Introduction to Governmental Accounting

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Introduction to Governmental Accounting

• Introductions

  – Name

  – Entity or Government

  – Position

  – What would you like to learn today?
• Fund Accounting
  – What is a fund?
    • a fiscal and accounting entity
    • self-balancing set of accounts
      – cash and other financial resources
      – liabilities
      – residual equities or balances,
      – segregated for the purpose of carrying on specific activities or attaining certain objectives
      – in accordance with special regulations, restrictions, or limitations.”
FUND TYPES

• Types of Funds
  – Governmental
    • General
    • Special revenue
    • Debt Service
    • Capital Projects
    • Permanent
  – Proprietary
    • Enterprise
    • Internal Service
FUND TYPES

• Types of Funds (Cont’d)
  – Fiduciary
    • Pension
    • Investment
    • Private purpose
    • Agency

• How many funds is a government required to have?
CHART OF ACCOUNTS

Balance Sheet

• Assets
• Liabilities
• Fund Balance
CHART OF ACCOUNTS

Statement of Revenues and Expenditures

• Revenue
• Expenditures
CHART OF ACCOUNTS

- Standard Chart of Accounts
- 100  Assets
- 200  Liabilities
- 300  Fund Balance (Equity)
- 400  Revenues
- 500  Expenditures
CHART OF ACCOUNTS

• Federal Government & Colorado School Districts

• 7000 Assets
• 8000 Liabilities
• 6000 Fund Balance

• 1000-4000 Revenues
• 5000 Transfer of Funds
• 0000-0999 Expenditures
Accounting Formula

• **Assets** = **Liabilities** + **Fund Balance**

• Accounts with Debit Balances
  – Assets
  – Expenses & Expenditures

• Accounts with Credit Balances
  – Liabilities
  – Fund Balance
  – Revenues

(Exercise #1 and #2)
Recording Transactions

• **Account**: an accounting record of increase and decreases in a specific asset, liability, or equity (fund balance) item.

• In its simplest form an account consists of 3 items:
  – Title
  – Left side or debit side
  – Right side or credit side

  (Exercise #3)
Recording Transactions

- Journalizing the transactions
  - Date of the transaction
  - Accounts and amounts to be debited and credited
  - Brief explanation of the transaction

- Each transaction must balance debits to credits (double entry accounting)
- In Fund Accounting, the transactions for EACH fund must balance debits to credits
Types of Journals
Posting the Journals

• The General Ledger contains all the asset, liability, equity, revenue and expenditure accounts.

• You may record all your transactions using a General Journal.

• Transactions will be “posted” to your general ledger accounts.
Process

• The usual sequence of steps in the transaction recording process is:
  • a. journal - analyze - ledger.
  • b. analyze - journal - ledger.
  • c. journal - ledger - analyze.
  • d. ledger - journal - analyze.
BANK RECONCILATIONS

• Every Bank Account must be Promptly Reconciled
• Segregate duties from person(s) involved in receipts & disbursement functions
• Reconcile the bank statement to the general ledger “books”.
• Lack of agreement between the two has two causes:
  – Time lags
  – Errors
BANK RECONCILATIONS

• Reconciling Items
  – Deposits in Transit
  – Outstanding checks
  – Errors
  – Non-sufficient funds
  – Notes collected by the bank
  – Check printing or bank charges
  – EFT’s (Electronic Funds Transfer)
  – Notes paid by the bank
Journal Entries

• Journal entries are created from all your other journals. Even though you may only see one side of the transaction, both sides are taking place.

• Adjusting entries are prepared when accounts need to be adjusted for transactions that don’t appear in another journal.
  – Deferrals
  – Accruals
  – Depreciation
Fund Balance

• Fund balance accumulates the revenue over expenditures over time.

• Revenues and Expenditures “close” to Fund Balance at year end.

• Types of Fund Balance:
  – Non-Spendable
  – Restricted
  – Committed
  – Assigned
  – Unassigned
Budgets

• Preparation and approval of annual budget is required by law CRS 29-1-103.

• Prior Year Actual

Current Year Estimates

Proposed for next year

• Must be formally adopted by your governing body

• Can not expend more than you appropriate
Budgets

- http://www.dola.state.co.us/dlg/tax/budgeting/calendar.html

- http://www.dola.state.co.us/dlg/tax/budgeting/docs/statutory_budget_format_requirements.pdf

- http://www.leg.state.co.us
Segregation of Duties

Key element in Internal Control

Should not be able to perpetrate and to conceal errors or fraud in their normal course of their duties.

Fraud Triangle: 3 factors that contribute to fraudulent activity by employees: opportunity, financial pressure, and rationalization.
Segregation of Duties

Incompatible duties to be segregated

• Custody of assets.

• Authorization or approval of related transactions affecting those assets.

• Recording or reporting of related transactions.
Auditor Expectations

• All accruals and deferrals should be recorded i.e. booked (revenue recognition and matching principal).
• All balance sheets accounts should be reconciled.
• Have available all supporting worksheets and reconciliations to “prove” the balances, including bank reconciliations.
Auditor Expectations

• Trial Balance should be “Balanced”.
• Adopted and any revisions to Budgets available.
• Review prior year(s) journal entries made by the auditors.
Colorado Statutes

• Helpful websites
  – Colorado Statutes and Constitution
    • http://www.leg.state.co.us

  – Division of Local Governments
    • http://www.dola.state.co.us
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Q & A

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