

FUND ACCOUNTING - 101

THE BASICS TO UNDERSTANDING
GOVERNMENTAL ACCOUNTING,
FINANCE, BUDGETING

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OVERVIEW & OBJECTIVES

- Theory
- Fund Accounting
- Types of Funds Used
- Basis of Accounting / Measurement Focus
- Audit & Financial Reporting
- Budget Process

THEORY – OF GOVERNMENTAL ACCOUNTING

1. *Accountability – use of separate funds*
2. *Compliance – using revenues per statutes*
3. *Responsibility – meeting fiduciary responsibilities*

WHAT'S THE DIFFERENCE?

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

WHY IS THERE A DIFFERENCE?

Governmental Accounting is different than business accounting because:

- They serve different purposes,
- They have different processes of generating revenues,
- They have different stakeholders,
- They have budgetary obligations (usually legally imposed)

WHO'S THE BOSS?

Governmental Accounting Standards Board is who oversees governmental accounting and sets the legal requirements.

Also known as "GASB"

"GASB" sets the common standards and procedures used to record and report accounting information and compile financial statements, known as Generally Accepted Accounting Principles.

Also known as "GAAP"

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.

HOW CAN I BETTER UNDERSTAND THIS TERMINOLOGY?

A simple analogy for the way governmental accounting works is:

- A **fund** in governmental accounting is like a separate city inside a big country. It has its own boundaries, laws, and purpose. It must stand on its own financially, meaning you can't just grab money from another city's (fund) treasury unless there's a formal agreement.
- An **account** is like a bank account within that city's treasury. It's where the city keeps track of specific pools of cash or transactions – like having a checking account for payroll, one for projects, and another for savings. All belong to the same city (fund) and are used for the same purpose, just for different types of transactions.
- Funds are legal and fiscal silos (separate “mini-governments”)
- Accounts are recordkeeping buckets within those silos

If funds are the “where” the money can legally be spent, accounts are the “how” we keep track of it

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

GENERAL FUND

This is the primary operating fund for all governments. This pays for day-to-day services that keep the city functioning. It receives most of the the city's revenue.

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.

Think of them like “earmarked piggy banks”: money goes in with a tag saying, “you can only spend me on this specific thing.”

Examples: Hotel Occupancy Taxes, Court Technology, Court Security

DEBT SERVICE FUNDS

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 is adopted each year to fund these payments.

These can be thought of as the city's mortgage payment fund, "borrow big, pay it back here."

CAPITAL PROJECT FUNDS

Capital Project Funds are used to account for resources that are used to acquire or construct major capital facilities and infrastructure. They usually are multi-year accounting projects.

These are generally bond proceeds, grants, and transfers from other funds. They are closed out when the project is finished and all money is spent.

These can be thought of as the city's construction piggy banks, "big money, big builds, and temporary by design."

ENTERPRISE FUNDS (PROPRIETARY)

Enterprise Funds are for operations that are business-like. The user fees charged should self-support the operations.

They do not run on any other type of revenue other than charges for service.

The water/wastewater fund is the most widely known.

INTERNAL SERVICE FUNDS (PROPRIETARY)

Internal Service Funds are for projects, departments, or operations, that exist to serve the City as a whole. They charge other departments for the services they provide.

Generally, these are used for vehicle maintenance, IT services, and insurance.

FIDUCIARY FUNDS

Fiduciary funds are used when the city is acting as a custodian or trustee, holding money that doesn't actually belong to the city.

The most commonly known are court fines collected owed to the state, and employee pay withholdings that are due to the state.

BASIS OF ACCOUNTING / MEASUREMENT FOCUS

1. Cash
2. Accrual
3. Modified Accrual
4. Budgetary

CASH BASIS

- Cash basis is very easy to understand as “money in, money out”
- Transactions are recorded when cash is received or disbursed
- Used for budgetary tracking purposes
- Not GAAP compliant for governmental financial statements

- Think of it like balancing your checkbook

ACCRUAL BASIS

- Used to prepare government-wide & fund financial statements
- Revenue recorded when earned or expected to be realized
- Expenses recorded when incurred or goods/services used
- Cash exchange is not a factor
- Used for Enterprise Funds and Internal Service Funds
- GAAP compliant for governmental financial statements

- Think of it as “when the action happens,” not “when the cash hits.”

