

Fund Accounting and Budget Preparation

MMCI

May 7, 2024



Agenda

- Fund Accounting
 - What GASB is and how it is used
 - What is fund accounting and how does it work
 - Chart of accounts
 - Basis of accounting-modified accrual vs. full accrual
 - Financial statement requirements
 - Financial statement overview



Agenda *(cont)*

- Budget Preparation
 - Council and staff roles
 - Budget timeline & Truth-in-Taxation calendar
 - Long-term planning
 - Council and staff roles
 - City budget components
 - Budget impact and considerations
 - Advance budget elements



Enterprise Funds

Tax Capacity

Debt Service

Restricted Resources

Utility Rates

Infrastructure Collateral

GASB



Additional Resources:

[LMC Budget Guide](#)

[LMC Handbook:](#)

[Municipal Budgeting \(Chapter 20\)](#)

What is GASB and how it is used in Fund Accounting

What is GASB?

- GASB is the Government Accounting Standards Board.
- GASB is the organization that establishes accounting and financial reporting standards for state and local governments.



How is GASB used?

- GASB statements of accounting standards
- GASB technical bulletins and implementation guides

What exactly is fund accounting and how does it work?

Fund Accounting

- Fund accounting is a system of accounting that ensures organizations are using funds productively.
- Two types of funds
 - Unrestricted Funds
 - *May be used for any purpose*
 - Restricted Funds
 - *Used only for specific purposes*





Fund Categories

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Governmental Funds

- Mainly used to account for activities primarily supported by taxes, grants and other revenue sources
 - Main funds in governmental
 - *General Fund*
 - *Special Revenue Funds*
 - *Capital Projects Funds*
 - *Debt Service Funds*
 - *Permanent Funds*

General Fund

- **This is the main operating fund used to account for and report all financial resources not accounted for and reported in another fund**
 - *General Government*
 - *Public Safety*
 - *Public Works*
 - *Parks and Recreation*
 - *Other- Economic Development Authority and Housing and Redevelopment Authority*
- Only one General Fund can be reported

Question 1

- What fund is not considered part of the general fund?
 - a) Park and Recreation Fund
 - b) Water Fund
 - c) Public Safety Fund
 - d) General Government

Special Revenue Funds

- Used to account for and report the proceeds of specific revenue sources that are restricted or committed expenditures for a specific purpose other than debt service or capital projects
- Cannot use a special revenue for a transfer in from other funds

Capital Project Funds

- Used to account for funds that are restricted, committed, or assigned to capital outlay expenditures which include the acquisition or construction of building and other capital assets
 - *Infrastructure projects*
 - *Building acquisition or construction*
 - *Equipment acquisition*

Debt Service Funds

- Used to account for funds that are restricted, committed or assigned to expenditures for principal and interest
 - *Bonds*
 - *Equipment Certificates*

Permanent Funds

- Used to account for funds that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs-that is, for the benefit of the government or its citizens

Proprietary Funds

- Mainly used to account for activities that receive significant support from fees and charges
 - *Enterprise funds (water, sewer, etc.)*
 - *Internal Service Funds*

Enterprise Funds

- Used to report any activity for which a fee is charged to external user for goods and services
 - *Public utilities-water, sewer, storm sewer, refuse*
 - *Liquor stores*
 - *Golf courses*

Question 2

- What fund is not considered an Enterprise Fund?
 - a) Sewer Fund
 - b) Storm Water Fund
 - c) Water Fund
 - d) Public Works Fund



Propriety Fund Internal Service Funds

- Used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis
 - *Insurance*
 - *Central garage*
 - *Information systems*

Fiduciary Funds

- Used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support the government's own programs
 - *Pension Trust Funds*
 - *Investment Trust Funds*
 - *Agency Funds*

Chart of Accounts

Chart of Accounts

- Recommended by the Office of the State Auditor



City Funds

100

General
Fund

*Considered the
operating
budget*

*Primarily
supported by
property taxes*

200s

Special
Revenue
Funds

*Must be used
for specific
purposes*

*Revenue is
specific to the
cause*

300

Debt Service
Funds

*Used to pay
principal &
interest on
governmental
funds*

400s

Capital
Project
Funds

*The guiding
plan is the
City's long-term
plan (which
incorporates the
multi-year capital
improvement
plan)*

600s

Enterprise
(Utility)
Funds

*Revenue to
support both
operational and
capital costs*

The basis of accounting

Modified Accrual vs. Full Accrual

Modified accrual

- Governmental funds
- Combination of cash basis and accrual basis of accounting
 - Record transactions on the cash basis
 - Accrue for current receivables and payables
 - Do not include long-term items

	<u>General</u>
Assets	
Cash and temporary investments	\$ 7,619,935
Receivables	
Taxes	284,481
Accrued interest	17,299
Accounts	252,582
Loans	-
Leases	-
Special assessments	48,721
Due from other governments	154,932
Prepaid items	12,957
Due from other funds	9,513
Advances to other funds	-
Land held for resale	-
	<u> </u>
Total assets	<u><u>\$ 8,400,420</u></u>

Liabilities	
Accrued salaries payable	\$ 334,839
Accounts and contracts payable	146,717
Due to other governments	26,210
Deposits payable	6,317
Due to other funds	-
Advances from other funds	-
Unearned revenue	-
	<hr/>
Total liabilities	514,083
	<hr/>
Deferred inflows of resources	
Unavailable revenue – taxes	90,387
Unavailable revenue – special assessments	47,878
Lease revenue for subsequent years	-
Resources received in advance	-
	<hr/>
Total deferred inflows of resources	138,265
	<hr/>

Full accrual

- Proprietary funds
- Record all transactions that are receivable or payable as of the reporting period

	<u>Sewer Utility</u>
Assets	
Current assets	
Cash and temporary investments	\$ 2,561,438
Receivables	
Accounts	373,001
Special assessments	52,336
Due from other governments	-
Inventories	-
	<u> </u>
Total current assets	<u>2,986,775</u>
Noncurrent assets	
Investment in joint ventures	-
Capital assets	
Land	-
Buildings and structures	-
Vehicles and equipment	607,475
Improvements other than buildings	7,625,896
Leased vehicles and equipment	-
Construction in progress	131,842
Less accumulated depreciation/amortization	<u>(3,439,850)</u>
	<u> </u>
Total capital assets, net	<u>4,925,363</u>
	<u> </u>
Total noncurrent assets	<u>4,925,363</u>
	<u> </u>
Total assets	<u>7,912,138</u>
Deferred outflows of resources	
Deferred pension resources	<u>93,338</u>

