


Governmental Accounting & the City of Ione

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Accounting Needs for Private Sector vs. Government

Private Sector

- Budget is sometimes used as a planning and tracking tool.
- Few revenues that are restricted to particular purposes.

Government

- Budget is almost always used as the legal authority to spend.
- Many governments have restricted revenues.

Accounting Needs for Private Sector vs. Government

Private Sector

- Profit motive.
- Financial statements generally used by owners/potential owners and creditors.

Government

- Break-even objective.
- Financial statements generally used by the citizens, news media, creditors (including bond-holders), grantors, oversight agencies.

Accounting Needs for Private Sector vs. Government

Private Sector

- Equity of the owners is an important concept.

Government

- Availability of resources is more important.

Bases of Accounting

- Cash
 - . Generally recognizes only cash received and cash disbursed.
- Modified Accrual
 - . In addition to the cash basis, also generally recognizes transactions related to the current period but where cash will be received or paid in the *near future*.
- Full Accrual
 - . Attempts to recognize all transactions related to the current period, regardless of when the cash will eventually be received or paid.

Accounting Treatment under Various Bases of Accounting

| Transaction | Cash Basis | Modified Accrual | Full Accrual |
|------------------------------------|---|---|---|
| Pay an invoice for current service | Recognize at time of payment | Recognize when service performed | Recognize when service performed |
| Buy equipment | Recognize full cost at time of <u>payment</u> | Recognize full costs when ownership transfers | Recognize cost over the life of the equipment |

Accounting Treatment under Various Bases of Accounting

| Transaction | Cash Basis | Modified Accrual | Full Accrual |
|----------------------|-----------------------------------|---|--|
| Property tax revenue | Recognize only when cash received | Recognize when levied, if received within a certain time period | Recognize when levied, regardless of when received |

Differences in GAAP

Private Sector

- Full accrual only
- Standards adopted by Financial Accounting Standards Board (FASB).

Government

- Full accrual and modified accrual.
- Standards adopted by Governmental Accounting Standards Board (GASB).

Fund Accounting

- Each fund is basically a separate set of books.
- Generally implemented to demonstrate compliance with legal or contractual requirements.
- Basis of accounting used depends on the type of fund.
- Industry standard requires that negative cash be eliminated with interfund loans.

Cash Balance vs. Fund Balance

Actual Bank Balance
+ Deposits in Transit
- Outstanding Checks
Cash Balance



Cash Balance
+ Receivables owed to the City
that will be received within
approx. 60 days
+ Other current* assets
- Current* liabilities
Fund Balance

*The word "current" is used for simplicity. There are circumstances in which noncurrent assets and liabilities would be included in this definition.

Balance Sheet vs. Income Statement

Balance Sheet

- Oriented toward the present and future (what do I have now).
- Transactions stick around+ until they are reversed.
- Account Examples: Cash, Receivables, Payables.

Income Statement

- Oriented toward the past (what happened last year).
- Automatically rolls into fund balance at year-end.
- Account Examples: Property Tax Revenue, Payroll Expense

