

INTRODUCTION TO GOVERNMENTAL FUND ACCOUNTING

FUND = an independent fiscal and accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations (a “self-sustaining activity”)

TYPES OF FUNDS:

❖ Governmental Funds

- General Fund – *accounts for all revenue & expenditures that are not accounted for elsewhere; usually the operating fund of a governmental entity*
- Special Revenue Funds – *used to account for proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions (Major & Local Street, General Highway, Cemetery Funds)*
- Debt Service Funds – *account for annual payment of principal, Interest & expenses for certain long-term debt other than enterprise fund debt; optional*
- Capital Project Funds – *account for development of capital facilities (other than those funded by special assessments or enterprise funds); optional*
- Permanent Funds – *account for resources permanently restricted (ie. cemetery perpetual care); optional*

❖ Proprietary Funds (“business-like”)

- Enterprise Funds – *account for activities that provide a good or service to citizens that is financed primarily by a user charge (Sewer & Water Funds)*
- Internal Service Funds – *account for goods & services provided by departments on a fee basis to other departments within the governmental unit*

❖ Fiduciary Funds (we act as trustee or agent for outside entity’s assets)

- Trust Funds – *ie. pension and other employee benefit trust funds*
- Agency Funds – *example...the Village’s Technical Standards require a builder to have on deposit with us an amount for construction observation fees which will be paid to the Village’s engineer as work is performed to insure conformance with Village standards.*

NOTICEABLE DIFFERENCES FROM COMMERCIAL ACCOUNTING:

- A profit motive is absent from all the funds. A profit figure doesn't even appear in most funds. Governmental units are service & responsibility oriented. Even enterprise funds are based on cost recovery rather than profit.
- Most fund types use a "modified-accrual" basis of accounting (discussed in more detail below)
- Fund accounting emphasis is on "budgetary accounting"
- A governmental unit is a combination of several distinctly different financial operations, each having its own set of accounts or funds
- Evaluating results of operations is concerned more with a comparison of actual results to budgeted amounts, rather than maximization of net income or working capital

BASIS OF ACCOUNTING:

- Full-accrual – *revenue is recorded in the accounts at the time it is earned and expenditures are recorded when the liability is incurred. This is generally the superior method of accounting for the inflow & outflow of economic resources because it relates the costs to the time period in which the benefits are received and provides a more accurate matching of these benefits with any associated revenue.*

Funds: Enterprise Funds
Internal Service Funds
Fiduciary Funds

- Modified-accrual – *revenue is recorded when earned, subject to its ability to be measured (estimated) and its availability to finance expenditures of the period (generally 30-60 days from year-end); expenditures recorded on an accrual basis **except**:*
 - *Land, buildings & equipment expensed when purchased*
 - *Inventory items may be considered expenditures when purchased*
 - *Interest on long-term debt expensed when due (not accrued)*
 - *Prepaid expenses normally expensed when incurred*

Funds: General Fund
Special Revenue Funds
Debt Service Funds
Capital Outlay Funds
Permanent Funds

COMPONENT UNIT: (DDA)

A legally separate organization that does not qualify as a primary government and a combination of other factors exist that determine financial accountability (fiscal dependence, financial benefit or burden, board appointment, ability to impose will)

TERMINOLOGY:

- GAAP (Generally Accepted Accounting Principles)
- GASB (Governmental Accounting Standards Board)
- Single Audit (compliance audit procedures required by the OMB when we receive more than \$750,000 in federal award money per fiscal year)