Liabilities

Current liabilities

Accrued salaries payable	\$ 12,277
Accounts and contracts payable	179,041
Due to other governments	373
Accrued interest payable	7,715
Due to other funds	-
Deposits payable	-
Compensated absences payable, current portion	-
Leases payable, current portion	-
Bonds and notes payable, current portion	<u>60,388</u>
Total current liabilities	<u>259,794</u>

Noncurrent liabilities

Advances from other funds	-
OPEB payable	31,273
Pension liability	310,111
Compensated absences payable	-
Leases payable	-
Bonds and notes payable	620,255
Unamortized premium	<u>16,686</u>

Total noncurrent liabilities 978,325

Total liabilities 1,238,119

Deferred inflows of resources

Deferred pension resources	<u>4,730</u>
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Financial Statement Requirements



Financial Statement Requirements Cities with population over 2,500

- Must prepare an annual financial report and statements in accordance with generally accepted accounting principles (GAAP)
- Audited financial statements are due to the state auditor within 180 days after the close of the fiscal year (June 30)
- Must have an annual audit in accordance with GAAP



Financial Statement Requirements Cities with population under 2,500

- Must prepare and annual financial report and statements accordance with Minnesota Statutes (not required by statute to report GAAP financial statements)
- May choose to comply with the provisions for larger local governments
- A detailed statement of financial items is due to the state auditor within 90 days after the close of the fiscal year (March 31)

Financial Statement Requirements Cities with population under 2,500

- Not required to have an annual audit if there is a separate clerk and treasurer
- If there is a combined clerk-treasurer position
 - *An annual audit is required, if total revenues exceed \$150,000, adjusted for inflation (\$272,000 for year ended 12/31/22)*
 - *An agreed upon procedures engagement is required once every 5 years if total revenues are less than \$150,000, adjusted for inflation (\$272,000 for the year ended 12/31/22)*

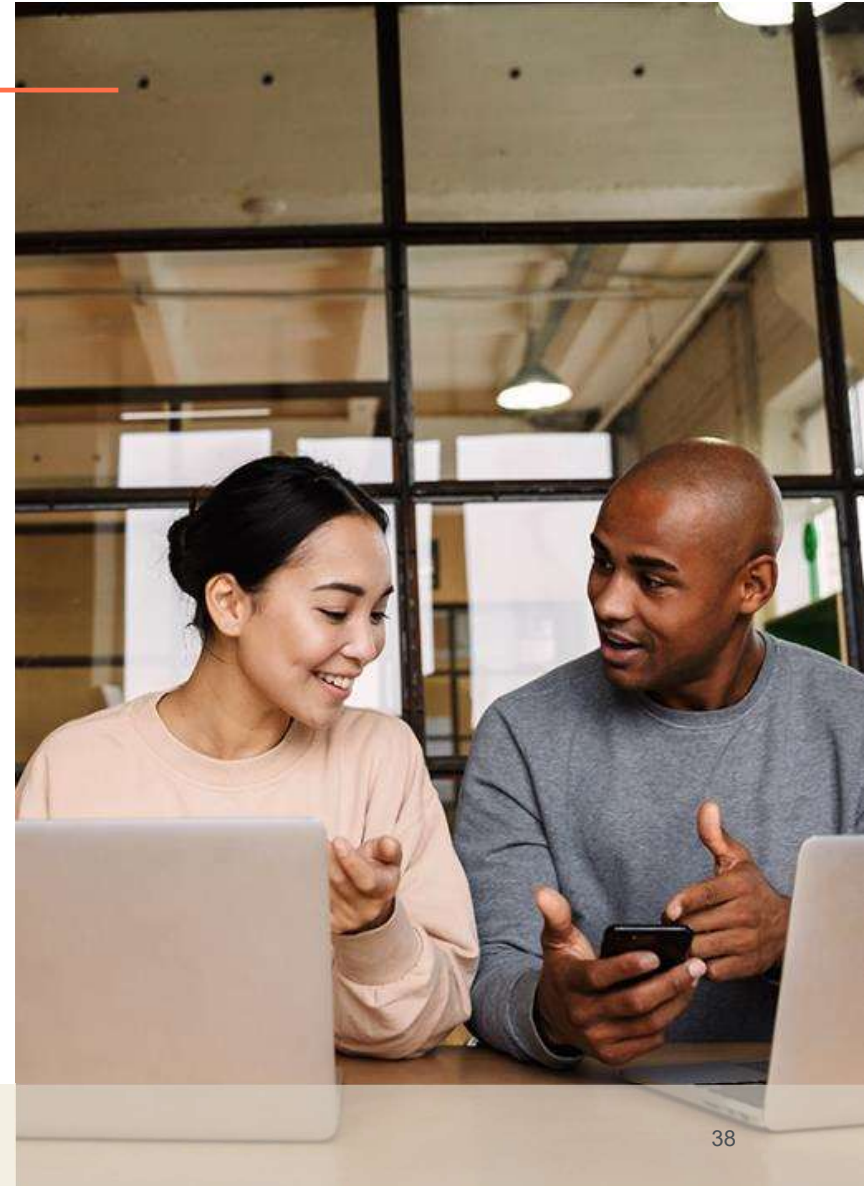


Financial Statement Overview

Sections

- Introductory Section
- Financial Section
- Statistical Section

Applies when submitting for the Certificate of Achievement for Excellence in Financial Reporting





