

2022 AML Newly Elected Officials Training

Governmental Fund Accounting and Budgeting

MERTZ
CPA & Advisor

*Altman, Rogers
& Co.* | CERTIFIED
PUBLIC
ACCOUNTANTS

Today is about Buckets!



TODAY'S TOPICS:

- Budgeting Basics
- Fund Accounting
- **Buckets make it simple**



“Budgeting” is old hat!



This will be **nothing new** to you.
It will only be **more formalized**,
and there will be more than one
budget to deal with.

Trust me, relax about the
budgets!!!



BUDGET PIECES

(An Accountant's Approach)

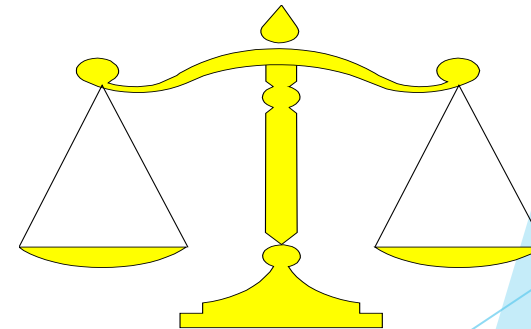
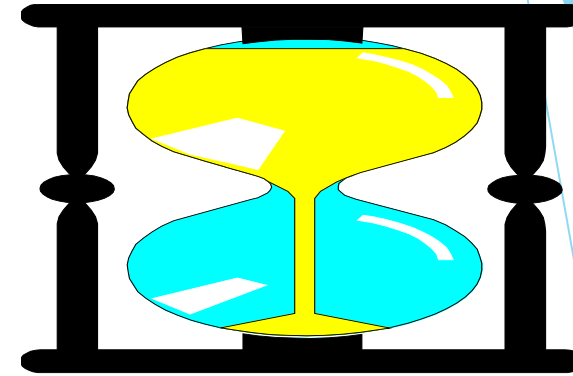
Income Statement's Pieces

1. We guess what the total revenues & expenses will be over the next year.



Balance Sheet's Pieces

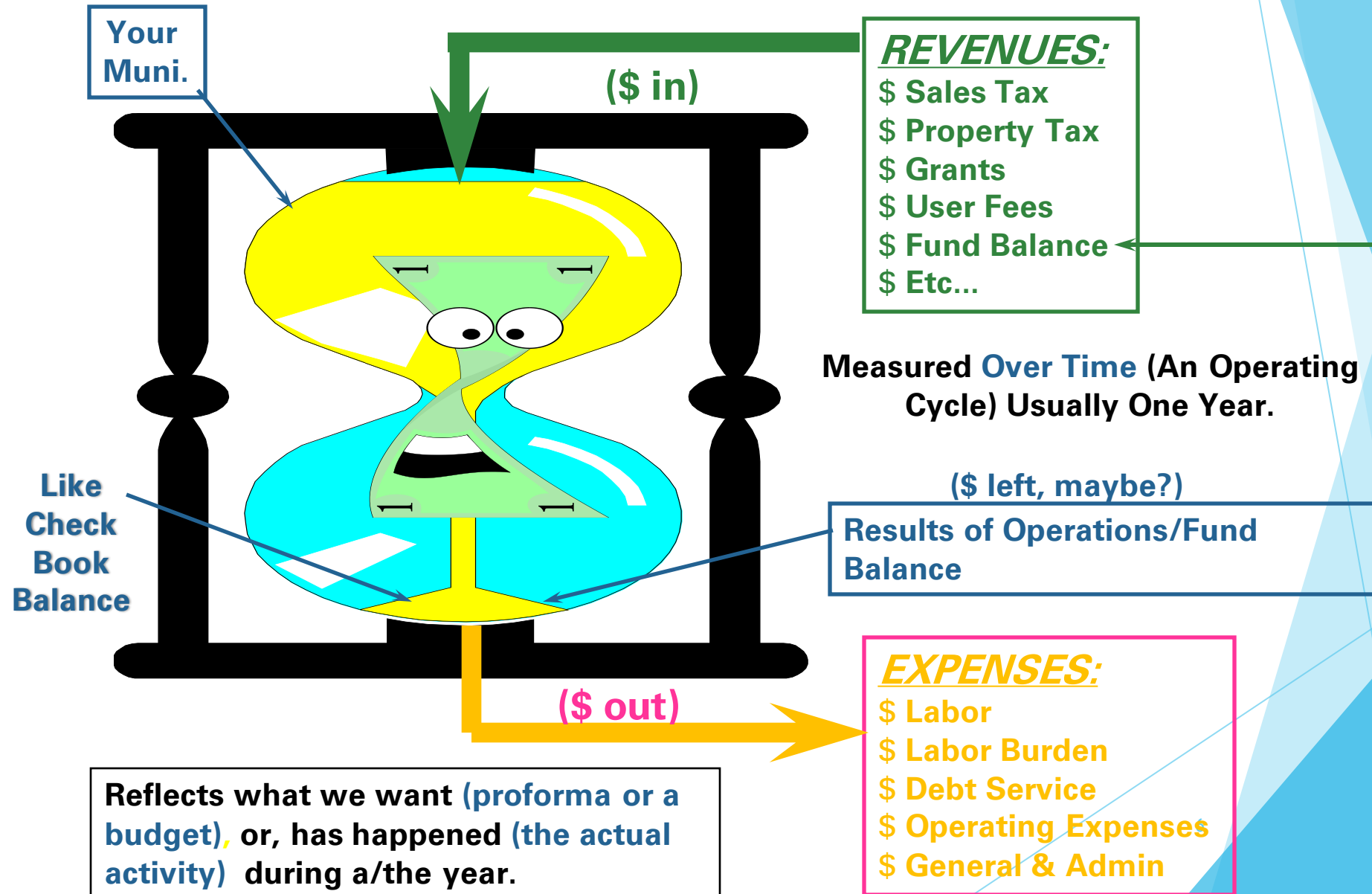
2. We guess what the changes will be to our assets & liabilities (cash, receivables, equipment, capital projects, liabilities, debt, and our equity (fund balance)).



