

## I. Business vs. Governmental Accounting

- A.) Primary purpose and motivation of a business is profit. Focus is primarily on whether revenues earned are sufficient to cover related costs to generate a profit. In business there is a discernable relationship between what an individual pays and what that same individual receives.
- B.) Primary purpose and motivation of a government is providing services. Governments view the generation of financial resources as a means to an end rather than an end in itself. Focus is primarily on whether inflows of spendable resources are sufficient to cover outflows of spendable resources (balanced budget). There is typically little relationship between what a citizen pays in taxes and the specific services that same citizen receives from the government to which those taxes are paid.

## II. Governmental Accounting System

- A.) Must make it possible to both:

- 1) *Present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles (GAAP), and*
- 2) *To determine and demonstrate compliance with finance-related legal and contractual provisions.*

- B.) The City's accounting system is organized and operated on a fund basis.

- 1) *A fund is a fiscal and accounting entity with a self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.*
- 2) *Only the minimum number of funds are established and maintained in the City's financial system consistent with legal and operating requirements and sound financial administration. Unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.*

### C.) Fund Categories

- 1) *Governmental Funds* – used to account for activities primarily supported by taxes, grants, and similar revenue sources.
  - A) *General Fund*
  - B) *Special Revenue Funds* – Street, Fire Levy, Police Levy, CDBG grant etc..
  - C) *Debt Service Funds* - G.O. & S. A. Bond Retirement
  - D) *Capital Projects Funds*
- 2) *Proprietary Funds* – used to account for activities that receive significant support from fees and charges.
  - A) *Water Fund*
  - B) *Water Pollution Control Fund*
- 3) *Internal Service Funds* – used to account for allocated shared goods and services of the City that are provided to other funds or departments. The government must be the primary participant, and the funds must function on a break-even basis over time.
  - A) *Garage Fund*
  - B) *Hospitalization Fund*
- 4) *Fiduciary/Custodial Funds* – used to account for resources that a government holds as a trustee or agent on behalf of an outside party that cannot be used to support the government’s own programs (i.e. Worker’s Compensation, O.P.E.R.S., Lorain-Elyria Twsp JEDD, etc.)

### D.) City Funds

- 1) *The City currently has 71 active funds of which 62 are legally required to be budgeted.*

### III. Basis of Accounting

- A) The day-to-day operations of the City are recorded on the cash basis of accounting. Only amounts actually received or paid in the calendar year are recorded in the general ledger.
- B) Financial statements are prepared using a combination of modified accrual and full accrual basis as required by GAAP. Simply put, this basis of accounting records receipts when earned/receivable and expenditures when due/payable, not when actually received or paid.

Source: Governmental Accounting, Auditing, and Financial Reporting-Government Finance Officers Association, Stephen J. Gauthier