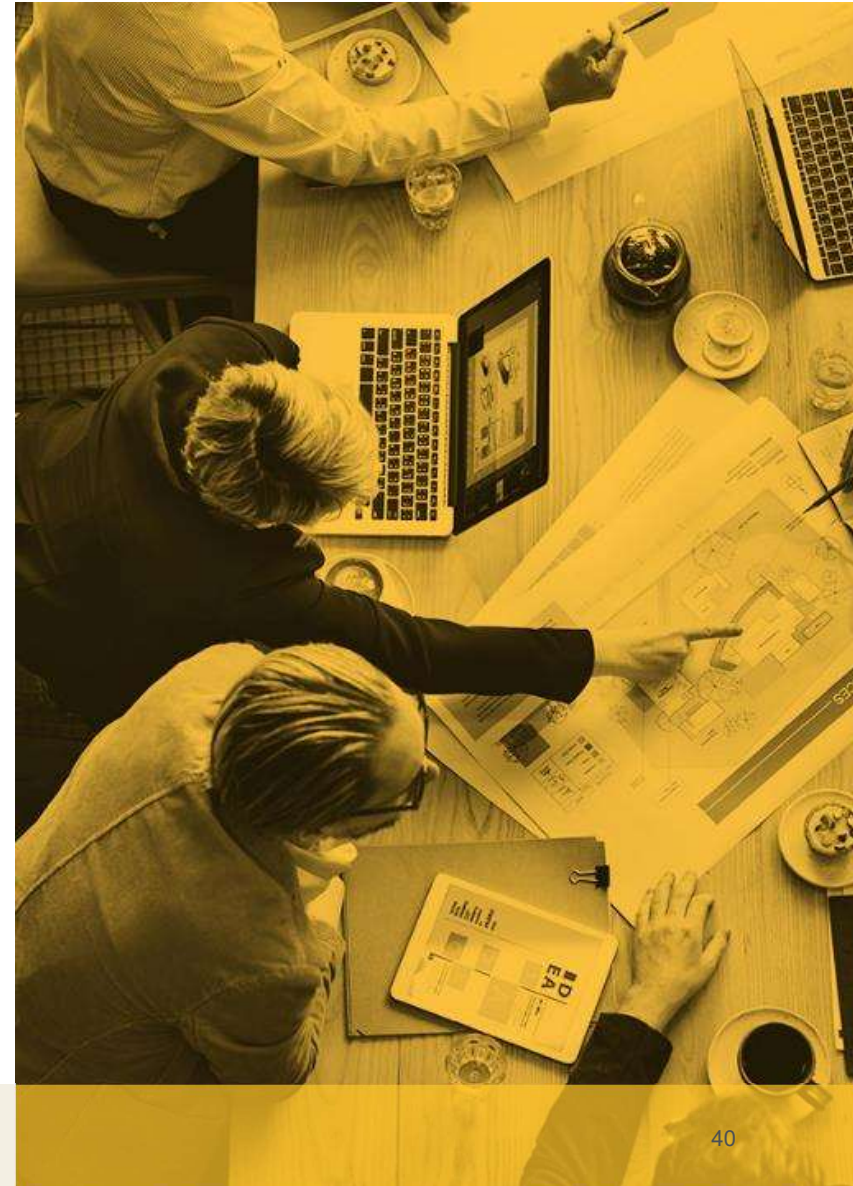
Introductory Section

- Transmittal Letter *
- GFOA Certificate *
- Organizational Chart *
- City Council and City Officials

* Applies when submitting for the Certificate of Achievement for Excellence in Financial Reporting

Financial Section

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information
- Supplemental Information





Statistical Section

- Applies when submitting for the Certificate of Achievement for Excellence in Financial Reporting
- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and Economic Information
- Operating Information

Budget Preparation

Roles in the Budget Process



- As a clerk/treasurer, what is your role in the city budgeting process?

Staff & Council Responsibilities

STAFF RESPONSIBILITIES

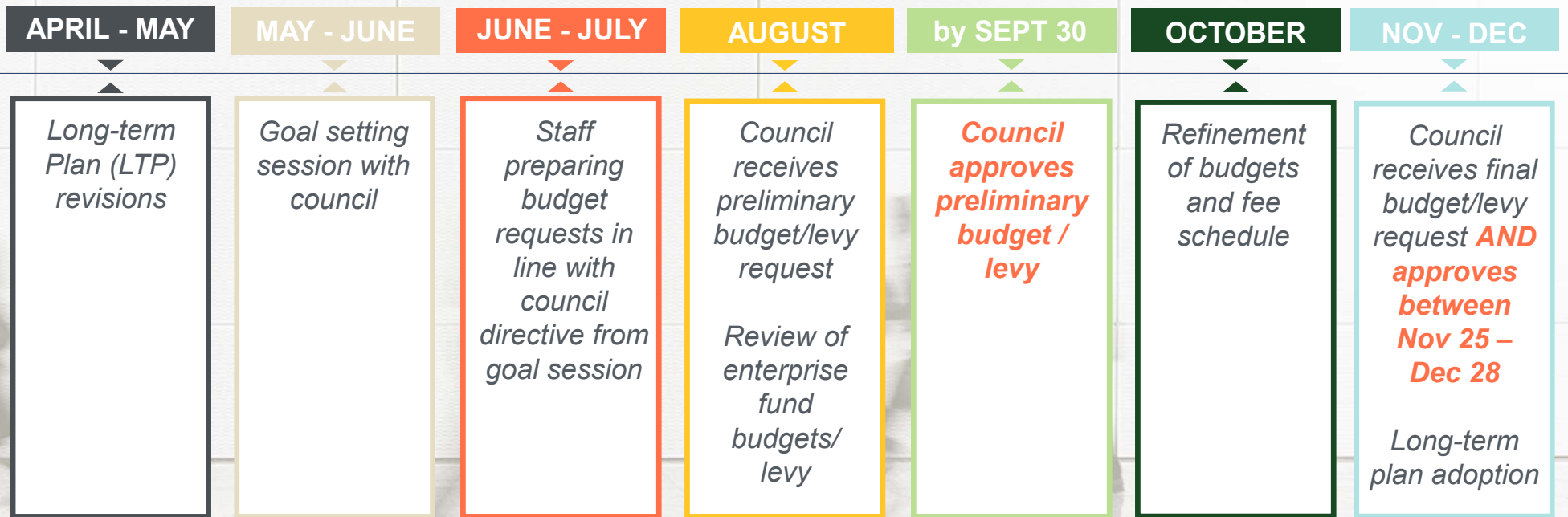
- Review city's needs
- Develop budget
- Strategic alignment with Council goals
- Provide recommendations to council

COUNCIL RESPONSIBILITIES

- Impact to Community
- Alignment with council goals and priorities
- Provides services levels in needed areas

Budget Timeline & Truth-in-Taxation Calendar

Best Practice Budget Calendar



Additional Resources: [LMC Budgets Dates 101](#)

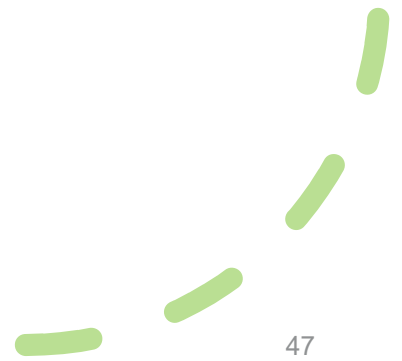
Sets the maximum amount that may be levied

Approval dates are set in Statute

Question 3

When does the preliminary budget need to be certified?

- a) April 15
- b) June 30
- c) September 30
- d) December 31



Truth-in-Taxation Calendar (2024 dates)

30 Sep.

Cities: On or before September 29, each city must adopt and certify a proposed tax levy to the county auditor for taxes payable the next calendar year.

27 Dec.

No later than December 27, cities with population over 500 adopt their property tax levies and their budgets for the next calendar year.

27 Nov. – 27 Dec.

From November 25 to December 27, cities with population over 500 hold their public meetings. The meetings must not be held before 6:00 p.m.

27 Dec.

On or before December 27, all cities must certify their final adopted property tax levies for the next calendar year to the county auditor.

