

County Clerk's Standards

TOPIC: Financial Management

SUB TOPIC: General Ledger

Introductory Statement:

The General Ledger is the detailed accounting of receipts and expenditures for all funds of the County. Traditionally, a double set of books is kept by the County Clerk and the County Treasurer and the cash balance of each ledger is compared and balanced at the end of the month. This double entry system of bookkeeping has been practiced in Counties for many years and provides a good accounting tool to ensure the security of County funds. The County Clerk's General Ledger and bookkeeping systems provide detail regarding the receipts and expenditures of each fund. That detail is used for many functions including monthly and annual financial reports and the preparation of budgets. The General Ledger accounting is usually set up based on principles provided by GAAP, (General Accepted Accounting Principles).

Legal Reference(s): K.S.A. 19-311 et seq.
Governmental Accounting, Auditing and Financial Reporting Guide (GAAFR)
Kansas Municipal Audit Guide (KMAG)
K.S.A. 45-401 – 413 & K.S.A. 75-3501-3518

Best Practices:

The General Ledger is kept in several forms in the Counties. Some counties still have a large leather bound book and some use a computerized version and some have a combination of both. The important thing to remember for both types is that the General Ledger is a permanent record (Government Records Preservation Act (KSA 45-401—45-413) and the Public Records Act (KSA 75-3501—75-3518). Either an electronic copy or a paper copy should be created and kept permanently. (If an electronic copy is kept be sure to update the copy as technology changes so that it can be always be read. For example, moving a copy from magnetic tape to CD or optical disk.)

General Ledger based on Fund Accounting.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources. (Self balancing Cash=Liabilities + Revenue – Expenditures) Funds are classified into three broad categories: Governmental, Proprietary and Fiduciary. These broad categories are further divided into seven fund types.

a. Governmental funds

- (1) General Fund-to account for all financial resources except those required to be accounted for in another fund
- (2) Special Revenue Funds- to account for the proceeds of special revenue sources that are legally restricted to expenditure for special purposes. (i.e. Ambulance, Appraiser, Auto Administration, Road and Bridge)
- (3) Capital Project Funds-to account for financial sources to be used for the acquisition or construction of major capital facilities. (i.e. Series 2001 Bond, Road Improvement District #2 Construction Fund)
- (4) Debt Service Funds-to account for the accumulation of resources for, and the payment of, general term debt principal and interest. (i.e. Bond and Interest)

b. Proprietary funds

- (1) Enterprise Funds-to account for operations that are financial and operated in a manner similar to private business enterprises. (i.e. Landfill Access Road Maintenance Fund)
- (2) Internal Service Funds-to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit.

c. Fiduciary Funds

- (1) Trust and Agency Funds-to accounts for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and or other funds. (i.e. School District, City, Township, Cemetery and Drainage Districts.)

Number of Funds:

Counties should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity and inefficient financial administration. (GAAFR)

Modified Accrual Method of Accounting:

Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they become available. (i.e. if revenue is received in 2007 that is for a service provided in 2006 it should be booked to the 2007 general ledger). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for the unmatured interest on general long-term debt which should be recognized when due. (i.e. An expenditure made in 2007 that is for a 2006 expense should be booked in the 2006 general ledger, aka Prior Year Encumbrance)

Setting Up and Number General Ledger Accounts

In order to provide a uniform standard for setting up general ledger accounts which makes it easier for something from outside the County to come in and know what they are looking at in your bookkeeping system, a system has been established under GAAP for creating account codes in each fund. A detailed explanation of how to code general ledger accounts can be found in the GAAFR book. Clerk's should use this system in setting up the General Ledger.

Practical Tips:

Balancing each fund in General Ledger

$$\text{Cash} = (\text{Fund Balance} + \text{Warrants Payable} + \text{Income} - \text{Expenditures} - \text{Prior Year Encumbrance (Last Year's Bills)})$$

Balance General Ledger to the annual audit report

Balance cash balance with County Treasurer's ledger once a month (good accounting practice)

Work with your auditor to balance your general ledger each year to the audit report. Their report is based on your books so any differences can be identified and noted in a tool such as a spreadsheet.

Print a YTD General Ledger after the books are closed on December 31 and again after your auditor has collected all the final information for the annual audit (we print again after we cut off the posting of late bills to the prior year's budget).

Save YTD reports to image system if possible.

Don't print reports no one uses.

Background:

According to the GAAFR, the history of fund accounting can be traced back to a time well before formalized governmental accounting standards were established. Fund accounting is used as a control device to ensure that resources (tax dollars etc) are used for the intended purposes. Fund accounting allows Counties to demonstrate accountability and provide financial reporting capability.

Sample Forms, Letters and Other Reference Material:

(attach spreadsheet used to balance to audit report)

Sources:

**Books – Governmental Accounting, Auditing and Financial Reporting
Guide published by GFOA.**

Web Sites www.gfoa.org

Organizations: Government Finance Officers Association