

BASIS OF ACCOUNTING AND BUDGETING

Accounting:

Accounting records for the City are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 R.C.W., and in compliance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board.

Basis of Presentation:

The accounts of the City are organized on the basis of “funds” and “accounts”. Each fund is a separate accounting entity with a self-balancing set of accounts. The City’s resources are allocated to and accounted for in individual funds according to the purpose for which they are spent and how they are controlled. There are three categories of funds: 1) governmental, 2) proprietary and 3) fiduciary. A purpose and description of each fund is provided on the fund pages in the Budget by Fund section of this budget document. A description of the three fund categories is provided below.

1) Governmental Funds

Governmental funds are used to account for activities typically associated with local government operations. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds. The four generic fund types in this category are described in the following paragraphs.

The **General Fund** is the general operating fund of the City and accounts for all activities not required to be accounted for in some other fund.

Special Revenue Funds account for the proceeds of specific revenue sources - other than expendable trusts or revenues designated for major capital projects - that are legally restricted to expenditures for specific purposes.

Debt Service Funds account for the accumulation of resources for and the payment of general long-term debt, principal, interest, and related costs.

Capital Projects Funds account for the acquisition or construction of major capital facilities except those financed by proprietary funds and trust funds.

2) Proprietary Funds

Proprietary Funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. All proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. As described below, there are two generic fund types in this category.

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is to finance or recover, primarily through user charges, the costs of providing goods or services to the general public on a continuing basis.

Internal Services Funds account for business-like activities where related goods or services are primarily provided to other departments or funds of the City on a cost-reimbursed basis.

3) Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. These funds share characteristics with both the governmental and proprietary funds and therefore, as described below, use the measurements focus and basis of accounting most appropriate to their specific operations. This fund category includes expendable trust, nonexpendable trust, pension trust, and agency funds. The City presently has no fiduciary funds.

Basis of Accounting:

Basis of accounting refers to the recognition of revenues and expenditures or expenses in the accounts and reporting them in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The *accrual basis* of accounting recognizes revenues when they are earned and expenses are recorded when incurred. All assets and liabilities are recorded in the fund.

The *modified accrual* basis of accounting recognizes revenues and other financial resources when they become susceptible to accrual, i.e. when the related funds become both measurable and available to finance expenditures of the current period. “Measurable” means the amount of the transaction can be determined. To be considered “available”, revenue typically must be collected within sixty days after year-end.

Expenditures are recorded when the fund liability is incurred, except for principal and interest on general long-term debt, and vacation and sick pay which are recorded when paid. Inventory items are reported as expenditures when consumed.

Budgets and Budgetary Accounting:

Scope of Budget - Annual appropriated budgets are adopted for the general, some special revenue, debt service, and proprietary funds on the modified accrual basis of accounting. Certain special revenue and capital project funds, however, are budgeted on a project-length basis. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles (GAAP). Budgets for project/grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a “project-length” basis. Therefore, these appropriations are carried forward from year to year without reappropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

The individual funds within each fund type, which are included in the City’s biennial operating budget, are listed below:

Funds Budgeted on a Biennial Basis

General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are established to account for proceed of specific revenue sources that are legally restricted to expenditures for specified purpose.

- Street Operating Fund
- Strategic Reserve Fund
- Solid Waste Service Fund
- Real Estate Excise Tax Fund
- Recreation Programs Fund
- Hotel/Motel Tax Fund
- Accumulated Leave Reserve Fund

Debt Service Fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Enterprise Fund accounts for operations that are normally 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges. The City operates water, sewer and storm water utilities as Enterprise Funds.

Internal Service Funds are established to account for the financing of goods and services provided by one department of the governmental unit on a cost reimbursement basis. The City of Mountlake Terrace has one Internal Service Fund:

- Equipment Rental Fund

Funds Budgeted on a Multi-Year Basis

Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities. The City of Mountlake Terrace has the following Capital Project Funds:

General Government Capital Funds:

- Capital Improvement Fund
- Facility Construction Fund
- Street Construction Fund

Utility Construction Funds:

- Storm Water Construction Fund
- Water Construction Fund
- Sewer Construction Fund