<https://www.lmc.org/wp-content/uploads/documents/Calendar-of-Important-Dates.pdf>

Long-term Planning

- A five to ten-year needs assessment
 - *Utilities*
 - *Streets*
 - *Equipment*
 - *Facilities*
- Overview of annual taxes, cash and debt position
- Focus on stability in tax rate, healthy cash position, and reduction or elimination of debt
- Ultimate goal: pay-as-you-go financing



Long-term Plan

- Includes all funds
- Accounts for revenues, expenditures (expenses), and existing or projected debt
- Incorporates reserve policies
- Growth assumptions
- Impact to community

Key Performance Indicators (KPIs)

- **Economic Development**
 - *New tax base (# of residential homes, greater % of commercial or industrial base, # of housing projects completed)*
- **Financial Position**
 - Fund Balance
 - *General Fund – 35-50% of expenditures*
 - *Utility Fund – 6-12 months working capital, 1-year debt service and capital*
- **Infrastructure**
 - *Pavement and utility condition assessments*

Long-term Plan

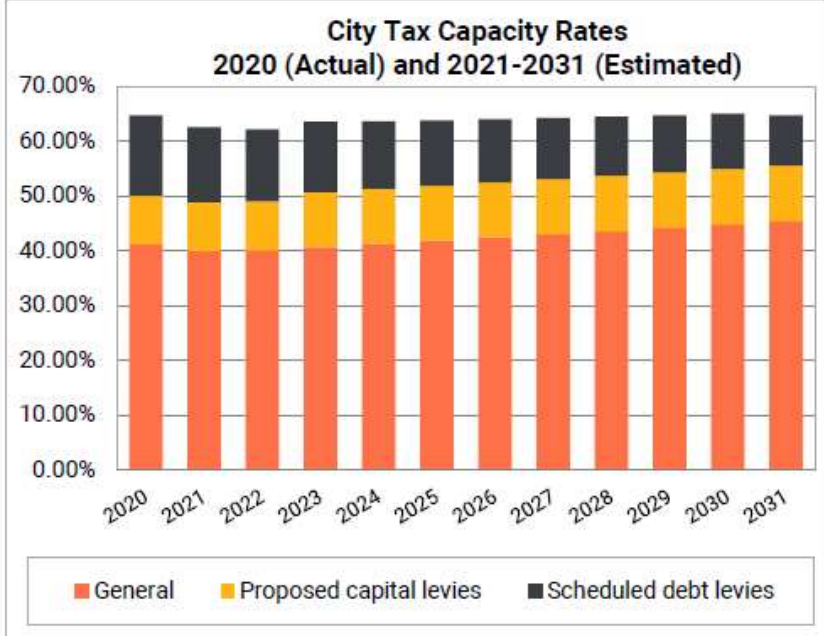
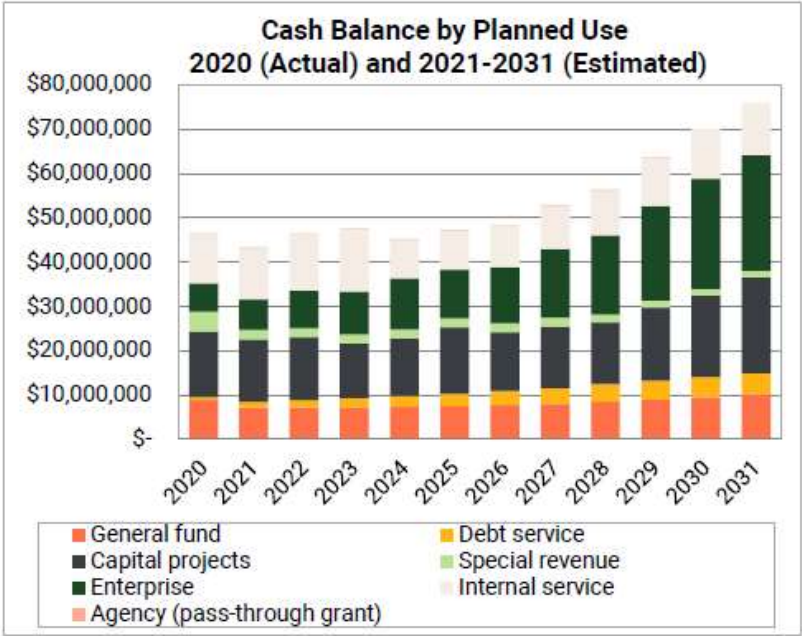
Capital Improvement Plan - Parks Infrastructure Fund 9233 Schedule of Planned Capital Outlay 2021 to 2031

Department	Year to Replace	Item	Cost	2021	2022	2023
				Estimated Amounts	Estimated Amounts	Estimated Amounts
Parks & Recreation	2021	Parks concrete, trail work	\$ 75,000	\$ 75,000	\$ -	\$ -
Parks & Recreation	2021	Parks Corner Park play equipment project	185,000	185,000	-	-
Parks & Recreation	2021	Parks frisbee golf equipment	12,000	12,000	-	-
Parks & Recreation	2021	Parks court, equipment painting, benches	100,000	100,000	-	-
Parks & Recreation	2021	Parks lighting improvements	68,000	68,000	-	-

Schedule of Property Taxes Levied and Tax Rates For the Years Ended December 31, 2020 (Actual) and 2021 to 2031 (Estimated)

		2020	2021	2022	2023
		Actual Amounts	Estimated Amounts	Estimated Amounts	Estimated Amounts
Property Taxes Levied for General Purposes					
9001	General	\$ 10,511,431	\$ 10,879,465	\$ 11,393,354	\$ 11,934,538
9015	Economic Development Authority	348,000	365,000	153,000	203,000
9015	HRA	-	-	417,000	417,000
9203	Street Infrastructure	1,467,333	1,540,700	1,617,735	1,698,622

Long-term Plan





Fees

- Analyze true cost of providing service
- Direct and indirect costs should be considered
- Incorporates utilities