"THE BUDGET"

Budget Questions We Can Ask Using An *Income Statement*:

- 1) We need to **spend** how much money (**expenses**), & on what?
- 2) We **need** how much money (**revenues**), & from where?



THE BUDGET DOCUMENT: Your Friend

SOME TECHNICAL DEFINITIONS:

A budget is a plan of financial operations which provides a basis for the planning, controlling and evaluating of governmental activities.

A budget establishes the critical link between a government's policies and programs and its fiscal capacity.

Budgets are created to establish a basis for measuring future performance, to resolve competing demands, and to identify changes in revenue or spending policies needed to guarantee both short-term and long-term fiscal health.

But, budgets involve uncertainty. Budgets, remember, are prospective; they consist of more or less cautious estimates of future revenue streams and spending demands.

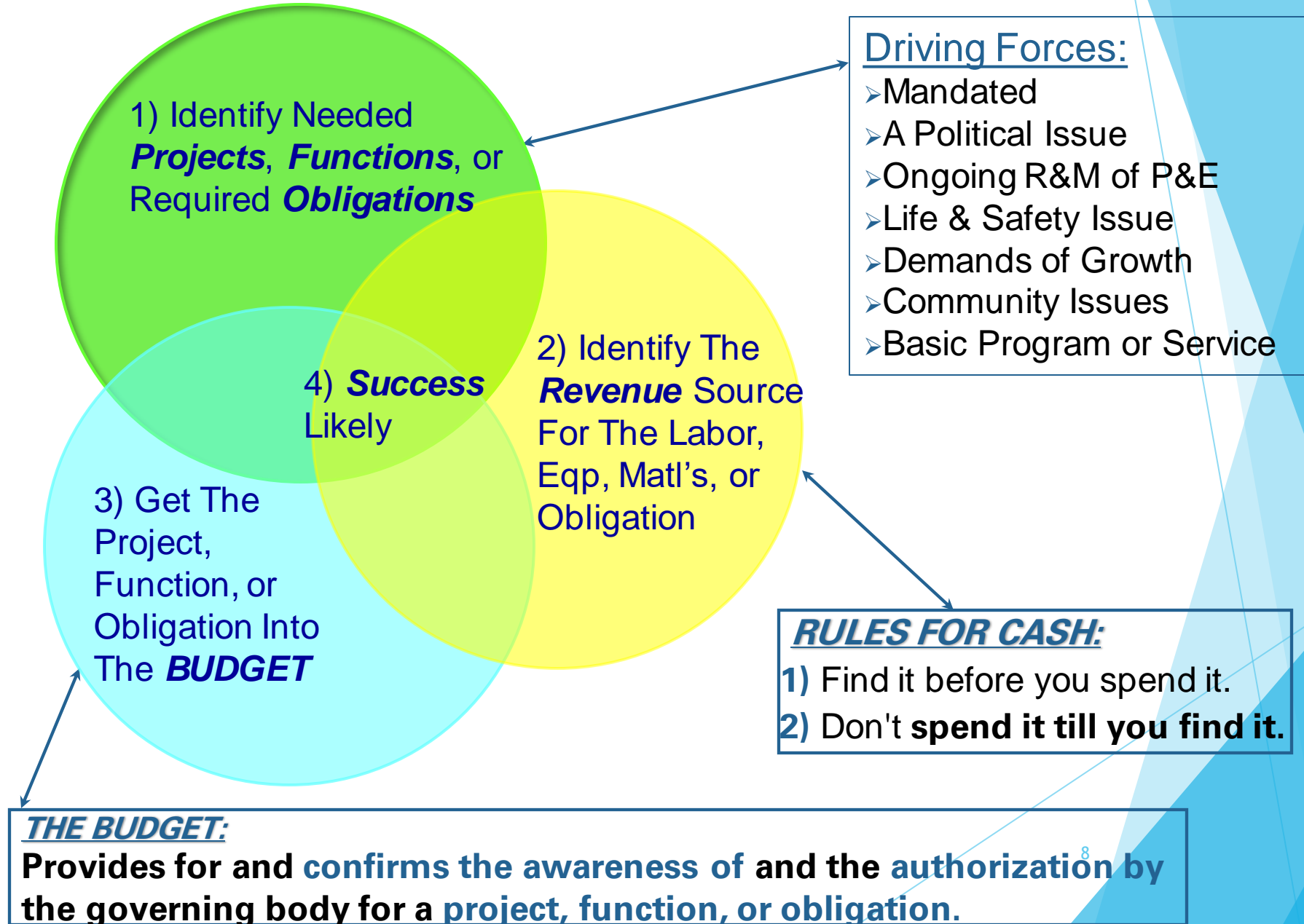
No budget, however meticulously developed, can predict the future perfectly.

They are going to be wrong, and, they might need adjusting.

DON'T BE SURPRISED, rather, EMBRACE BUDGET AMENDMENTS!!!!!!