Governmental Financial Statements

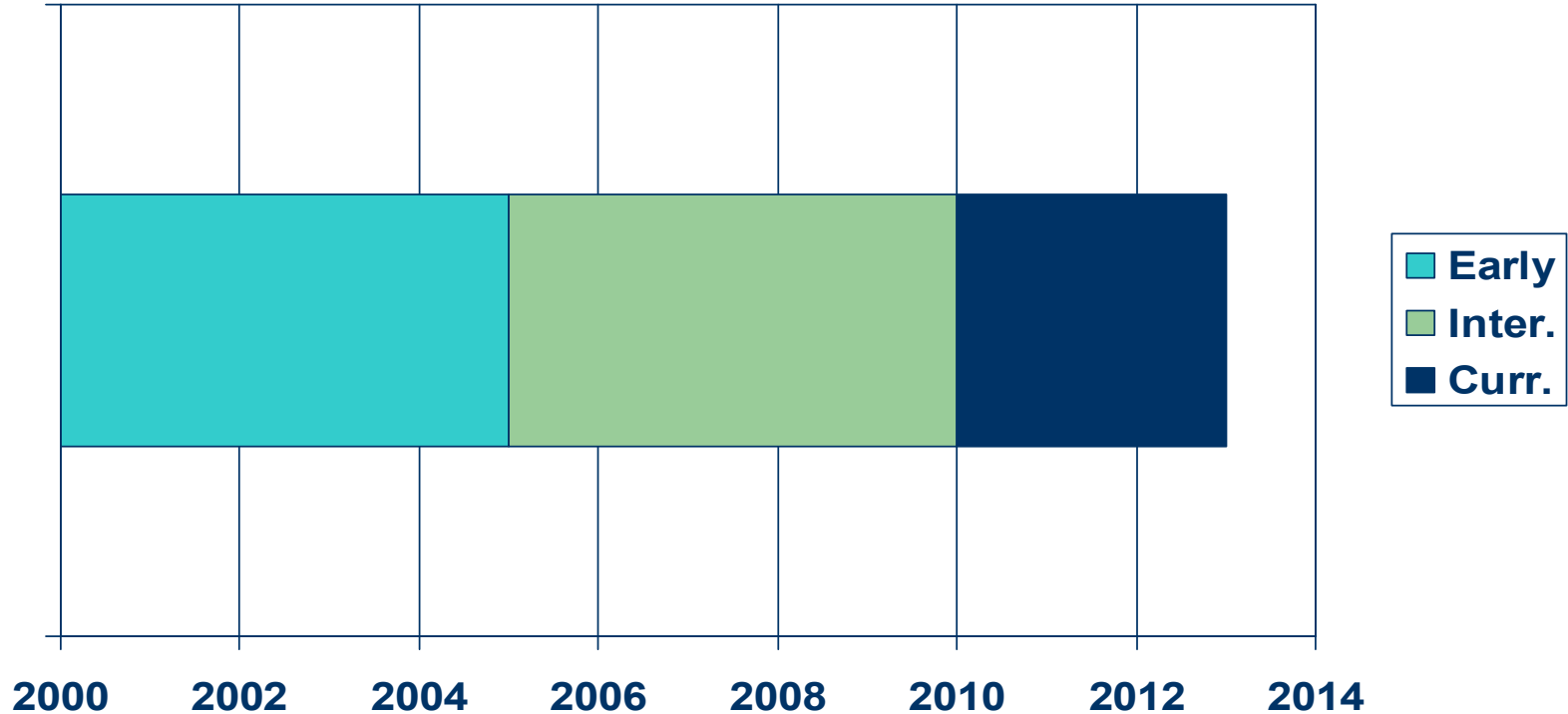
Government-wide

- Statement of Net Assets (Balance Sheet)
- Statement of Activities (Income Statement)

Fund

- Balance Sheet
- Statement of Revenues, Expenses, and Changes in Fund Balances/Net Assets (Income Statement)

Ione Accounting History: A Timeline



lone Accounting History: Early Period

- Fundware implemented in 2000. records prior to that appear to be handwritten.
- From Fundware implementation until approximately 2005, cash receipts details were handwritten and only summary entries posted to Fundware.
- Accounting during this period was consistent.
- Regular reconciliations appear to have been performed of developer accounts.

One Accounting History: Intermediate Period

- High turnover in accounting staff.
- Inconsistent methods of accounting.
- Large amounts coming in from developers.
- Incomplete billing and accounting for developer costs.
- Conversion to new Fundware version.
- Audit findings.

Fundware Conversion Challenges

- When bills were sent out from funds other than the general fund, cash was incorrectly transferred between funds.
- Some receivable detail was not transferred from the old system to the new system.
- Cash transactions in the funds were recorded in a lengthy series of interfund asset accounts rather than cash accounts.
- A lengthy series of fund balance accounts were created that were associated with various expense accounts, that had no clear accounting benefit.
- Funds were improperly combined.

Developer Deposit Issues

- Bills intended for developer reimbursement paid out of the General Fund, but sometimes billed out of Developer Deposit fund.
- Billings to developers were created for some but not all of the costs that were classified as reimbursable costs.
- Some billings prepared in 2008 were never posted to FundWare.
- Transactions related to a single developer were spread across multiple accounts and two funds.

Audit Findings by Major Type

- Administrative
- Use of Incorrect Funds
- Interfund Loans/Transactions
- Account Reconciliation
- Fundware Conversion
- Routine Procedures

One Accounting History: Current Period

- Finance staff stabilized, but day-to-day responsibilities left little time for correction of the errors of the Intermediate Period.
- Economic declines necessitated a closer look at the City's financial status.

What Has Been Done: Developer Deposits

- Paper records for over 10 years ago were pulled from storage.
- Several years of activity analyzed in excel.
- Over 60 individual developers.
- Previously billed invoices eventually had to be scrapped in the analysis.
- Approximate totals have been determined for each developer.

What Has Been Done: Fund Reporting

- Journal entries proposed to break out the following funds previously combined:
 - . Individual CDBG and HOME grant funds.
 - . COPS/SLESF
 - . Measure M
 - . Local Transportation Impact Fee
- Interfund liabilities created where cash was not available to make new funds whole.

What Has Been Done: Account Reconciliation

- Loans Receivable
- Accrued Payroll
- Accounts Payable
- Accounts Receivable
- Interfund Liabilities
- Capital Assets

What Has Been Done: Fundware Programming

- Cash has been restored to funds where it was incorrectly withdrawn.
- The number of cash account line items have been reduced and renamed.
- The number of fund balance accounts has been reduced.

Looking Forward

- Settle up large balances and determine collectability.
- Implement a comprehensive procedures manual to standardize accounting.
- Ensure a process is in place to track and follow up on outstanding non-sewer invoices.
- It appears system as currently designed will work for time being.