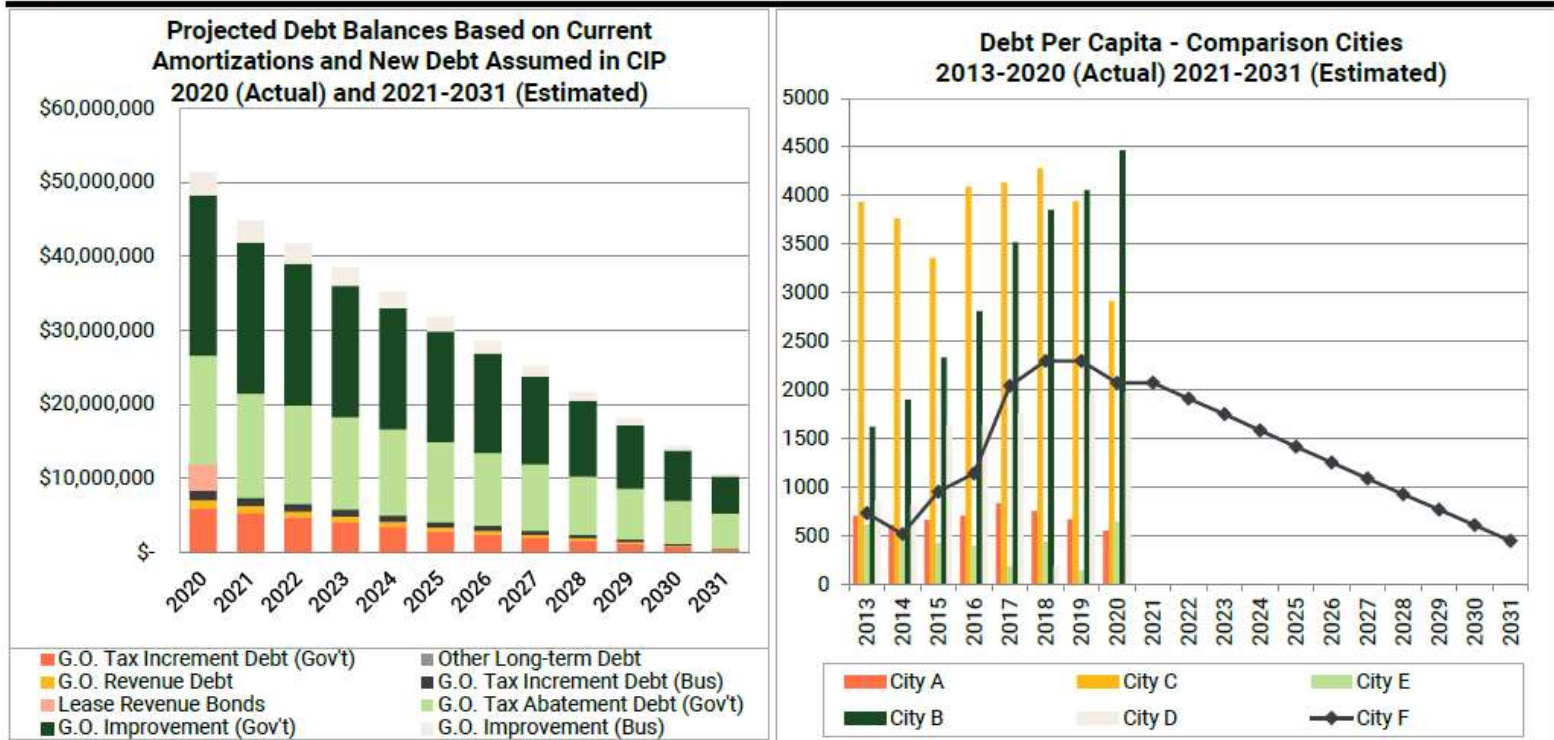


Debt Management

- How much debt can the community withstand?
- Legal compliance
- Considers potential calls or refinancing

Debt Management

Debt





Aligning Council Goals

What kind of goals will the Council set?

Staff Objectives vs. Council Objectives

STAFF OBJECTIVES

- Sustainability
- Continuity of operations
- Workforce planning
- Service delivery
- Balancing Council director with human resource capacity

COUNCIL OBJECTIVES

- “Hold the line” on taxes and fees
- Quality services
- Customer service
- Responsiveness

Aligning Council Goals *to Internal Performance*

- Collaborative / shared service
- Service review
- Workforce staffing overview
- Infrastructure review
- Economic development needs assessment
- Moving toward pay-as-you-go financing
- Improving debt position





Keeping Council Strategic

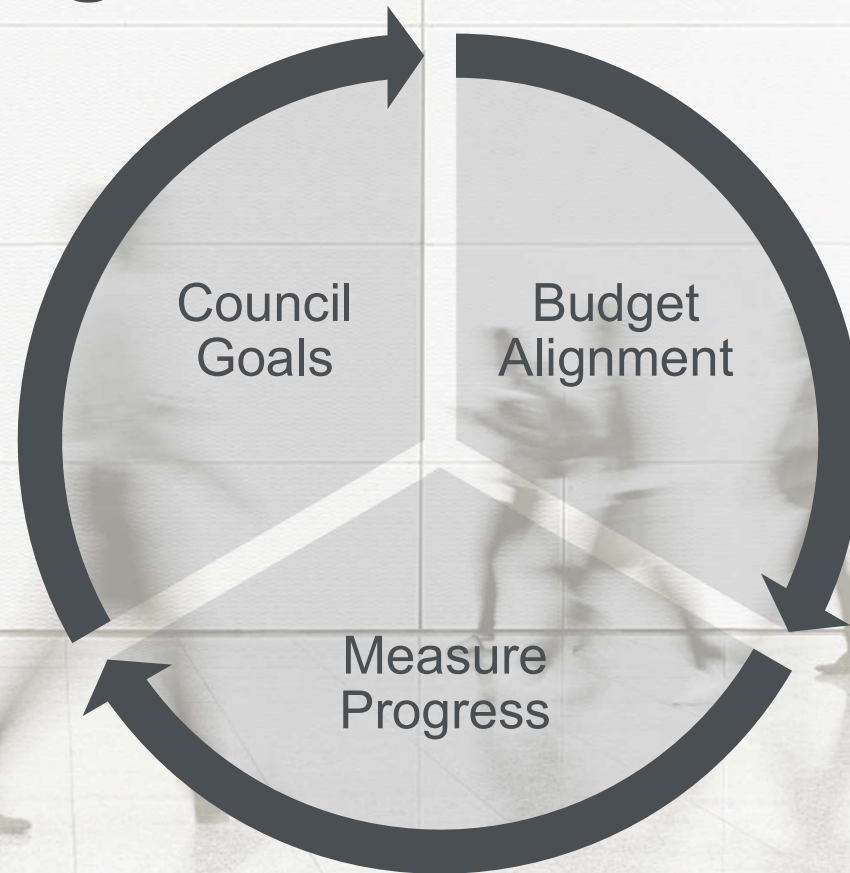
- Focus on strategic objectives – not “pencils and paperclips”
- Incorporate long-term plan objectives into budget presentation
- Discuss impacts to community
- Review debt levels



Collaboration Amongst Leadership

- Internal leadership and Council leadership alignment
- One Team concept
- Internal understanding of all budget objectives – not just individual departments
- Alignment of long-term plan with budget objectives

