

# Fund Accounting Overview

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## Heinfeld, Meech & Co., P.C.

Based in Arizona since 1986

Licensed CPA Firm in Arizona and New Mexico

Focused exclusively on accounting and auditing services to governments and non-profits

## Agenda



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## Fund Accounting

### Definition of a Fund:

... 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.

## Why Fund Accounting?

Fund accounting helps meet the reporting objective of providing information as to whether **resources were obtained and used in accordance with the budget and other finance related requirements** by accounting for financial transactions and balances through several separate funds, each accounting for designated assets, liabilities and equity.

## Fund Types

### Categories and Types of Funds:

Governmental Fund Category	Proprietary Fund Category	Fiduciary Fund Category
<ul style="list-style-type: none"> <li>• General fund</li> <li>• Special Revenue funds</li> <li>• Capital Projects funds</li> <li>• Debt Service fund</li> <li>• Permanent fund</li> </ul>	<ul style="list-style-type: none"> <li>• Enterprise funds</li> <li>• Internal Service Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Pension (and other employee benefit) Trust funds</li> <li>• Investment Trust funds</li> <li>• Private-Purpose Trust funds</li> <li>• Agency funds</li> </ul>

## Why does this fund exist?

- Budgetary requirements
- State or other oversight agency requirements
- Management requirements
- GASB requirements

## Who is GASB?

## **GASB**

- GASB – Governmental Accounting Standards Board
- Provides rules and guidance for financial reporting by governments
- GASB has issued 87 standards to date
- Due process is a part of the standard issuance process

[www.gasb.org](http://www.gasb.org)

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## **Governmental Funds**

These are the funds through which most activities typically associated with the government are financed and accounted for.

## Governmental Fund Types

### General Fund

- Government's main operating fund
- Includes all activities not required to be accounted for in other funds
- Usually by far the largest percentage of the organizations activity
- Most closely associated with organizations budget

## Governmental Fund Types

### Special Revenue Funds

- Account for and report revenue sources that are *restricted, committed, or assigned* to a specified purpose (other than debt service or capital projects) and which represent a substantial portion of the resources reported in the fund

## Special Revenue Funds

### Examples:

- HURF
- Housing
- Grants
- Parks and Recreation
- Transit

## Governmental Fund Types

### Capital Projects Funds

Account for and report financial resources *restricted, committed,* or *assigned* to be expended for capital outlay



### Debt Service Funds

Account for and report financial resources *restricted, committed,* or *assigned* to be expended for principal and interest



### Permanent Funds

Account for and report resources that are legally restricted to the extent that only earnings, not principal, can be spent

We will talk about these later in more detail

## Proprietary Funds

These are used to account for a government's business-type activities.

More information on these Funds in the afternoon



Enterprise Funds

Internal Service Funds

## Fiduciary Funds

These are used to report and track the activities in which the government acts as a trustee or agent and therefore monies cannot be used to support the government's own programs.

More information on these Funds in the afternoon

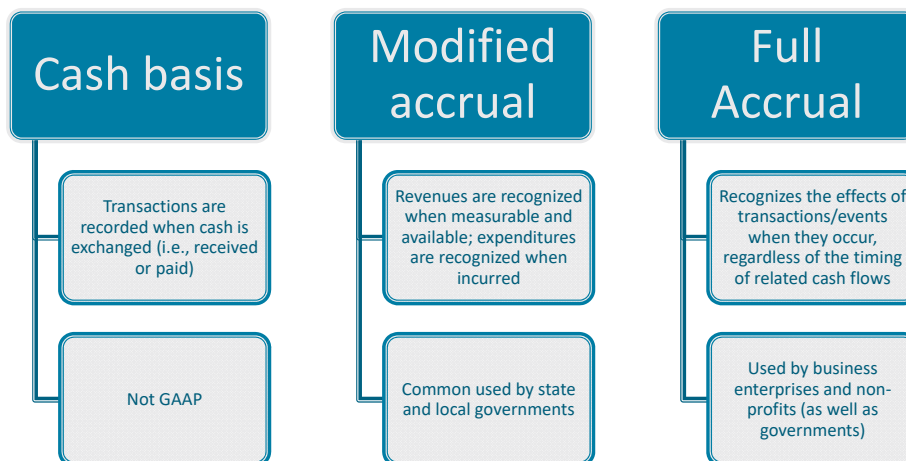




# Basis of Accounting



## Basis of Accounting



## Example – Cash Transaction

Organization receives \$100,000 in Federal Grant Money:

