



**Moving Public Transportation  
Into the Future**

# **Accounting 101**

**Transportation Association of Maryland (TAM) Conference**

**September 20, 2022**

*Presented by:*

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**RLS & Associates, Inc.**



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# About This Session

- ◆ **Today's session will focus on the basics of *Accounting* and *Budgeting* for governmental agencies.**
- ◆ **Duration: Three-hours**
- ◆ **Content Blocks: Two**
  - Each content block, or section, is eighty minutes
  - A 10-minute break will be provided
  - This is an interactive session; *questions and comments are welcomed and encouraged*

# Session Content



**Section 1: Governmental Accounting**



*Break*



**Section 2: Budgeting Basics**

A faded, light-colored map of a city or town grid is visible in the upper portion of the slide. The map shows various streets and blocks, with some areas highlighted in different colors like orange, yellow, and purple.

Section 1

# **ACCOUNTING FOR GOVERNMENTAL ENTITIES**



# What is Accounting?

- ◆ **Basic Definition:** The process of maintaining financial records and estimates and using the information to make critical financial decisions.
- ◆ **Accounting Process:** Involves summarizing, recording, analyzing, and reporting transactions to oversight agencies, regulators, and tax collection entities.
- ◆ **Financial Statements:** Financial statements are a concise summary of financial transactions over an accounting period.



# Generally Accepted Accounting Principles (GAAP)

- ◆ **GAAP:** A set of rules in place meant for governing accounting and financial reporting in the United States.
- ◆ **Financial Accounting Standards Board (FASB):** Laid the foundation of GAAP by designing a comprehensive list of methods and practices that companies operating in the U.S. must follow.



# Historical Overview of the GAAP

- ◆ **Established 1929**
- ◆ **Securities and Exchange Commission:** The SEC was granted the authority to set accounting standards.
- ◆ **American Institute of Accountants:** Responsibility delegated to a private auditing company; the AIA.
- ◆ **Accounting Principal Board:** The Committee on Accounting Procedure (CAP) was replaced by the APB after 20 years in operation.





# GAAP Today

At present date, three separate entities work together to set the rules for GAAP:

- ◆ **Financial Accounting Standards Board (FASB)**
- ◆ **American Institute of Certified Public Accountants (AICPA)**
- ◆ **The Securities and Exchange Commission (SEC)**

