Intro to Financial Systems

Session 1: Basics of Government Accounting

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Introduction to City & County of San Francisco financial systems

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Session 1: Basics of Government Accounting. We will introduce some basic concepts including:

- Fund
- Fund Balance
- Accounts Affecting Fund Balance
- Budgetary Accounts
- Accounting Equation With Examples of Accounts

This session will help us better understand the City's data structure which will be introduced in Session 2.

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The City, like other municipal governments, is required to track fiscal activities using funds.

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First of all, what are funds?

"A fund is 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." You can see a fund as a pot of money to be spent with certain restrictions for specific purposes.

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Why do we need to use funds?

Quite often, there are legal requirements that mandate the restriction of certain resources for narrowly defined purposes. A fund is an excellent way of meeting the legal requirements. Funds are also used to account for fiscal activities for their dedicated purposes.

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A government can have multiple funding sources and many funds. There are 11 fund types under three broad categories: Governmental, Proprietary and Fiduciary.

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Governmental funds are typically used to report tax-supported activities. The resources mainly come from taxes, grants, fines and issuance of general obligation bonds. Examples of the Governmental funds of the City include the General Fund and the Community Development Special Revenue Fund.

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Proprietary funds report business-type activities. The resources generally come from fees or charges for services. City examples include SF International Airport Funds and the Central Shops Fund.

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Fiduciary funds report resources that a government holds as a trustee or as an agent for others. For example, the City has Employee Retirement System Trust Fund and State Revenue Collection Agency Fund.

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Now that we know what a fund is, let's talk about fund balance.

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The balance of a fund is calculated as assets minus liabilities. Think of assets as what you own, for example, your house; liabilities as what you owe, for example, your mortgage; then fund balance is the net worth, the value of the house minus the mortgage amount. Assets minus liabilities equals Fund Balance. Note that the accounting equation here is a simplified version to help clarify the basic concept. For government accounting professionals, GASB 63 and 65 introduced the concept of deferred outflow and deferred inflow of resources which are beyond the scope of this video. Please refer to the Year-End Accounting Workshop videos for more information.

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In the City's setting, assets would include cash, accounts receivable, inventories, buildings, and equipment

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Examples of liabilities include accounts payable, accrued liabilities, and long-term debts.

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There are currently 5 categories of fund balances, and for Proprietary funds, the terminology for fund balance is Net Position.

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What accounts affect fund balances?

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As mentioned, fund balance is the difference between the aggregated amounts of all asset accounts and all liability accounts. Fund balance changes, however, as operations go on. Operating revenue and other financing sources increase fund balance, and expenditures and other financing uses decrease fund balance.

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Revenue, expenditure and other financing sources and uses are called operating accounts and are used to report what actually happens during a fiscal period.

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Municipal governments are required to have a budget to control taxing and spending.

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Therefore, going parallel with the operating accounts, the City also has a set of budgetary accounts: estimated revenue, estimated other financing sources, appropriation (or expenditure budget), and estimated other financing uses. Budgetary accounts also include encumbrance which is used to reserve expenditure budget for commitments such as purchase orders. Basically, Estimated Revenue is what you expect to receive during a fiscal year as revenue; appropriation is what you are authorized to spend in the fiscal year; and encumbrance is a commitment to spend.

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To summarize what we have learned, let’s take a look at the accounting equation again.

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This is the basic accounting equation with examples for all the accounts that we have walked through in the video: assets, liabilities, fund balance, operating and budgetary accounts. The City operates with various funds. Fund balance is assets minus liabilities; operating accounts increase or decrease fund balance over a period of time; budgetary accounts control actual revenue and spending during the period. Again, this equation is just to illustrate the basic concepts.

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The complete accounting equation would be: assets plus deferred outflow minus liabilities minus deferred inflow equals fund balance.

This concludes Basic Government Accounting, Session 1 of the Introduction to Financial Systems training. Please proceed to Session 2 and 3.