importance and emphasis.

More GASB standards will make accounting more and more complex.

More consultants will be required.

ACCOUNTING RESOURCES

TACA (Texas Association of County Auditors) Website – **Resources Tab**

Texas Association of Counties Publications – “Public Finance”, “Special & Dedicated Funds”, “Guide to Texas Laws”

GFOA (Government Finance Officers Association) Publications and Best Practices

Publications:

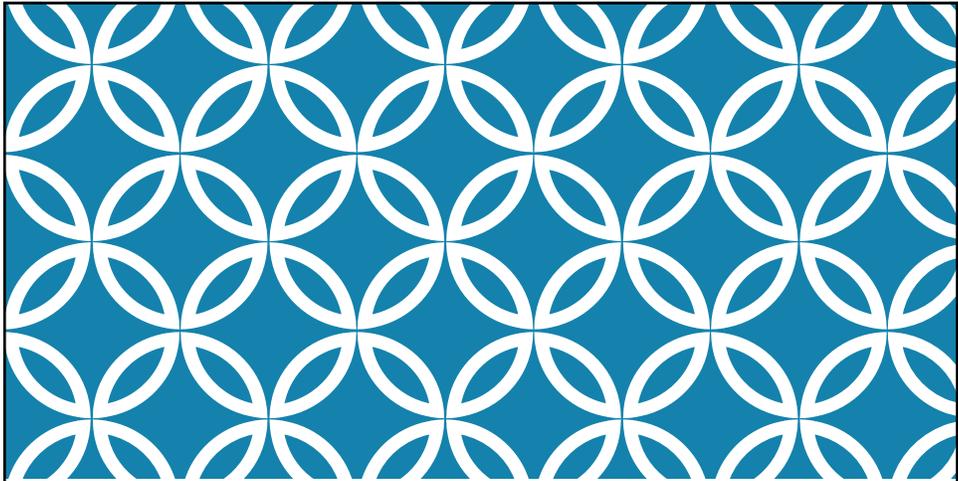
- Governmental Accounting: 2021 Edition, By Steven M. Bragg, CPA
- Wiley GAAP for Governments 2020, By Warren Ruppel
- [Governmental Accounting, Auditing, and Financial Reporting \(GAAFR or “Blue Book”\)](#), By Stephen J. Gauthier

SUMMARY

1. The goals of fund accounting are compliance and accountability.
2. There are seven basic fund types.
3. The fund types differ in their measurement focus and basis of accounting.
4. Many funds are legally required.
5. Many optional funds are commonly used.
6. Accounting will get more and more complex.

CONCLUSION

Our jobs will get more and more complex, but County Auditors and Assistant County Auditors will continue to become more and more important.



CONTACT INFORMATION:

JANET S. MARTIN, CPA, CFE
COUNTY AUDITOR
ELLIS COUNTY

972-825-5122
JANET.MARTIN@CO.ELLIS.TX.US