Basis of Budgeting and Accounting

Background

There are three basic categories of differences between the basis of accounting and the basis of budgeting that follows generally accepted accounting principles (GAAP) for state and local government: (1) Basis of Accounting--"Cash plus encumbrances" and "modified accrual" are two of the different ways to define revenue and expenditures; (2) Perspective-- The budget and accounting reports may have different fund reporting structures, e.g., a budget may account for debt services in the Local Funds, while GAAP principles require that debt service be recorded in a separate fund; (3) Reporting Component-- the District's Comprehensive Annual Financial Report (CAFR) may present "reporting components" and funds in different ways than the budget document.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity (corresponding to a corporation in the private sector) having its own assets, liabilities, equity, revenue and expenditures/expenses. The types of funds used are determined by generally accepted accounting principles. The number of funds established within each type is determined by sound financial administration. Specialized accounting and reporting principles and practices apply to governmental and expendable trust funds. Proprietary and pension trust funds are accounted for in the same manner as similar business enterprises or nonbusiness organizations.

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Basis of Budgeting

The basis of budgeting refers to the conversions for recognition of costs and revenue in budget development and in establishing and reporting appropriations, that are the legal authority to spend or collect revenues. The District uses a modified accrual basis for budgeting governmental funds. Proprietary funds are budgeted using accrual concepts. All operating and capital

expenditures and revenue are identified in the budgeting process because of the need for appropriation authority.

The budget is fully reconciled to the accounting system at the beginning of the fiscal year, and in preparing the CAFR at the end of the fiscal year. A number of GAAP adjustments are made to reflect balance sheet requirements and their effect on the budget. These include changes in designations and recognition, via studies and analysis, of accrued liabilities. Amounts needed for such long-term liabilities as future payoff of accumulated employee vacation is budgeted as they budgeted as projections and once recognized are adjusted for actual amounts.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the United States Congress. A project-length financial plan is adopted for the Capital Projects. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Fund.

The budgetary general fund differs from GAAP by including the Financial Responsibility Authority special revenue fund and the University discretely presented component unit and by excluding the Office of Cable Television, the Public Service Commission, the Office of the People's Counsel, Insurance and Securities, Banking, and Correctional Industries. The Financial Responsibility Authority recognizes budgetary expenditures when orders and contracts are issued rather than when goods and services are received.