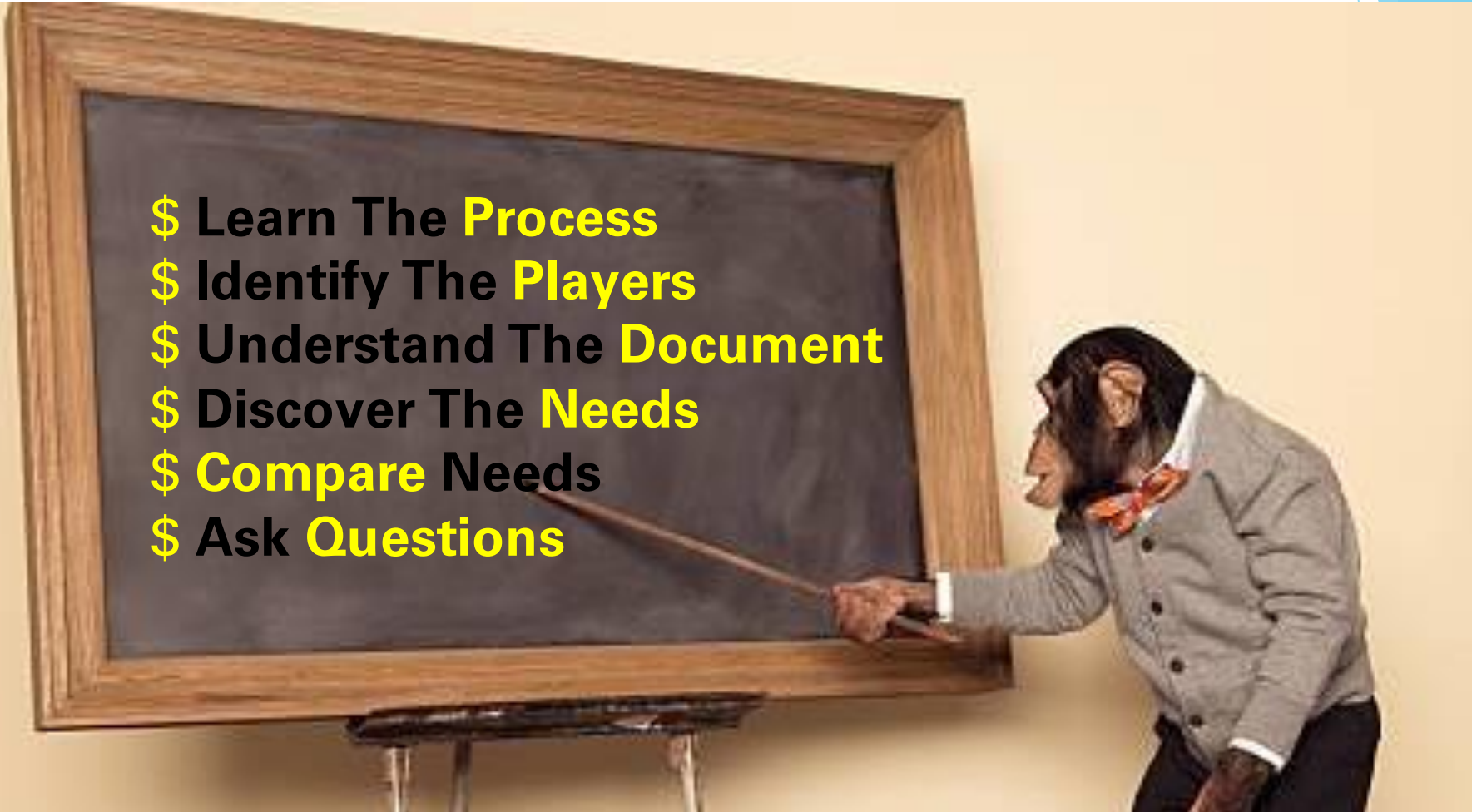
ESSENCE OF BUDGETING

Less Formal/
Non Accounting Approach



THE REAL OBVIOUS BASICS

- \$ Learn The **Process**
- \$ Identify The **Players**
- \$ Understand The **Document**
- \$ Discover The **Needs**
- \$ **Compare** Needs
- \$ Ask **Questions**



Governments and Business – They're Different



What controls the strings & drives **private** enterprise operations and decisions **is not** the same set of strings that controls & drives **municipal** operations and municipal decisions!

Private enterprise experience can help you, and/or, hurt you. It depends on how you try and apply it!

PRIVATE ENTERPRISE



We find a product or service to sell to generate revenues. We work to keep our expenses as low as possible so that when the reporting period is over our revenues are greater than expenses. We “want a profit” to use for our own purposes and therefore we seek to “generate revenues”.

- 1) Profit is the motive.
- 2) Method is to provide a good or service to “generate the revenues”.
- 3) The evil that goes along with generating the revenues are the expenses.

MUNICIPAL GOVERNMENTS

A municipal government is charged (often mandated) with providing a program or service (law requires, voters want). In order to do so, it “**must collect**” revenues.

- 1) Providing the program or service is the motive. Profit isn't the motive.
- 2) Generally, we determine what the necessary program costs are, then “collect the revenues” to cover the costs.
- 3) The evil that goes along with providing the program or service is collecting the revenues to pay for it.

First comes the law, the power to appropriate (the authority to expend for a given purpose) then comes the need to collect the revenues necessary to cover the appropriation!

YOU CAN EASILY GET LOST IN GOVERNMENT FUND ACCOUNTING!



TO REALLY UNDERSTAND BUDGETING, & FUND ACCOUNTING, WE NEED TO TALK ABOUT THE CROOKS!



CORRUPTION LEADS TO FUND ACCOUNTING!



Financial corruption in governments in early 20th century

Most resources were from taxes - like today

Public said 'Enough' and revolted. Demanded better accounting and financial reporting practices

Improvements included segregation of financial resources to ensure funds were spent as intended – BUCKETS

Efficient and effective management systems allow buckets to be maintained in FUNDS in the accounting system.