Debit: Cash

Credit: Federal Revenue

This transaction does not consider if money is owed to a vendor (accounts payable) at year-end

## Example – Cash Transaction

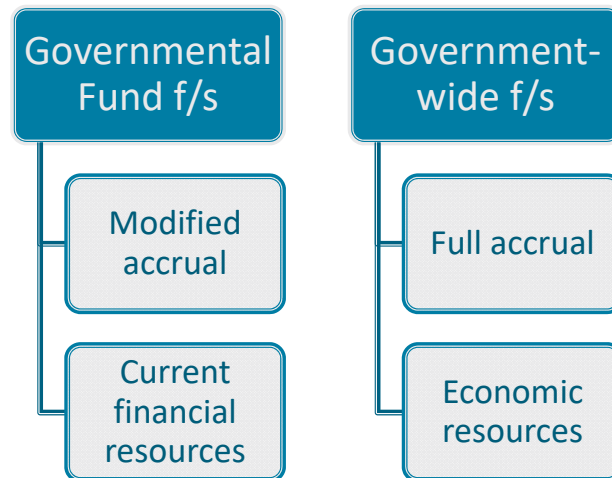
Organization pays out \$100,000 to a vendor:

Debit: Expenditure

Credit: Cash

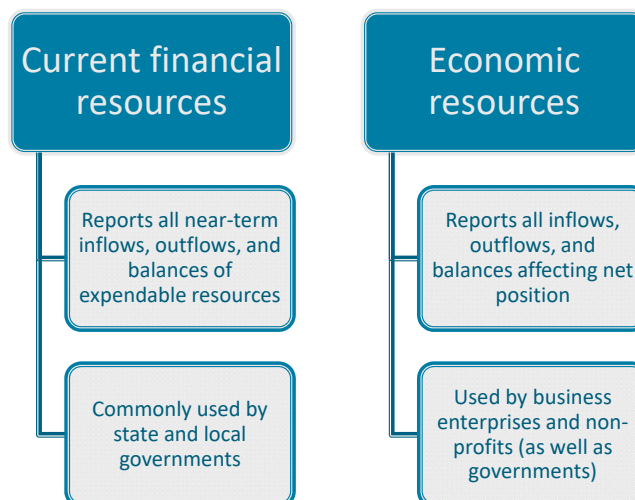
This transaction does not consider if the monies were owed to the organization (accounts receivable) at year-end

## Overview



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## Measurement Focus



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# Fund Financial Statements



**What are financial statements  
and why are they important?**



## Financial Statements

Financial statements are a formal record of the financial activities and position of an entity.

They tell a story and help the reader understand the movements and direction of your organization.

Financial statements can be used to benchmark performance against the industry or for comparisons from year to year to identify trends.

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## Financial Statements

Financial statements demonstrate stewardship and accountability to:



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## FUND Financial Statements Overview

### *Fund Financial Statements*

#### **-Governmental funds**

- Balance Sheet
- Revenues, Expenditures, and Changes in Fund Balances

Modified accrual  
basis of accounting

Current financial  
resources  
measurement focus

## FUND Financial Statements Overview

The fund financial statements focus on near-term inflows of spendable resources and are useful in evaluating the government's near-term financing requirements.

## Balance Sheet

### Components

- Assets –what the government owns
- Deferred outflows – consumption of net position applicable to a future reporting period
- Liabilities –what the government owes
- Deferred inflows - acquisition of net position applicable to a future reporting period
- Fund Balance – what is left over

Snapshot of account balances  
on one day (fiscal year end) –  
June 30

Deferred outflows and  
inflows of resources  
introduced with GASB  
Statement No. 63 and  
expanded usage in GASB  
Statement No. 65

## Deferred inflows and outflows

### Deferred outflow example

- Rare in the fund financials, but common for GW Statement of Financial Position

### Deferred inflow example

- Unavailable revenue – a receivable that is known but not collected in period of availability