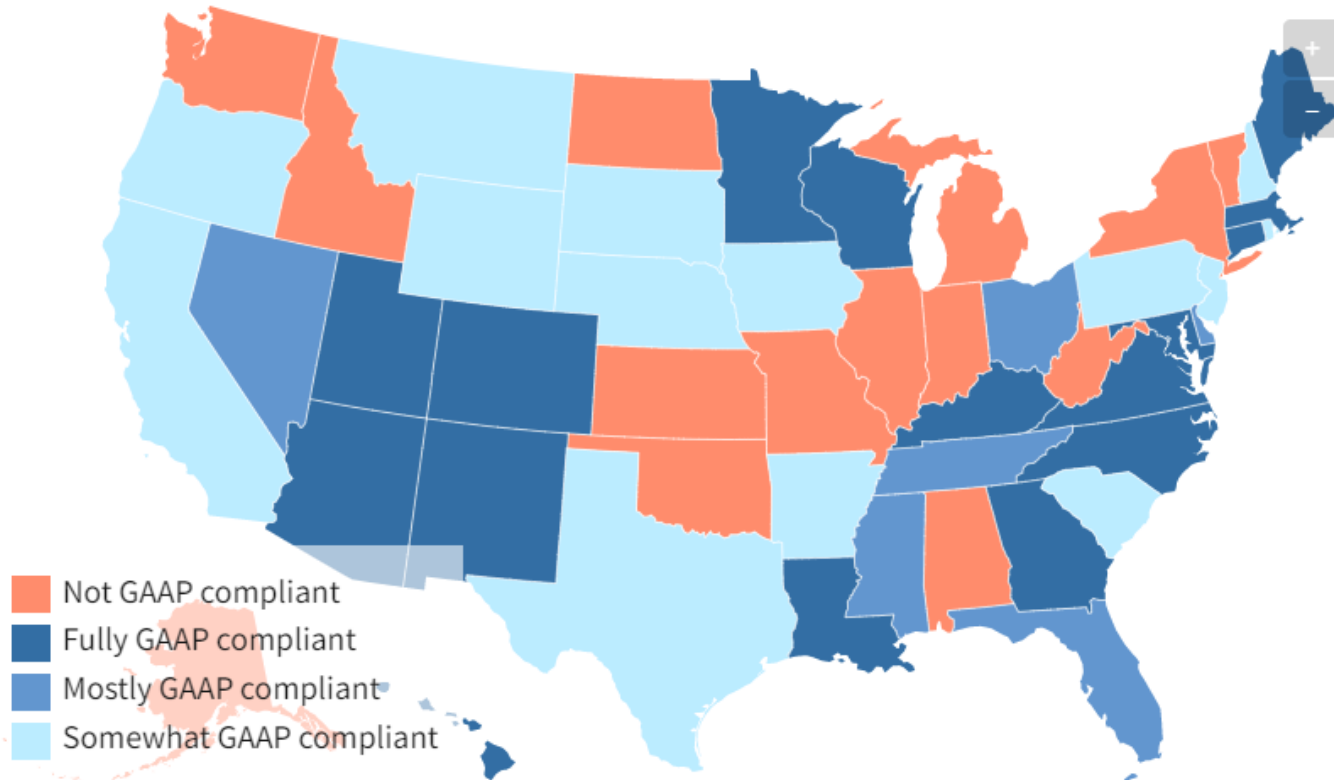


# Who Follows GAAP?

- ◆ **Private Companies:** May use any method of their choice. However, since private companies also require loans and funds, it is advisable for them to follow these standards.
- ◆ **Publicly Traded Organizations:** Required to follow these standards.
- ◆ Standards set forth by the **Governmental Accounting Standards Board (GASB):** GAAP for state and local government entities.

# Who Follows GAAP?

## GAAP Requirements by State



Map: Investopedia • Source: [Government Accounting Standards Board](#)



# Government Accounting

- ◆ The management and budgeting of public revenue
- ◆ Ensures revenue from taxpayers, municipal bondholders, and businesses is utilized responsibly and for the betterment of the community.
- ◆ Objective = Balanced budget
- ◆ Must adhere to a different set of standards
  - Governmental Accounting Standards Board
  - Federal Accounting Standards Advisory Board

# Basic Accounting Terminology

- ◆ **Accounting System:** The total structure of records and procedures which discover, record classify and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components.
- ◆ **Agency Fund:** A fund consisting of resources received and held by a governmental unit as an agent for others.
- ◆ **Assets:** Financial representation of economic resources owned by an organization or individual.
- ◆ **Balance Sheet:** A statement which discloses the assets, liabilities, reserves or equities of a fund or governmental unit at a specific date, properly classified to exhibit financial position of the fund or unit at that date.

# Glossary of Terms Continued

- ◆ **Liabilities:** Debt or other legal obligations arising out of transactions in the past which must be liquidated (turned into cash), renewed or refunded at some future date.
- ◆ **Revenues:** The addition to cash or other current assets of governmental funds (receipts) which do not increase any liability or reserve and do not represent the recovery of an expenditure.
- ◆ **Expenses:** The cost of goods, services and facilities used or absorbed in the generation of current revenue.
- ◆ **Receipts:** Describes an increase in the assets of a fund including revenues as well as transfers from other funds, federal receipts, and fund reimbursements.

# General Ledger and Chart of Accounts

## General Ledger

- ◆ Bookkeeping system
- ◆ Houses all accounting/financial entries and that information is used to create financial statements.
- ◆ Five main categories of accounts:
  - Assets, Liabilities, New Assets, Revenues, and Expenditures.

## Chart of Accounts

- ◆ A list of all accounts used to record financial position and activity in the General Ledger
- ◆ A Uniform Chart of Accounts designed for transit agencies
- ◆ The Uniform System of Accounts (USOA) Created to Ensure Uniform Financial Reporting Under the National Transit Database (NTD) Report Structure

# Government Accounting Objectives

- ◆ Recording expenses and revenue
- ◆ Minimizing expenses
- ◆ Controlling expenditures within a set budget
- ◆ Providing information related expenditure and budgets; financial statements and public records.
- ◆ Security and the protection of government property
- ◆ Maintaining fiscal accountability
- ◆ Allocation of revenue



# Government Accounting Principles

- ◆ **Accounting and Reporting Capabilities:** Every public entity must have financial reporting systems.
- ◆ **System of Accounting:** Government entities will either follow the Single-Entry System of Accounting or the Double-entry system.
- ◆ **Description of Incomes and Expenditures:** Incomes and expenditures related to different services should be classified under heads, departments, and specific funds.