FUND ACCOUNTING: REQUIRED/DEFINED!



For accounting purposes, *a state or local government is not treated as a single, integral entity*. Instead, a government is viewed as a collection of smaller, separate accounting entities known as “funds.” **Funds are not cash in governmental accounting!**

GASB’s Codification, Section 1300, defines a fund 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 (**fund balances**) 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.

BUCKET CHOICES!

3 Categories/11 Types:

1) **Five Governmental Fund Types** (Have a “fund balance”):

1) **General fund** (*1 only per govt*)

2) **Special revenue funds**

3) **Debt service funds**

4) **Capital projects funds**

5) **Permanent funds**

(Referred to as “expendable.”) Typically used to account for most of a government’s operations.

2) **Two Proprietary Fund Types** (Typically operated like private businesses (Have “Net Assets”)):

1) **Enterprise funds**

2) **Internal service funds**

3) **Four Fiduciary Fund Types:**

1) **Pension, Investment, and Private-purpose trust funds**

2) **Agency funds**

***Note:** The type of **activity** reported in a fund, its **goal** or **measurement focus** will determine the fund type to use.*

Fund Balances

HAINES BOROUGH

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2019

| | General Fund |
|---------------------------|----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,734,837 |
| Investments | 10,316,748 |
| Receivables | 465,735 |
| Due from other funds | 115,843 |
| Due from component units | 19,452 |
| Prepaid expenses | 540 |
| Inventory | 78,132 |
| Total Assets | \$ 12,731,287 |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

Liabilities

| | |
|--------------------------|------------------|
| Accounts payable | \$ 200,763 |
| Accrued payroll | 248,653 |
| Due to other funds | 6,808,524 |
| Unearned revenue | 372,862 |
| Total Liabilities | 7,630,802 |

Deferred Inflows of Resources

| | |
|---|---------------|
| Unavailable revenue - property taxes | 96,436 |
| Unavailable revenue - land sales | - |
| Total Deferred Inflow of Resources | 96,436 |

Fund Balances

| | |
|----------------------------|------------------|
| Nonspendable | 78,672 |
| Restricted | 1,790,394 |
| Assigned | 265,559 |
| Unassigned | 2,869,424 |
| Total Fund Balances | 5,004,049 |

| | |
|---|----------------------|
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 12,731,287 |
|---|----------------------|

BACK TO PRIVATE ENTERPRISES



HAVE (Generally) ONE BUCKET WITH:

- 1 each: Balance Sheet
- 1 each: Income Statement
- 1 each: Equity Section
- 1 each: Check Book
- 1 each: Set of Accounting Rules
- 1 each: Owner that makes decisions

MOST MUNICIPAL GOVERNMENTS



And each pot can have
different “Rules” (purposes)

REMEMBER THE CHOICES!

3 Categories/11 Types:

1) **Five Governmental Fund Types** (Have a “fund balance”):

- 1) General fund (*1 only per govt*)
- 2) Special revenue funds
- 3) Debt service funds
- 4) Capital projects funds
- 5) Permanent funds

(Referred to as “expendable.”) Typically used to account for most of a government’s operations.

2) **Two Proprietary Fund Types** (Typically operated like private businesses (Have “Net Assets”)):

- 1) Enterprise funds
- 2) Internal service funds

3) **Four Fiduciary Fund Types:**

- 1) Pension, Investment, and Private-purpose trust funds
- 2) Agency funds

***Note:** The type of **activity** reported in a fund, its **goal or measurement focus** will determine the fund type to use.*

We identify the type of bucket needed for each activity/program/service -- based upon its operational characteristics



WE PUT GUARDS AROUND EVERY POT, WITH ITS OWN SET OF RULES

Outside Rule(s)
(GASB, Federal, State, etc.)



Encumbrance
(\$ can't be used twice)



Appropriation
(Approved by
elected body)



Adopted
Budget



Power
(Authorized
legal use of
this pot of \$)



CHARTERS & THE BUCKETS



An Enterprise Fund Bucket used for Transportation, Water/Sewer or Harbors

A budget appropriation opens the spigot



The General Fund Bucket



A Special Revenue Bucket used for Non-Areawide

AREAWIDE POWERS

- Public Schools
- Assessing & Tax Collections
- Planning, Platting, Land Use
- Transportation
- Parks & Recreation
- Library
- Animal Control
- Air Pollution

NON-AREAWIDE POWERS

- Economic Development
- Emergency Services
- Ski area
- Specific tax use

PUBLIC WORKS DEPT.