# Governmental Funds – Balance Sheet

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General	Transit	Gen	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments:	\$ 4,930,729	\$ 1,620,867	\$ 72,603	\$ 2,308,732	\$ 5,571,149	\$ 14,504,080
Taxes receivable	1,008,384	56,142		128,440		1,192,966
Intergovernmental receivable	175,961	288,369	4,217		141,567	610,114
Restricted cash and investments:		1,824,899			823,818	2,648,717
Accounts receivable	210,335	60,181				270,516
Inventories:	40,249	15,311				55,560
<b>Total assets:</b>	<b>\$ 6,365,658</b>	<b>\$ 3,865,769</b>	<b>\$ 76,820</b>	<b>\$ 2,437,172</b>	<b>\$ 6,536,534</b>	<b>\$ 19,281,953</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 680,004	\$ 24,847	\$ 1,100		\$ 53,348	\$ 759,299
Accrued payroll and employee benefits	451,169	16,018				447,187
Deposits held for others:	15,618	13,717				29,335
Unearned revenue	10,684					10,684
Loans payable				910,000		910,000
Interest payable		98,640		315,638	67,324	481,602
<b>Total liabilities:</b>	<b>1,137,475</b>	<b>153,222</b>	<b>1,100</b>	<b>1,225,638</b>	<b>120,672</b>	<b>2,638,107</b>
<b>Deferred inflows of resources:</b>						
Unavailable revenues - intergovernmental		95,492	4,217			99,709
<b>Fund balances:</b>						
Nonspendable	40,249	15,311				55,560
Restricted		3,601,744	71,503	1,211,534	823,818	5,708,599
Assigned	1,000,000				5,592,044	6,592,044
Unassigned	4,187,934					4,187,934
<b>Total fund balances:</b>	<b>5,228,183</b>	<b>3,617,055</b>	<b>71,503</b>	<b>1,211,534</b>	<b>6,415,862</b>	<b>16,544,137</b>
<b>Total liabilities, deferred inflows of resources and fund balances:</b>	<b>\$ 6,365,658</b>	<b>\$ 3,865,769</b>	<b>\$ 76,820</b>	<b>\$ 2,437,172</b>	<b>\$ 6,536,534</b>	<b>\$ 19,281,953</b>

Example municipality

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## Statement of Revenues and Expenditures

- Revenues and expenditures
  - Revenues – inflows that are measurable and available
  - Expenditures – are measurable and should be recorded when the exchange takes place
    - Debt service expenditures recorded before payment is due if it is due and payable in one to several days after year end
- Other financing sources (uses)
  - Interfund Transfers
  - General obligation and/or refunding bond issuances
  - Capital lease agreements



# Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

	General	Transit	Grant	Debt Service	Capital Projects	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 11,618,589	\$ 439,290	\$	\$ 1,540,892	\$ 135,022	\$ 13,734,793
Licenses and permits	279,698					279,698
Intergovernmental	3,691,850	1,766,075	104,665		180,000	5,742,590
Charges for services	2,095,961	358,991				2,454,952
Fees and forfeits	149,459					149,459
Rents and royalties	181,808					181,808
Contributions	71,607					71,607
Miscellaneous	94,471	62,785		743	109,603	157,256
Investment income	35,368	33,834				174,473
<b>Total revenues</b>	<u>18,221,511</u>	<u>2,655,995</u>	<u>104,670</u>	<u>1,541,635</u>	<u>424,625</u>	<u>22,948,436</u>
<b>Expenditures:</b>						
Current -						
General government	4,665,822					4,665,822
Public safety	9,251,574					9,251,574
Highways and streets	555,587	2,261,048				2,816,635
Culture and recreation	3,198,799					3,198,799
Capital outlay	674,438	1,246,561	116,007		304,359	2,341,365
Debt service -						
Principal retirement	412,010			910,000		1,322,010
Interest and fiscal charges	21,424	197,828		631,599		985,873
<b>Total expenditures</b>	<u>18,779,854</u>	<u>3,705,437</u>	<u>116,007</u>	<u>1,541,599</u>	<u>439,381</u>	<u>24,582,078</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(558,343)</u>	<u>(1,049,442)</u>	<u>(11,337)</u>	<u>36</u>	<u>(14,756)</u>	<u>(1,633,642)</u>
<b>Other financing sources (uses):</b>						
Transfers in			4,216			4,216
Transfers out	(4,216)				(700,000)	(704,216)
<b>Total other financing sources (uses):</b>	<u>(4,216)</u>		<u>4,216</u>		<u>(700,000)</u>	<u>(700,000)</u>
<b>Change in fund balances</b>	<u>(562,559)</u>	<u>(1,049,442)</u>	<u>(7,121)</u>	<u>36</u>	<u>(714,756)</u>	<u>(2,333,642)</u>
<b>Fund balances, beginning of year</b>	<u>5,790,542</u>	<u>4,666,497</u>	<u>78,624</u>	<u>1,211,498</u>	<u>7,130,618</u>	<u>18,877,779</u>
<b>Fund balances, end of year</b>	<u>\$ 5,227,983</u>	<u>\$ 3,617,055</u>	<u>\$ 71,503</u>	<u>\$ 1,211,534</u>	<u>\$ 6,415,862</u>	<u>\$ 16,544,137</u>

