Fund Accounting and Basis of Accounting

Below is an in-depth article on Fund Accounting and Basis of Accounting, drawing on the provided sources:

Fund Accounting & Basis of Accounting: Core Concepts in Governmental Finance

Government entities, such as school districts, operate under a specialized accounting system known as fund accounting, which differs significantly from the accounting practices of private sector businesses. While private sector accounting primarily focuses on profitability, fund accounting in government emphasizes **accountability to public stakeholders** and ensuring that financial resources are used for their intended, legally mandated purposes. This system segregates financial resources into distinct "funds," each acting as a separate accounting entity with a self-balancing set of accounts. The importance of distinguishing between these fund types is crucial for ensuring legal compliance, effective financial reporting, and informed decision-making.

The Governmental Accounting Standards Board (GASB) is the independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments, including school districts. GASB Statement 34 provides the financial reporting model that Georgia School Districts are required to use.

Government financial activities are broadly categorized into three main types of funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Each fund type serves a distinct purpose and employs specific accounting methods, primarily **Modified Accrual Basis** or **Full Accrual Basis** of accounting, depending on its objectives and the nature of the activities it reports.

Core Concept: Governmental Funds

Governmental funds are used to account for resources typically derived from tax revenues and other public sources, focusing on fiscal accountability and current financial position rather than profitability. These funds help users determine the current needs of the School District and its ability to meet those needs.

There are five types of Governmental Funds:

- **General Fund**: This is typically the school district's main operating fund, accounting for and reporting all financial resources not accounted for or reported in another fund. For Georgia School Districts, the General Fund often includes multiple underlying funds from the general ledger, such as Funds 1XX, 4XX, and 5XX, and most 6XX funds (except 693) when using GDOE mapped financial statements.

- **Special Revenue Funds**: These funds are used to account for and report the proceeds of specific revenue sources that are **restricted or committed to expenditure for specified purposes**, other than capital projects and debt service. Examples might include funds for road maintenance or grants. GASB 54 refined this definition, requiring a "substantial portion" of revenues to come from committed or restricted sources for a fund to qualify as Special Revenue.
- **Capital Projects Funds**: These funds account for and report financial resources, such as Special Purpose Local Option Sales Tax (SPLOST), Bond Proceeds, and grants from the Georgia State Financing and Investment Commission, that are **restricted, committed, or assigned for capital outlays**, including the acquisition or construction of capital facilities and other capital assets. All funds in the 300 range are typically mapped to this column by the Georgia Department of Education (GDOE).
- **Debt Service Funds**: Used to account for and report financial resources that are **restricted, committed, or assigned for the payment of general long-term principal and interest**, including legally restricted taxes. In Georgia, GDOE maps all funds in the 200 range to the Debt Service column.
- **Permanent Funds**: These funds account for and report resources that are **legally restricted**, allowing only the earnings they generate to be used, but not the principal itself. These funds support the reporting government's programs for public benefit.

Basis of Accounting for Governmental Funds: Modified Accrual

Governmental funds utilize the **Modified Accrual Basis of Accounting**. This method combines elements of both cash and accrual accounting.

- **Revenue Recognition**: Revenues are recognized when they are **"measurable" and "available"**. "Available" generally means collected within the current period or soon enough after year-end to pay current liabilities. Most school districts consider revenues collected within **sixty to ninety days after year-end** to be available. For example, delinquent ad valorem tax revenue due at year-end is recorded as a receivable, but any portion not collected within the specified availability period (e.g., 60 days) is recorded as a Deferred Inflow of Resources (Unavailable Revenue) rather than revenue. However, for SPLOST and Title Ad Valorem Tax (TAVT), the revenue is considered available and accrued in the same way for both Governmental Fund Financial Statements and Government-Wide Financial Statements, with no deferral needed for July receipts.
- **Expenditure Recognition**: Generally, expenditures are recorded when the **related fund liability is incurred**. There are exceptions, such as principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures only to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. For example, if services were provided in June, but the invoice was received in July, the $50,000 expenditure would be accrued as of June 30th.

- **Measurement Focus**: Governmental funds use the **current financial resources measurement focus**. This means their statements display the total available expendable financial resources and the balances remaining at the end of the fiscal year.

Core Concept: Proprietary Funds

Proprietary funds are used to account for activities that are operated like a business, providing services for which a fee is charged directly to the users. Their purpose is to ensure that the costs of providing goods or services are financed or recovered primarily through user charges, mirroring private business operations.