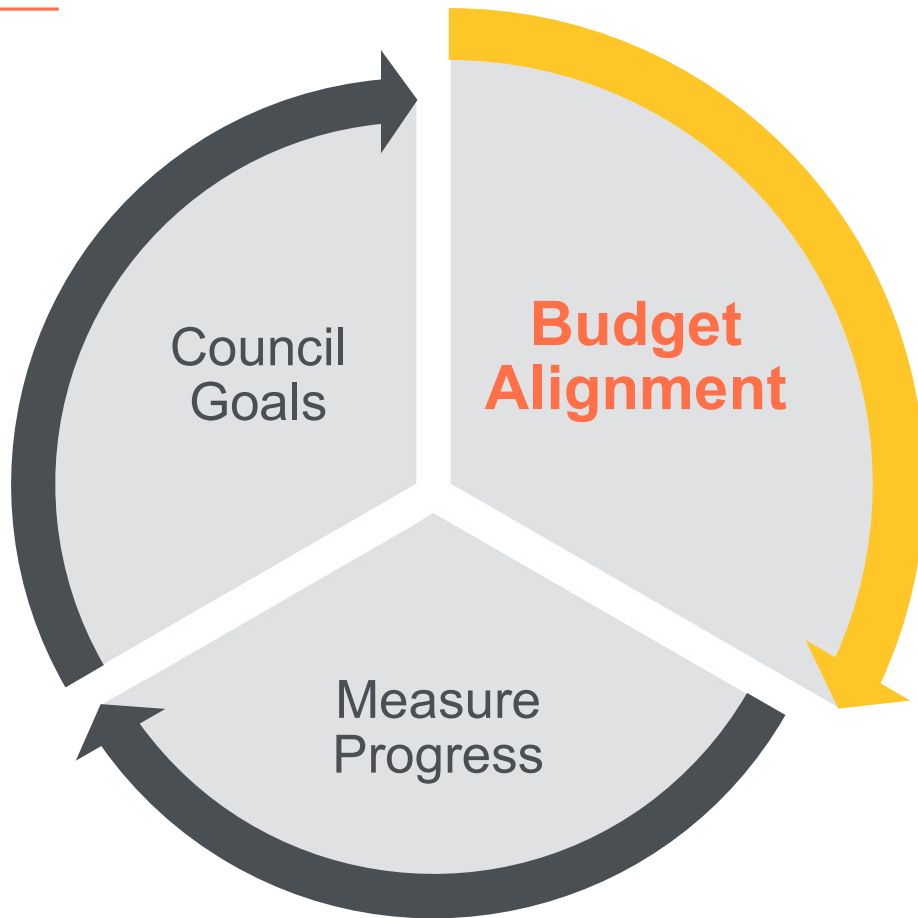
Budgeting is a Process, not an Event





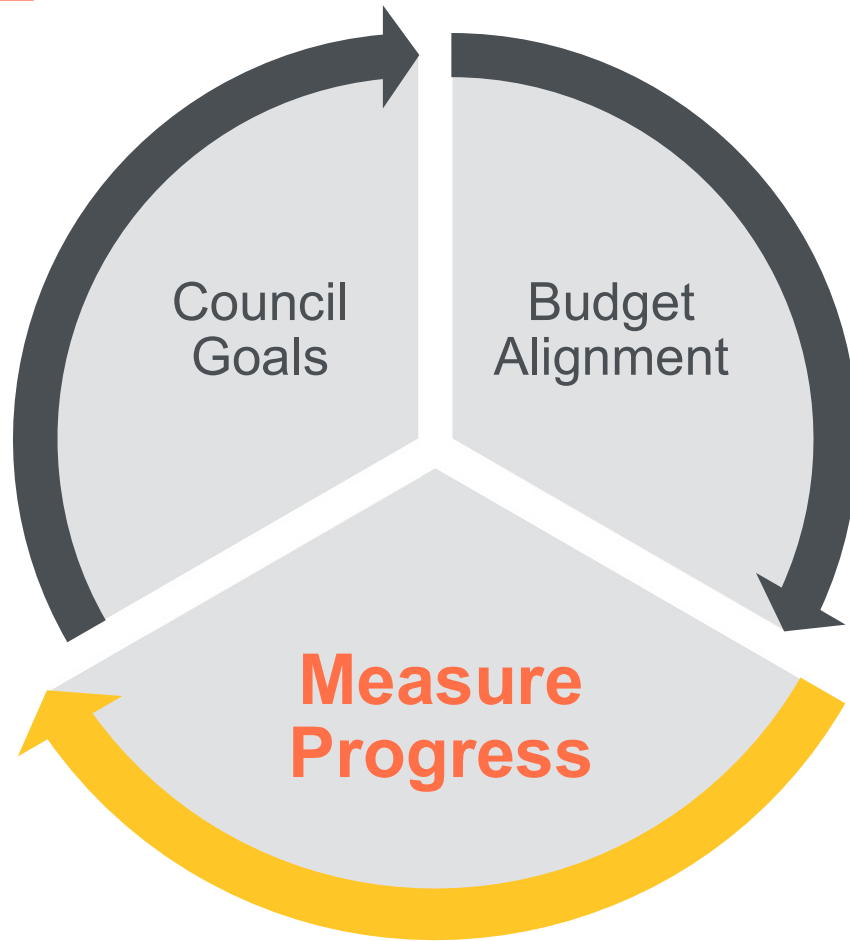
Council Goals

- Strategic planning session
- Clear articulation of goals
- Collaboration amongst council



Budget Alignment

- Budget direction aligns with goals
- “One team” approach within City leadership
- Council collaboration



Measure Progress

- Key performance indicators
- Clear understanding of performance objectives



City Budget Components

- Are you knowledgeable of what funds can provide funding for what expenditures?



Question 4

Which is not considered a revenue account?

- a) Property taxes
- b) Wages
- c) Permits
- d) Licenses

Operating Budgets

For the General Fund and Special Funds Consider the Following

Revenue:

- Property taxes
- State Aid
- Grants
- Permits
- Licenses
- Interest

Expenditures:

- Wages/Benefits
- Service levels
*(new programs
or services)*
- Fixed & variable costs

Property Taxes:

- Revenue restrictions
- Grant requirements
- Union contracts
- Legislative changes
- General economy

Operating Budgets

For the Enterprise (Utility) Funds Consider the Following

Revenue:

- User fees
- Grants

Expenditures:

- Wages/Benefits
- OM & R (operations, maintenance & replacement)
- Debt service
- Fixed & variable costs

Adjustments:

- User fees as opposed to tax levy
- Rate adjustments to fund operations and infrastructure
- Cash or accrual method?



Question 5

In the Enterprise Funds, where does most of the revenue come from?

- a) Licenses
- b) Wages
- c) Permits
- d) User Fees

Case Study



Property Tax Levy

100s

General Fund Levy

+

200s

Economic Development
Authority (EDA) Levy

+

300s

Debt Service Levies

+

400s

Capital Levies

= *Property Tax Levy*

600

Enterprise (Utility) Funds

= *User Fees*



Budget Impact

- Do you know how the city tax rate is calculated, how you might compare to similar communities and how to provide context on differences?

