

Chart of Accounts and Audit Requirements

IMTA Institute
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Chart of Accounts

- GFOA Example
- https://www.gfoa.org/sites/default/files/GFOA_CoA-Recommendations.docx



Chart of Accounts

- Make it work for your organization
 - Simple is sometimes better
 - Plan for growth (new funds, departments, etc.)
 - Customize to your needs
 - Budget
 - Department Heads
 - Audit



Chart of Accounts

- **BE CONSISTENT!!!!**
- If you are creating a new COA
 - Plan Thoroughly
 - Create Documented Guidelines for new accounts
 - Don't be influenced by current accounts
 - Simple yet detailed enough to be effective



Chart of Accounts

- Suggested format
- AAA-BBB-CCCC-DDDD-EE
- A – Fund
- B – Department/Location/Division
- C – Function/Program/Activity
- D – Object/Account
- E – Project



Chart of Accounts

- Balance Sheet might only have Fund and Account (A and D), but this up to you
- Account number should have some logic (i.e. Assets 1XXX, Liabilities 2XXX, Fund Balance/Net Position 3XXX, Revenue 4XXX, Expenditures 5XXX.



Chart of Accounts

- Furthermore within each category
 - Assets/Liabilities – Smaller numbers are current and larger numbers are long-term
 - Revenue – 41XX local taxes, 42XX state shared/intergovernmental, 43XX Fines, Fees, 44XX Grants, etc.
 - Expenses – 51XX Salaries, 52XX, Benefits, 53XX Purchased Service, 54XX Supplies/commodities, 55XX Capital Outlay



Chart of Accounts

- Planning
- Logical, documented system
- **BE CONSISTENT!!!!**



Audit Requirements

- 50 ILCS 310 – Governmental Account Audit Act
- \$850,000 in revenue you must have an annual audit
- Less than \$850,000 more specific rules
 - Every 4 years
 - Comptroller AFR with 3/5 majority vote
- GAAP Basis Requirement (unless grandfathered)



Audit Requirements

- 65 ILCS 5 – Illinois Municipal Code
- Annual audit is required if:
 - Population is greater than 800
 - Bonded Debt
 - Owner or operating any type of public utility



Audit Requirements

- 60 ILCS 1 – Township Code
- Annual audit is required if:
 - Revenue greater than \$850,000 (exclusive of Road Funds)
 - End of each term of the Township supervisor or a vacancy occurs in the office of supervisor (Generally every 4 years)



Audit Requirements

- Must be done by a Certified Public Accountant
 - Peer Review
 - Independence
- Must include all funds and accounts
- Must be uploaded with the Annual Financial Report (AFR) to the Illinois Comptroller
- Due 180 days after year end
 - Not 6 months
 - Easy to get a 60 day extension



Audit Requirements

- Single Audit Act
 - Federal expenditures greater than \$750,000 during a fiscal year
 - Test major federal programs (determined by auditor)
 - Type A Programs
 - Type B Programs
 - Focus on Grant Compliance



Audit Requirements

- Government Accountability and Transparency Act (GATA)
- Consolidated Year End Financial Report (CYEFR)
- Audit opinion must include “in relation to” opinion on the CYEFR



Audit Tips

- Though not required I wanted to share some tips for a smooth, efficient, and valuable audit
- Communicate with your auditor (all year!)
- Get copies of work papers that you can complete
- Make and review auditor adjustments each year (reference these again when planning for the audit each year)



Audit Tips

- Work paper lists – Planning and Final
- Understand the importance of preliminary fieldwork (planning)
- Be an active part of the audit
 - Learn
 - Make management decisions
 - Challenge the auditors if you disagree



Audit Tips

- Seek to improve the audit each year (i.e. less days onsite, less journal entries, etc.)
- Don't view the audit as a commodity or necessary evil
 - Specialized service meant to help your organization



I have a checkbook, but what's a fund?

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Overview/Outline

- Basis of Accounting
- Fund Types
 - Governmental
 - Proprietary
 - Fiduciary
 - Interactive Account Groups for conversion

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Basis of Accounting

- GAAP (Modified Accrual/Full Accrual)
- Modified Cash Basis
- Cash Basis

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GAAP Basis – Modified Accrual

- Measure flows of CURRENT financial resources – “operating results”
- Recognize revenue when it is available and measurable (review revenue recognition policy)
- Recognize expenditures/liabilities when they are incurred
- Do not recognize long term debt liabilities or capital assets on the balance sheet

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GAAP Basis – Full Accrual

- Measures “Economic Resources”
- Use for enterprise funds, internal service funds, fiduciary funds, and government-wide
- We record long-term debt and other liabilities on the balance sheet
- We record capital assets on the balance sheet



Modified Cash Basis

- Varies based on the accounting policies
- Generally governmental funds are cash basis
 - No payables or receivables
- May or may not record capital assets in enterprise funds and government-wide
- May or may not record long term debt in enterprise funds and government-wide
- Payroll liabilities – often included – should be on both fund and government-wide if included



Cash Basis

- It is just what it sounds like...
- Balance sheet will have cash and fund balance/net position – nothing else
- Revenue is recorded when received/deposited
- Expenses are recorded when the check is cut
- No conversion – nothing to add/change



Funds!!!

- 3 groups of funds – fund types within those groups
- Governmental
- Proprietary
- Fiduciary



Governmental Funds

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds



Special Revenue

- Specific revenue source
- Limited to a particular purpose
- MFT, grant, utility tax (maybe), etc.