# Government Accounting Principles

- ◆ **Valuation and Reporting of Government Assets:** All government owned assets' current and historical valuation must be reported. It is crucial to ascertain the performance of an entity. Additionally, depreciation must be allocated into financial statements either as a liability or an expense.
- ◆ **Annual Financial Reports:** Financial reports for public entities should be published annually and prepared interim. Governmental accounting ensures that all funds are accounted for. It is important to review if budgets were followed strictly. Budgeting will be covered in Section 2.



# The Establishment of Funds

- ◆ **General Fund:** This is the primary fund for all government operations.
- ◆ **Special Revenue Fund:** A fund used to account for revenues from specific taxes or other earmarked revenue sources which by law designated to finance particular functions or activities of government.
- ◆ **Debt Service Fund:** These are funds meant to pay any debt payments that the entity owes. It is further broken down into specific funds for each loan type.
- ◆ **Permanent Funds:** Funds like a school endowment fund are meant to grow and not be used regularly.

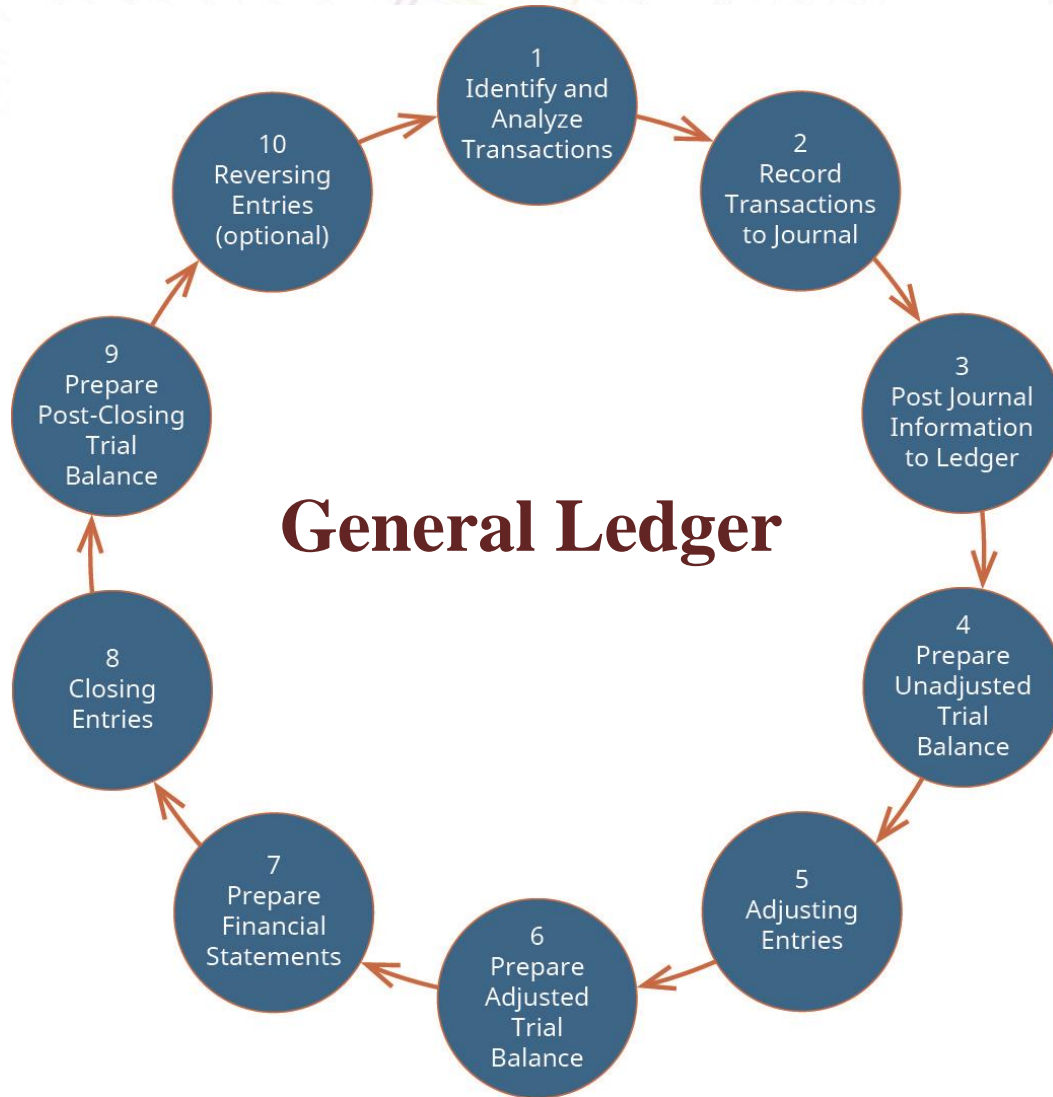


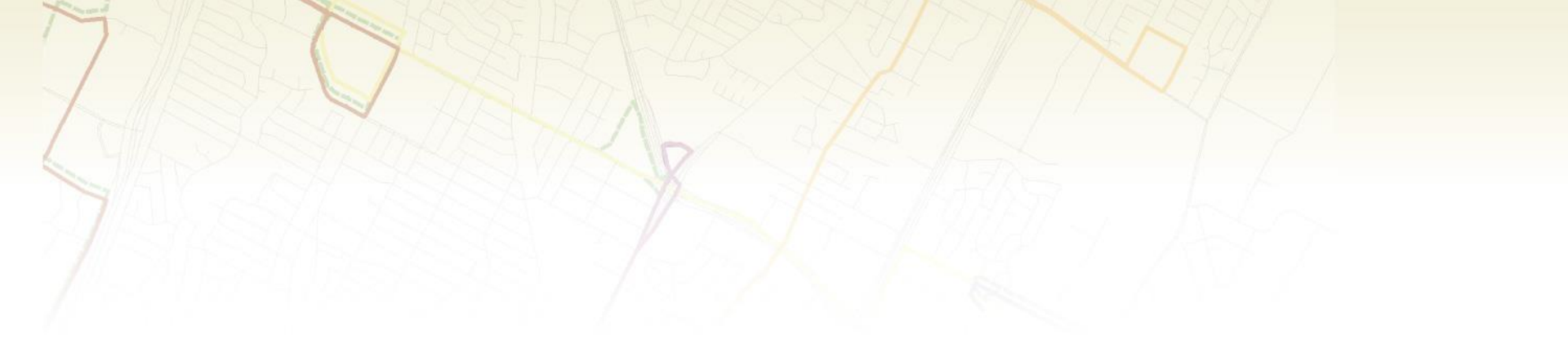
# Financial Statements

- ◆ **Balance Sheet**
- ◆ **Statement of Revenues**
- ◆ **Expenditures**
- ◆ **Changes in Fund Balance**

*Example: Comprehensive Annual Financial Report  
(FY2020) Maryland Department of Transportation*

# Accounting Cycle







Section 2

# BUDGETING

# Accounting *Verses* Budgeting



Accounting:  
Record of where  
we have been



Budgeting:  