Design and Construction



Public Works Administration



Facilities Maintenance



Solid Waste Collection



Household Hazardous Waste



Solid Waste Disposal

| GENERAL FUND | |
|---|----------------------|
| <i>Expenditures</i> | <i>Revenues</i> |
| Assembly | Local Sources |
| Mayor | Taxes (see Note #1) |
| Law | Charges for Services |
| Assessing | Other Local |
| Community Planning | State Sources |
| Other Departments | Debt Reimbursement |
| Non-Departmental | Safe Communities |
| Contributions to: | State Shared Revenue |
| Debt Service Fund | Other State |
| Capital Budget Projects | Federal Sources |
| Education | |
| Child Care Fund | |
| Transit Operating Fund | |
| Carlson Community Activity Center (CACC) Operating Fund | |

| ENTERPRISE FUNDS | |
|--|--------------------------------|
| <i>Expenditures</i> | <i>Revenues</i> |
| Land Operating Fund | |
| Land Management Dept. | Interest Earnings |
| | Fees & Leases |
| | Land Sales |
| CCAC Operating Fund | |
| Parks & Recreation Dept. | Interest Earnings |
| CCAC Division | Contribution from General Fund |
| Transit Operating Fund | |
| Transportation Dept. | Fares & I/M Fees |
| | Other Charges for Services |
| | Interest Earnings |
| | Contribution from General Fund |
| CCAC Capital Reserve Fund | |
| Parks & Recreation Dept. | Contribution from CCAC |
| CCAC Division | Operating Fund |
| Solid Waste Disposal Operating Fund | |
| Public Works Dept: | Landfill Disposal Fees |
| Solid Waste Disposal Division | Interest Earnings |

| INTERNAL SERVICE FUND | |
|--|------------------------------|
| <i>Expenditures</i> | <i>Revenues</i> |
| Vehicle and Equipment Fleet Fund (VEFF) | |
| Transportation Dept: | Interfund Charges |
| VEFF Division | Proceeds from Capital Leases |

| OTHER FUNDS | |
|--|---|
| <i>Expenditures</i> | <i>Revenues</i> |
| Debt Service Fund | |
| Debt Retirement | Interest Earnings |
| Paying Agent Fees | Contributions from General & Non-Areawide Funds |
| Capital Projects and Special Revenue Projects Funds | |
| Projects | Contribution from General, Non-Areawide, etc. (as needed) |
| Education | |
| Education Expense | Contribution from General Fund |
| Child Care Fund | |
| Financial Services Dept: | State Grant |
| Child Care Division | Contribution from General Fund |
| Enhanced 911 | |
| Emergency Operations Dept: | Enhanced 911 Surcharge Revenues |
| Enhanced 911 Div. | Interest Earnings |
| Non-Areawide Fund | |
| Emergency Operations Dept: | Taxes (see Note #2) |
| Emergency Medical Services Division | Emergency Medical Fees |
| Mayor's Office: | State Shared Revenue |
| Economic Development | |
| Community Planning Dept: | |
| Community Research Division | |
| Contributions to: | |
| Debt Service Fund | |
| Capital Budget Projects | |
| Solid Waste Collection District Fund | |
| Public Works Dept: | Taxes (see Note #3) |
| Solid Waste Collections Div. | State Shared Revenue |
| Service Area Funds | |
| 113 separate active Road, Fire, & Other | Taxes (see Note #4) |
| Service Area Funds | State Shared Revenue |
| | Safe Communities |
| | Interest Earnings |

Notes: #1 Taxes levied are Areawide.

#2 Taxes levied are Non-Areawide, outside the Cities.

#3 Taxes are levied outside The City of Fairbanks.

#4 Taxes are levied within specific service areas.

T
R
A
N
S
F
E
R
S

SLICING THE BUDGET



1st, we slice the budget and appropriate at the **“fund level.”** The **“bucket level”** is the self balancing set of accounts level. The **“power & revenues”** stay together. Buckets aren’t mixed.