Resident's Total Tax Bill

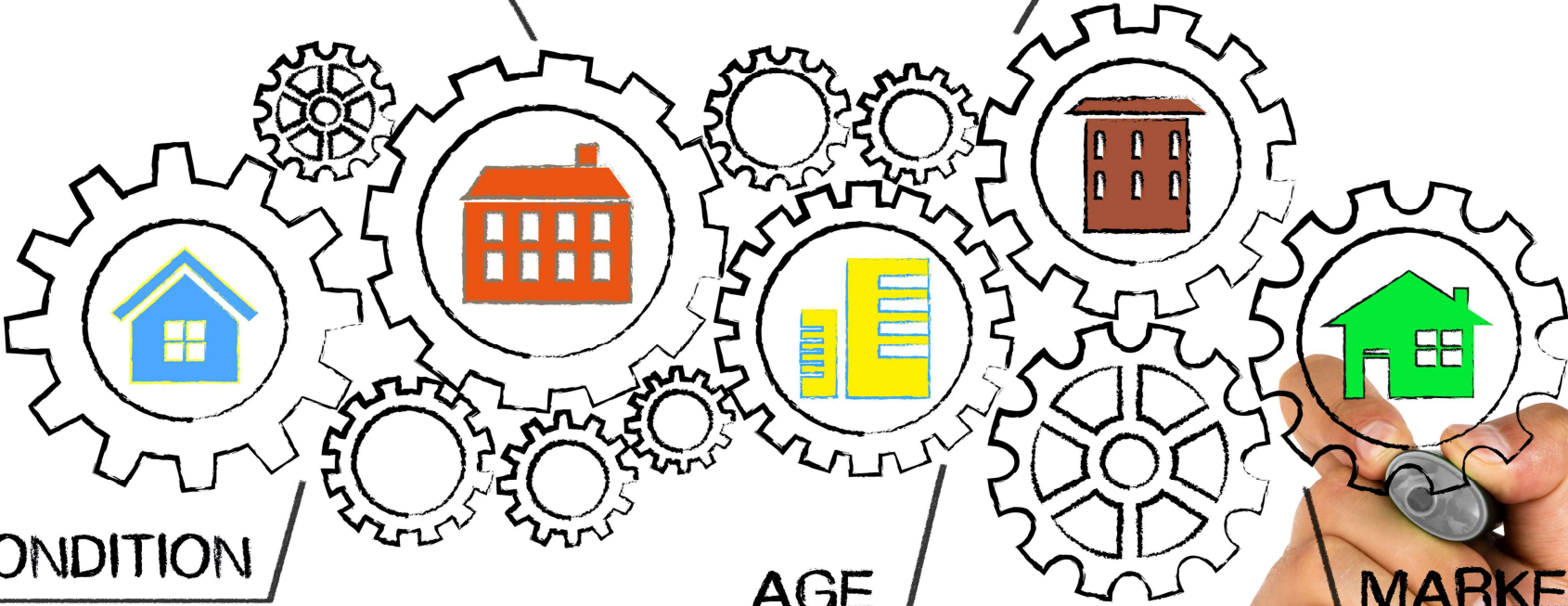
Value and tax summary for taxes payable 2019	
Values established by assessor as of January 2, 2018	
Estimated market value:	\$304,700
Taxable market value:	\$294,883
Total improvement amount:	
Total net tax:	\$3,852.42
▶ County \$1,234.47	
▶ Hennepin County Regional Rail Authority \$53.28	
▶ City of MINNETONKA \$1,022.59	
▶ School District: Voter Approved Levies \$758.18	
▶ School District: Other Local Levies \$486.68	
▶ Metropolitan Special Taxing District Tax \$74.96	
▶ Other Special Taxing Districts \$178.57	
▶ Non-School Voter-Approved Referenda Levies \$43.69	
Total special assessments:	
Solid waste fee:	
Total Tax:	\$3,852.42

**City is
27%
of total**

Additional Resources:
[LMC Property Tax Statement 101](#)

NEIGHBORHOOD

IMPROVEMENT



CONDITION

AGE

MARKET

PROPERTY VALUE

Resident's Market Value Exclusion

- Maximum exclusion realized at \$76k or less
- Benefit is phased out as value increases
- Complete phase out at \$413,778

Additional Resources:

[LMC Homestead Market Value Exclusion 101 Memo](#)



Remember:
Preliminary
levy is your
ceiling

$$\text{levy} \div \frac{\text{TAX}}{\text{CAPACITY}} = \text{Tax Rate}$$

Levy: *Levy + FD Distribution*

Net Tax Capacity:

Tax Capacity - Captured Tax Increment Financing (TIF) Value – Fiscal Disparities Contribution

Additional Resources: [LMC Property Tax 101](#)

Strategic Process

Aligning goals to budget, organizational buy in and collaborative thinking are keys to the strategic process.

Advanced Budget Elements

Funding for the Future:
Planning for Today and Beyond

Advanced Budget Elements

- Internal Allocations
 - *Wages and benefits*
 - *Utility funds administrative charges*
- Internal service funds allocations
 - *Fleet*
 - *Information Technology*
 - *Building*
- Long-term Plan
- Debt Management
- Fees





Internal Allocations

- Wages and Benefits
 - *Allocations to funds/departments*
 - *Health and other benefit considerations*
 - *Union contracts*
 - *Staffing modifications*
- Utility funds administrative charges
 - *Administration and finance*
 - *Building department*

Internal Allocations

WAGES & BENEFITS 

Name	Position Title	12/31/2019 Pay	2020 Hours	Workers Comp	2020 Grade After Anniversa	2020 Step After Anniversa	Anniversary Adjustment Date	2020 Pay Pre Step	2020 Pay Post Step	2020 Pay Pre Step % of Yel	2020 Pay Post Step % of Yel	FY 2020 Salary
Doe, John	City Clerk	33.00	2,080	8810	8	2	1/1/2020	33.83	33.83	0.00	1.00	70,741.51
Doe, Jane	Acct/Deputy Clerk	24.47	2,080	8810	3	4	12/11/2020	25.08	26.09	0.95	0.06	52,575.97