MODIFIED ACCRUAL BASIS

- Used to prepare fund financial statements
- Cross between cash basis of accounting & accrual basis of accounting
- Revenue recorded when measurable & available to pay current expenses
- Expenditures recorded in the period the liability is incurred
- Used for General Fund, Special Revenue Funds, and Debt Service Funds
- GAAP compliant for governmental financial statements
- Think of it like “what’s spendable now”, focused on short-term financials

BUDGETARY BASIS

- Used for budget preparation
 - Used for legal spending control
 - Not GAAP compliant for governmental financial statements
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- Think of it like “did we follow the budget?”

FINANCIAL REPORTING

Annual Audit Requirements

Annual Comprehensive Financial Report “ACFR”

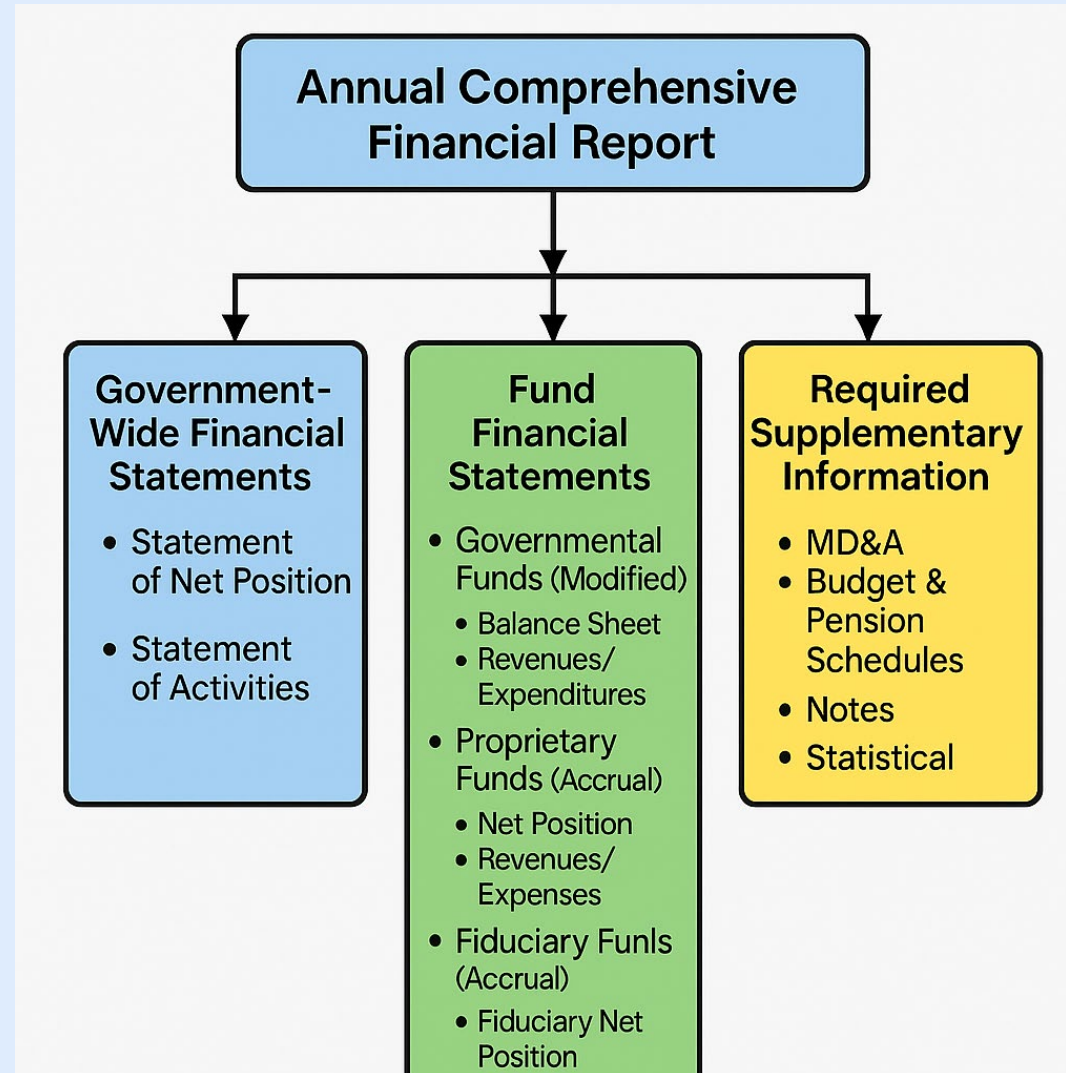
Governmental-Wide Financial Statements

Fund Financial Statements

ANNUAL AUDIT REQUIREMENTS

- Governmental entities are required, by law, to have an external audit conducted annually
- The external auditor will prepare the Annual Comprehensive Financial Report, also known as the “ACFR”
- The ACFR must be in accordance with GAAP and include key GASB standards
- This report is presented to Council and posted publicly on the website indefinitely
- The ACFR is made up of 3 sections:
 - Government-Wide Statements
 - Fund Financial Statements
 - Required Supplementary Information (RSI)

ACFR COMPONENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS

- These show the city as a single economic entity focused on **long-term** operational accountability. Known as “the big picture”
- Prepared using accrual basis
- Combine governmental and business-type activities
- Exclude fiduciary funds (because that’s other people’s money)
- Two required statements:
 - Statement of net position
 - Statement of activities

FUND FINANCIAL STATEMENTS

These show the detail on a fund-by-fund **short-term** basis. “Did we spend public resources as intended?”

- Governmental Funds use modified accrual basis
 - Balance sheet
 - Statement of Revenues, Expenditures, and Changes in Fund Balances