Example municipality

# Budgetary Accounting and Budget to Actual Reporting

## Budgetary Accounting

- Unique to governmental bodies
- An annual budget should be adopted by governmental entities
- What is this budget?
  - ▶ A plan of financial operation for a given period of time.

## Budgetary Accounting - Budgets

Two main things are demonstrated:

Shows the amount and sources of anticipated revenue or transfers in

Also shows the amount and purposes of authorized expenditures

### Answers the question:

How is the government going to acquire resources and use them to achieve objectives?

## Budgetary Accounting - Budgets

### Why is it so important?

- The government cannot exceed the budget without a formally approved amendment
- The government may only spend what was legally authorized
- Budget determines the allocation of resources to various programs

This document  
is required by  
law and legally  
enforceable  
once adopted.

## Uses of Budgetary Financial Reporting

- Assist with economic decisions and also assess accountability
- Users of these reports (ex: citizens) have a better idea of evaluating performance
- Comparing actual results to budgeted provides information on entity's financial situation
  - ▶ Overspending
  - ▶ Underspending

## Budgetary Comparisons - RSI

- May be presented as RSI after the notes to basic financial statements or as a part of the basic financial statements
- Budgetary comparisons should be presented for the general fund and all major special revenue funds with legally adopted budgets
- Comparison should include the original and final budgets with a column presenting the variance between actual and final budget

## Budgetary Comparisons - RSI

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Non-GAAP Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Other local			\$ 3,163,285	\$ 5,163,285
Property taxes			125,768,500	125,768,500
State aid and grants			65,867,023	65,867,023
<b>Total revenues</b>			<u>196,798,808</u>	<u>196,798,808</u>
<b>Expenditures:</b>				
Current -				
Instruction	111,493,821	116,238,319	100,977,657	15,260,662
Support services - students and staff	26,767,528	29,398,327	27,632,727	1,765,600
Support services - administration	18,406,359	19,716,402	19,333,923	382,479
Operation and maintenance of plant services	23,873,869	24,691,211	25,987,261	(1,296,050)
Student transportation services	9,784,294	10,275,772	9,317,520	958,252
Operation of non-instructional services	430,398	484,895	387,842	97,053
<b>Total expenditures</b>	<u>190,756,269</u>	<u>200,804,926</u>	<u>183,636,930</u>	<u>17,167,996</u>
<b>Changes in fund balances</b>	<u>(190,756,269)</u>	<u>(200,804,926)</u>	<u>13,161,878</u>	<u>213,966,804</u>
<b>Fund balances, beginning of year</b>			6,302,833	6,302,833
Increase (decrease) in reserve for prepaid items			7,306,055	7,306,055
Increase (decrease) in reserve for inventory			80,581	80,581
<b>Fund balances (deficits), end of year</b>	<u>\$ (190,756,269)</u>	<u>\$ (200,804,926)</u>	<u>\$ 26,851,347</u>	<u>\$ 227,656,273</u>

Why does this say  
"Non-GAAP  
Actual"?



## Common differences on Budgetary Schedule

Expenditures routinely are different on the budgetary schedule than on the main financial statements

- Budgetary Statement will state “Non-GAAP Actual” or “Budgetary Basis”

## Common differences on Budgetary Schedule

Examples:

- Change in fair value of investments
  - Not budgeted for, so excluded in budgetary statement
- Encumbrances
  - Recognized as expenditures for budgetary purposes
- Other Expenditures
  - Recognized on a cash basis for budgetary statement