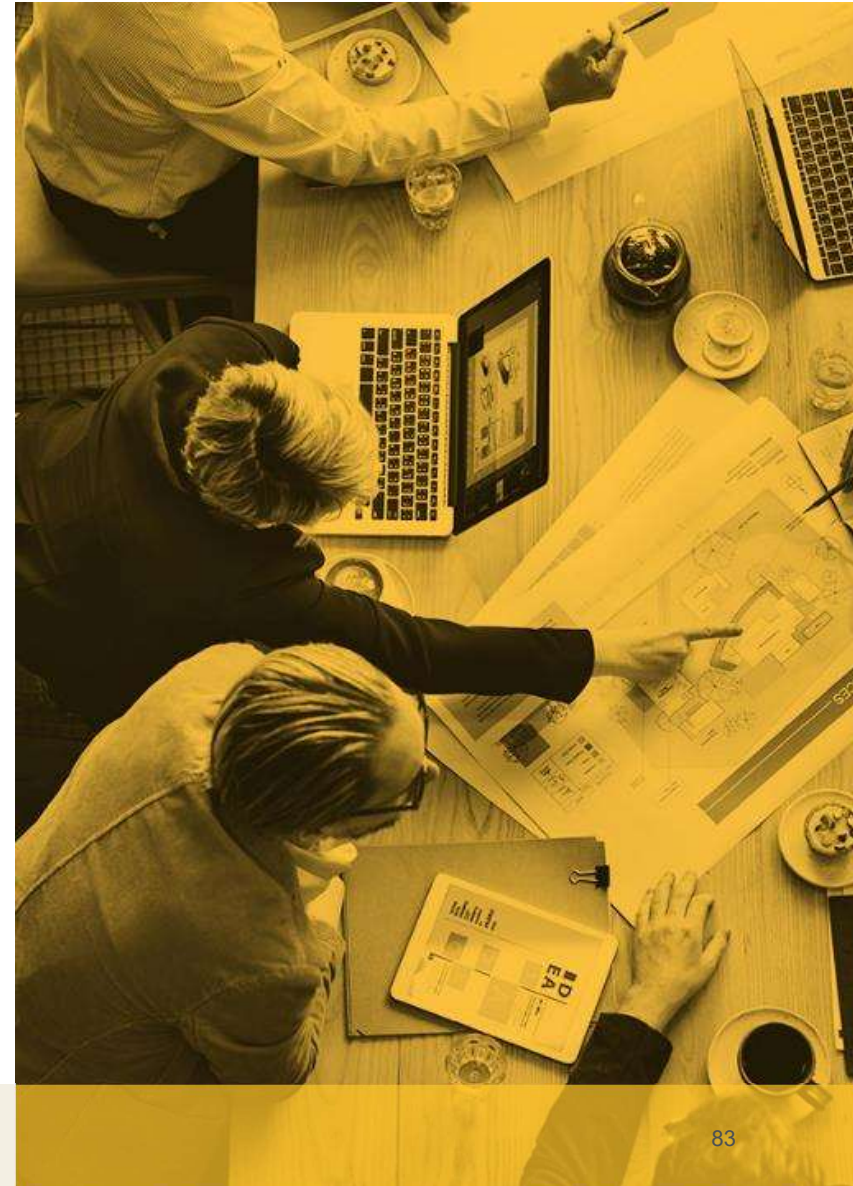
%	Code	PERA Code	FICA/Medicare Code	Insurance Code	Work Comp Code	FY 2019 Allocation	PERA	FICA	MEDICARE	HEALTH IN	Supervisor Retire Savings	Total Compensation	Workers Comp
100%	101-41420-50100	101-41420-50121	101-41420-50122	101-41420-50130	101-41420-50361	70,741.51	5,305.61	4,385.97	1,025.75	16,020.00	-	97,478.84	509.34
50%	101-41420-50100	101-41420-50121	101-41420-50122	101-41420-50130	101-41420-50361	26,287.98	1,971.60	1,629.85	381.18	8,010.00	-	38,280.61	189.27
50%	101-41500-50100	101-41500-50121	101-41500-50122	101-41500-50130	101-41500-50361	26,287.98	1,971.60	1,629.85	381.18	8,010.00	-	38,280.61	189.27

Company	Annual Budget 2021 (2.5% Increase)	Annual Budget 2022 (2.5% Increase)	Change from 2021 to 2022
09001 - General Fund	-294,675.20	-302,042.08	-7,366.88
TOTAL REVENUE (GENERAL FUND)	-294,675.20	-302,042.08	-7,366.88
09015 - Econ Devlpmt Authority	36,509.48	37,422.21	912.74
09300 - Sewer	56,953.10	58,376.93	1,423.83
09301 - Water	59,387.48	60,872.16	1,484.69
09302 - Golf Course	11,038.23	11,314.18	275.96
09303 - Ice Arena	11,038.23	11,314.18	275.96
09304 - Storm Water	24,825.50	25,446.14	620.64
09402 - C Garage-Operation	36,509.48	37,422.21	912.74
09410 - Information Technology	58,413.73	59,874.07	1,460.34
TOTAL EXPENSE (ALL FUNDS)	294,675.20	302,042.08	7,366.88

 **ADMINISTRATIVE TRANSFERS**

Internal Service Funds Allocations

- Fleet
 - *Replacements, additions, dispositions*
- Information technology
 - *Direct and indirect costs*
 - *Infrastructure*
 - *Software and software maintenance*
 - *Hardware or Cloud Technology*
- Building
 - *Facility assessments*



Internal Service Funds Allocations

FLEET 

Asset ID	Make	Description	Year	INPUT COLUMN Expected Life	Replacement Year	Disposal Date	Original Cost	Unit	CY Actual Operation Rate	Stirts	Snow/Ice	San Sew	Water	Signs	W/Sad	Inspc	Mun.	Parks
1	Ford	Pick Up	2002	13	0		27,479.00	Mo	1,353	3		2	3					1
2	Toro	Zeroturn mower	2020	5	2025		13,868.00	Mo	2,679									10
3	Skyjack	Scissors Lift	2019	15	2034		10,812.00	Mo	729									
4	Rotary	4 Post Lift	2020	12	2032		16,164.00	Mo	-									
5	Stepp	Asphalt patch trailer	2020	10	2030		40,215.00	Mo	254	12								
6	Sterling	Water Tanker	2003	20	2023		124,489.00	Mo	9,210	4		6						2

INFORMATION TECHNOLOGY 

	Direct allocations												Total Direct Allocations	Total City-wide Allocation	Total Account 7540	
	Arcview	Johnson Control	Access Point	Net Motion	Monitor for Conference Room	Locate services	Active Network (formery Max Ice)	Calendar Wiz	LETG, Plymouth IT Services, Training Officer 2000 V3	Watchguard	Cisco Analog Voice Gateway	Logis	Capital Items			
0004 - Street	400	-	-	-	-	-	-	-	-	-	-	-	-	400	35,588	35,988
0038 - Parks Budget	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,752	29,752
0080 - Pool	-	-	-	-	-	-	-	-	-	-	-	-	962	962	22,337	23,299
0101-Mayor/Council	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,270	6,270
0115 - City Manager	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,939	15,939

Important reminders

- The final levy that is certified in December **CANNOT** be higher than what was certified in September.





Contact Us



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Questions?