- Proprietary Funds use accrual basis
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
- Fiduciary Funds use accrual basis
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position

BUDGET PROCESS

Timeline

Property Tax Rate

Financial Transparency

BUDGET TIMELINE

- January: Multi-Year Financial Plan Update
- February-March: City Annual Goals Determined
- April: Departmental Budget Requests Submitted
- May: Revenue Projections and Budget Workshops
- June: Budget Workshops for Budget Requests
- July: Tax Rate Calculations and Proposed Budget filed
- August: Propose Tax Rate and Set Public Hearing for Budget
- September: Budget and Tax Rate Adoption

PROPERTY TAX RATE

- Certified Property Values
- Received from Brazoria County in late July
- Tax Rate has 2 Parts:
 - Debt Service Rate (I&S)
 - Determined 1st to cover principal and interest payments on long-term debt
 - Maintenance & Operations Rate (M&O)
 - Determined 2nd to cover the levy needed for City operations
- Tax Rate Calculations Received from Brazoria County in early August
 - No-New-Revenue Rate: will bring in the same total tax dollars as last year AKA “break-even” tax rate
 - Voter-Approval Tax Rate: generates 3.5% more M&O revenue than prior year
 - De Minimis Rate: generates \$500,000 flat rate of M&O revenue

FINANCIAL TRANSPARENCY

- Visit our online Financial Transparency Center at: https://www.freeporttx.gov/page/finance_budget
- What will you find?
 - Annual Budgets, ACFRs, Budget Reports, Check Registers, Investment Reports, Payroll Summary, Utility Usage Summary, Policies, and more!

CONCLUSION

A note from the Finance Director:

“I hope you find this presentation helpful in better understanding your city’s finances. I try my very best to educate everyone because I believe that knowledge is power! We cannot make the best-informed decisions, if we are not properly informed and educated. There are often misconceptions about government finances that I hope to help clear up through education and spreading knowledge. Thank you for allowing me to serve you!” – Ashlee Hurst, CGFO