Illustrates where  
we are going



# Budget: Definition and Purpose

- ◆ **Basic Definition:** A plan of financial operation embodying an estimate of proposed expenditures for a given period and a proposed means of financing them.
- ◆ **Purpose:** Mechanism for demonstrating financial accountability to the public.





# Why is it Important?

- ◆ Whether a transit system is a stand-alone organization or a department within a government or private organization, its annual budget is an essential tool.
- ◆ A realistic budget helps to control costs, manage cash flow, spend grants appropriately, monitor system performance, and forecast future funding needs.



# Budget Development Process

- ◆ **Understanding and Estimating Costs**
  - **Operating**
  - **Capital**
- ◆ **Strategic Planning Exercise**



# Steps in Development Process

- ◆ Determine the timeline for developing the budget.
- ◆ Determine the team that will be involved in the budgeting process.
- ◆ Review current-year budget and year-to-date expenses and revenues.
- ◆ Review the organization's mission, vision, goals, objectives, and plans for the coming year.



# Steps in Development Process

- ◆ Estimate revenues and direct expenses for each program.
- ◆ Estimate indirect/overhead costs.
- ◆ Estimate general funding revenue.
- ◆ Explicitly list major assumptions used to prepare the budget.
- ◆ Put it all together in a budget form.

*Example: Fredrick County, MD*



# Next Steps

- ◆ **Budget is Finalized**
- ◆ **Draft Presented for Public Comment**
- ◆ **Adopted by Governing Body**
- ◆ **Internal Monitoring Commences**



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