

Section A

Question 6



OPERATING BUDGET SAMPLE BOOK: FY 2000-2001

- Is the accounting basis for budget described?
 - This one is commonly missed.
 - Should talk about modified accrual/cash/full accrual, etc. Can usually be found in CAFR.
 - Referring to the funds within your agency or the budget process does not meet this criteria.
 - Could be in the budget message or as an appendix or elsewhere in the document.
 - Give it the title, “Basis of Accounting.”

BASIS OF ACCOUNTING

The budgets of governmental funds (General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds) are prepared on a modified accrual basis where revenues are recognized when they become measurable and available, and expenditures are recorded when the related liability is incurred; except that principal and interest payments on general long-term debt are recognized when due. Revenue availability criteria are defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., sixty days after fiscal year-end).

Budgets for proprietary funds (Internal Service Funds and Enterprise Funds) are prepared on a full accrual basis where revenues are recognized when earned, and expenses are recognized when they are incurred.

The fund types used by the City are as follows:

Governmental Funds

General Fund	The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital costs which are not paid through other funds.
Special Revenue Funds	Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.
Debt Service Funds	Debt Service Funds are used to account for the accumulation of resources and payment of principal and interest on general long-term debt.
Capital Projects Funds	Capital Projects Funds are used to account for the acquisition, construction and improvement of capital facilities other than those financed by proprietary funds.

Proprietary Funds

Enterprise Funds	Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
Internal Service Funds	Internal Service Funds are used to account for the financing of services provided by one department to other departments of the government, on a cost reimbursement basis, including depreciation.

Basis of Accounting

The City was incorporated in 1967 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, public improvements, planning and zoning, and general administrative services. The City's accounting is maintained under the generally accepted accounting principles for preparing the budget and general purpose financial statements. The City includes the component units of the Indian Wells Redevelopment Agency and the Indian Wells Fire Access Maintenance District No. 1.

Formal budgetary integration is employed as a management control device during the year for all governmental funds. The initial budget is approved and adopted by the City Council and modified through supplemental appropriations as necessary by Council action. The City Manager is authorized to transfer appropriated funds between major expenditure categories within departments. A change in total appropriations in any department must be approved by the City Council.

The basis of accounting refers to the timing of revenue and expenditure recognition for financial reporting. In preparing the budget the same methodology is applied. All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are included in the budget when they become measurable and available as current assets. Expenditures are budgeted when measurable in the accounting period in which the fund liability is incurred.

BASIS OF ACCOUNTING & BUDGET

Basis of accounting and budget refers to the concept of recognizing the time a transaction has occurred for the purpose of recording that transaction. This is key because the budget determines the accounting system. For example, if the budget system anticipates revenues on a cash basis, the accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. Like many cities, Santa ana uses a modified approach to the cash and accrual basis.

The City's Governmental Fund Types recognize revenues when they are accrued, *i.e.*, when they become measurable and available to pay for current expenditures. Accrued revenues include sales taxes, property taxes, and other taxes received within sixty days after the fiscal year ends, and earnings on investments. Grant funds earned but not received are recorded as receivables and revenues, and grant funds received that have not met recognition criteria are reported as deferred revenues. Expenditures are recorded when the liability is incurred, except that unmatured principal and interest on general long-term debt are recorded when due.

The City's Proprietary Funds recognize revenue when they are earned, and expenses when the liability is incurred. Unbilled water utility, refuse collection, sanitation, and water utility user tax revenues are accrued at year end.

Fiduciary Funds are treated according to the nature of the fund. The City has only Agency Funds which are custodial in nature (assets equals liabilities) and do not measure results of operations. Assets and liabilities are accounted for on a modified accrual basis.