Debt Service

- Accounts for the repayment of debt
- Used to accumulate funds for the purpose of repaying debt
- Only use for governmental activities (never have a debt service fund for your water fund debt)



Capital Projects

- Use to account for the construction, rehabilitation, and acquisition of capital assets
- Totally optional fund type – can use general or special revenue funds
- Can be an ongoing fund or for one specific purpose/project



Permanent Funds

- Account for resources that cannot be expended but must be held in perpetuity
- Generally assets are invested
- You can spend the earnings
- Like an endowment



General Fund

- Governmental activities that don't fit into the other 4 types (everything else)
- You can only have 1 general fund
- Basic operating fund
- Can be used rather than creating special revenue funds and capital projects funds
 - Track fund balance carefully



Proprietary Funds

- Used to account for activities where fees will cover the costs – similar to private sector
- Enterprise Funds
- Internal Service Funds



Enterprise Funds

- A fee is charged to external users for goods/services
- The fee should cover all or the majority of the expenses related to the goods/service
 - Including repayment of debt
- Public utilities, airport, parking structure, golf course, etc.



Internal Service Fund

- Fee charged internally for goods/services to different departments
- Again fees charged should support the activity (including repayment of debt)
- Motor pool, office supply pool, health insurance pool, etc.



Fiduciary Funds

- GASB 84
- Pension and OPEB Trust Funds
- Investment Trust Funds
- Private-Purpose Trust Funds
- Custodial Funds



Pension/OPEB Trust Fund

- Reports resources that are held in trust for employee benefits
- Police/Fire Pension Funds
- OPEB Funds



Investment Trust Funds

- Reports investment pool if you are the sponsor
- This holds money in trust for other agencies you are just the custodian



Private-Purpose Trust Funds

- Other money held in trust not for investment pools or employee benefits
- Held to support individuals, organizations, or other governments



Custodial Funds

- Assets controlled by the government
- Not from "own-source" revenues
- One (or more) of the following:
 - In a trust for which the entity is not the beneficiary and it is legally protected from creditors
 - Assets for benefit of individuals and the government does not have administrative involvement
 - Assets for benefit of another entity (not part of financial reporting entity)



Funds Recap

- Governmental
 - General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds
- Proprietary
 - Enterprise and Internal Service Funds
- Fiduciary
 - Pension Trust, Investment Trust, Private-Purpose Trust, and Custodial Funds



Interactive Account Groups

- Set up “funds” on your accounting system to account for capital assets and long-term liabilities for conversion to full accrual
- General Capital Asset Account Group
- General Long-Term Debt Account Group
- Don’t include proprietary funds



General Capital Asset Account Group (GCAAG)

- Accounts for general capital assets recorded in the governmental activities
- Land, Infrastructure, Buildings and Improvements, Equipment
- Accumulated depreciation as well
- Let’s look at Journal Entries!!!



GCAAG (cont.)

- To set up for next year take 4/30/19 audit

Debit Each Class

Land	1,000,000	
Infrastructure	15,000,000	
Buildings/Impr.	5,000,000	
Equipment	5,000,000	
A/D Infrastructure		5,000,000
A/D Buildings/Impr.		2,500,000
A/D Equipment		4,500,000
Net Investment in Capital Assets		14,000,000



GCAAG (cont.)

- Now record current year activity (additions)

Infrastructure	1,000,000	
Buildings	100,000	
Equipment	250,000	
Capital Outlay		1,350,000



GCAAG (cont.)

- Now record current year depreciation

Depr. Exp. (General)	100,000	
Depr. Exp. (Public Safety)	100,000	
Depr. Exp. (Streets)	300,000	
A/D Infrastructure		250,000
A/D Buildings		50,000
A/D Equipment		200,000



GCAAG (cont.)

- You provide this “fund” to your auditor with GL to give them all information for capital assets activity during the year
- Make sure all expenditures (depreciation expense) are classified by FUNCTION
- Hopefully you only capital outlay accounts for new capital assets and nothing else, but if not you will have provide them functional information for capital outlay as well

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General Long-Term Debt Account Group (GLTDAG)

- Accounts for all long-term liabilities recorded in the conversion entries
- Long-term debt (bonds), accrued interest, Pension liabilities, OPEB, compensated absences, etc.
- Functions are even more important here than the GCAAG
- Let’s look at journal entries!!!

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GLTDAG (cont.)

- Again take your 4/30/19 audit to establish opening balances for this year


Net Position	17,000,000	
GO Bonds		10,000,000
Compensated Abs.		1,500,000
IMRF NPL		3,000,000
Police Pension NPL		2,000,000
OPEB Liability		500,000

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GLTDAG (cont.)

- Record current year bonds issued

Proceeds from bond issuance	1,000,000
Bonds (liability)	1,000,000



GLTDAG (cont.)

- Record current year bond payment(s)


Bonds (liability)	2,000,000
Debt Service (Principal)	2,000,000



GLTDAG (cont.)

- Record change in compensated absences
(balance from 1.5M to 2M)

Gen. comp abs exp.	250,000
Pub. Safety comp abs exp.	150,000
Streets comp abs exp.	100,000
Compensated Absences (liability)	500,000



GLTDAG (cont.)

- Record change in IMRF NPL (decrease from 3M to 2.5M)

IMRF NPL (Liability)	500,000
Change in NPL (Gen exp)	250,000
Change in NPL (PS exp)	100,000
Change in NPL (Street exp)	150,000

Change in OPEB Liability will be the same and Police Pension NPL is same except probably only 1 function



GLTDAG (cont.)

- Provide this to your auditor to support the long-term debt and pension notes in the financial statements
- Don't forget deferred inflow/outflows
- Don't forget accrued interest
- Make sure all expenses (changes in comp abs, NPL, etc.) are broken down by function
- Other financing uses aren't by function



Interactive Accounts Groups

- Questions???



Final Questions

- Thank you!!!!

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