2nd, we re-slice the same budget and appropriate at the **“department level.”** This is the administrative authorization level. Several buckets and powers could be under the control, **“signature authority”** of one person, under one department.

| | General Fund | Permanent Fund | New School Debt Service | Capital Project Funds | Passenger Vessel Tax | Other Governmental Funds | Total Governmental Funds |
|---|------------------|------------------|-------------------------|-----------------------|----------------------|--------------------------|--------------------------|
| REVENUES | | | | | | | |
| Taxes | | | | | | | |
| Property | \$ 2,632,245 | \$ - | \$ 375,589 | \$ - | \$ - | \$ 14,228 | \$ 3,022,062 |
| Sales | 1,784,411 | - | - | 981,842 | - | 954,998 | 3,721,251 |
| Intergovernmental | | | | | | | |
| Federal grants and contracts | 296,840 | - | - | 130,990 | - | 2,264 | 430,094 |
| Federal payments in lieu of taxes | 426,976 | - | - | - | - | - | 426,976 |
| State grants and contracts | 1,214,258 | - | 904,190 | 65,363 | 174,489 | 46,011 | 2,404,311 |
| Rentals, Service and admission fees | 139,906 | - | - | - | - | 1,950 | 141,856 |
| Licenses and permits | 34,358 | - | - | - | - | - | 34,358 |
| Investment earnings | 308,098 | 601,899 | - | - | - | - | 909,997 |
| Contributions and other | 65,385 | - | - | 106,160 | - | 875 | 172,420 |
| Total Revenues | 6,902,477 | 601,899 | 1,279,779 | 1,284,355 | 174,489 | 1,020,326 | 11,263,325 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| General government | 822,555 | 23,885 | - | - | - | 20,987 | 867,427 |
| Public safety | 1,674,685 | - | - | - | - | 247,901 | 1,922,586 |
| Public works and streets | 877,630 | - | - | - | - | 75,398 | 953,028 |
| Economic development | - | - | - | - | - | 448,004 | 448,004 |
| Education | 1,819,927 | - | - | - | - | - | 1,819,927 |
| Port development | - | - | - | - | 144,482 | - | 144,482 |
| Culture, recreation, and library | 1,143,826 | - | - | - | - | - | 1,143,826 |
| Debt service | | | | | | | |
| Principal | - | - | 870,000 | - | - | 7,259 | 877,259 |
| Interest | - | - | 421,700 | - | - | 6,889 | 428,589 |
| Capital outlay | - | - | - | 1,345,799 | - | - | 1,345,799 |
| Total Expenditures | 6,338,623 | 23,885 | 1,291,700 | 1,345,799 | 144,482 | 806,438 | 9,950,927 |
| Excess (Deficiency) of Revenues | | | | | | | |
| Over (Under) Expenditures | 563,854 | 578,014 | (11,921) | (61,444) | 30,007 | 213,888 | 1,312,398 |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers in | 554,280 | 3,879 | - | 565,539 | - | - | 1,123,698 |
| Transfers out | (626,345) | (304,000) | - | (250,059) | (30,007) | (136,683) | (1,347,094) |
| Sale of capital assets | - | - | - | - | - | 24,866 | 24,866 |
| Total Other Financing Sources (Uses) | (72,065) | (300,121) | - | 315,480 | (30,007) | (111,817) | (198,530) |
| Net Change in Fund Balances | 491,789 | 277,893 | (11,921) | 254,036 | - | 102,071 | 1,113,868 |

WHAT IT TAKES TO UNDERSTAND IT



- **There's no magic.**
- **There's only time and effort.**
- **There's simply, a learning process.**
- **Finally, Governmental Accounting is complex.**

THE TEST QUESTION:

What are your
municipality's budgeting
and finances really all
about?

THE ANSWER:



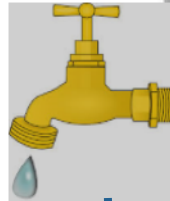
With Fund Accounting &
A System of Controls

Why?

To Prevent
Bad Behavior



Really,
it's about:
"Accountability"



Expenditures/appropriations out via "adopted" budgets!

**Revenues
In**

'S

And: we
budget
one bucket
at a time!



Thank you.

max@mertzcpa.com; 907-957-7131