There are two main types of Proprietary Funds:

- **Enterprise Funds**: These funds account for services provided to the general public, primarily funded through user fees. They are designed to be self-sustaining, covering their operating expenses and capital costs. Common examples include water and sewer utilities, public transportation, and public parking facilities. For Georgia School Districts, Fund 693 is mapped to the Enterprise Fund column.
- **Internal Service Funds**: These funds track activity related to goods or services provided by one department or agency to other internal parts of the government on a cost-reimbursement basis. Examples include central vehicle pools, information technology services, and employee health benefits. They aim for cost recovery by charging other departments for their services.

Basis of Accounting for Proprietary Funds: Full Accrual

Proprietary funds use the **Full Accrual Basis of Accounting**. This method is similar to accounting practices in the private sector.

- **Revenue Recognition**: Revenues are recognized when they are **earned**, regardless of when cash transactions occur. For example, revenue from lottery ticket sales in a proprietary fund is recorded when tickets are sold, not when cash is received.
- **Expense Recognition**: Expenses are recognized when they are **incurred**, regardless of when cash transactions occur. This includes operational costs, depreciation, and interest on long-term liabilities.
- **Measurement Focus**: Proprietary funds use the **economic resources measurement focus**. This means their financial statements include all assets and liabilities (both long-term and short-term) associated with their activities.

Core Concept: Fiduciary Funds

Fiduciary funds are used to account for resources that the government holds in a **trustee or agency capacity for others** and cannot be used to support the government's own programs. The primary purpose is to ensure that these resources are managed responsibly for the benefit of the specific parties for whom they are intended.

There are four types of Fiduciary Funds:

- **Private-Purpose Trust Funds**: These funds track activity related to trust agreements where principal and income benefit individuals, private organizations, or other governments. In Georgia, GDOE maps funds in the 700 range (except 705) to this column.
- **Pension Trust Funds**: These funds track activity related to pension benefits and account for resources held in trust for the payment of employee benefits like pensions and post-employment healthcare.
- **Custodial Funds**: Formerly known as agency funds, these funds report resources held by the government in a purely custodial capacity, involving only the collection, holding, and remittance of funds to individuals, private organizations, or other governments. In Georgia, Fund 705 is mapped to the Custodial Fund column.
- **Investment Trust Funds**: These funds manage the pooled investments of multiple government entities, accounting for the external portion of investment pools.

Basis of Accounting for Fiduciary Funds: Full Accrual

Like Proprietary Funds, Fiduciary Funds also use the **Full Accrual Basis of Accounting**.

- **Revenue Recognition**: Revenues are recognized when **earned**. This includes investment earnings and contributions from beneficiaries.
- **Expense Recognition**: Expenses are recognized when **incurred**. This includes administration fees and benefits paid to participants.
- **Measurement Focus**: Fiduciary funds follow the **economic resources measurement focus**.
- **Reporting Exclusion**: A key characteristic is that fiduciary funds are **not included in the government's government-wide financial statements** because these assets are not available to finance the government's own programs. However, detailed reporting is required in the fiduciary fund financial statements for transparency and accountability.

Key Distinctions and Financial Reporting Impact

The table below summarizes the core differences in financial objectives and accounting methods across the three fund categories:

Feature	Governmental Funds	Proprietary Funds	Fiduciary Funds
Financial Objective	Fiscal accountability, track public service	Financial self-sufficiency, cover	Act in best interest of external parties,

	spending, budget compliance	costs through user charges	manage assets held in trust
Accounting Basis	**Modified Accrual Basis**	**Full Accrual Basis**	**Full Accrual Basis**
Measurement Focus	Current Financial Resources	Total Economic Resources	Total Economic Resources
Revenue Recognition	Measurable and Available (e.g., within 60-90 days)	Earned	Earned (e.g., investment earnings, contributions)
Expenditure/Expense Recognition	When incurred (with some exceptions for maturity)	When incurred (including depreciation, interest)	When incurred (e.g., administration, benefits paid)
Inclusion in Government-Wide Statements	Reflected in governmental activities column (with reconciliations)	Reported in business-type activities column	**Excluded** (resources not available to government)

All financial statements must ultimately be presented using **Generally Accepted Accounting Principles (GAAP)**. The Government-Wide Financial Statements, which include information about the School District's financial activities and distinguish between governmental and business-type activities, are always reported using the **accrual basis of accounting and the economic resources measurement focus**. This means that governmental funds often require conversion entries to adjust from the modified accrual basis to the full accrual basis for the government-wide presentation, particularly for items like property taxes, capital assets, leases, and long-term liabilities. In contrast, proprietary and fiduciary funds, already using full accrual, generally do not require such conversions for the government-wide statements.

Understanding these distinct fund categories and their respective accounting bases is fundamental for anyone involved in governmental finance, ensuring clarity, compliance, and effective stewardship of public resources.