

FP 12: Accounting Functions

The County will perform accounting functions that shall conform to the generally accepted accounting principles (GAAP) as applicable to governments.

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other.

The County will comply with prevailing federal, state, and local statutes and regulations. The County will maintain accounting systems in compliance with the North Carolina Local Government Budget and Fiscal Control Act and enable the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

In general, it will be the policy of the County to:

- Prepare and present regular reports that analyze, evaluate, and forecast the County's financial performance and economic conditions. This information will be made available to the public for their inspection.
- With available resources, seek out and employ the assistance of qualified financial advisors and consultants in the management and administration of the County's financial functions.
- Have an independent audit performed annually.
- Issue annual financial reports in accordance with generally accepted accounting principle (GAAP) as outlined in the Governmental Accounting, Auditing and Financial Reporting (GAAFR) publication.

The **basis of accounting** refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. As in the basis of budgeting, accounting records for the County's governmental funds are maintained on a **modified accrual basis** with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. In contrast to the basis of budgeting, accounting records for proprietary funds are maintained on the **accrual basis** in which revenues are recognized when earned and expenses are recognized when incurred.

The County's accounting system is organized and operated on a "fund" basis. Each accounting entity is accounted for in a separate "fund" which is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with related liabilities and residual equities or balances, and changes therein. Two fund types defined in the "Description of Budgeted Funds" are further defined below as well as the addition of Fiduciary Funds.

Governmental Funds. These funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between governmental fund assets and liabilities (the fund equity) is referred to as "Fund Balance". The primary measurement focus is "flow of current financial resources." Increases in

spendable resources are reported in the operating statement as revenues or other financing sources and decreases are reported as expenditures or other financing uses.

Proprietary Funds. These funds are sometimes referred to as “income determination,” “non-expendable,” or “commercial type” funds and are used to account for a government’s on-going organizations and activities which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government’s business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The generally accepted accounting principles here are those applicable to similar businesses in the private sector, and the measurement focus is the economic condition of the fund as a result of the events and transactions of the period. Events and transactions that improve the economic position of a proprietary fund are reported as revenues or gains in the operating statement. Those that diminish the economic position are reported as expenses or losses.

Fiduciary Funds. These funds account for assets held by the County in a trustee capacity or as an agent for other governmental units and for other funds. Each trust fund is accounted for as either a governmental or a proprietary fund. Fiduciary funds are not budgeted in the annual budget process.

A list of classification fund types follows:

Classification Fund Type

- Governmental Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Proprietary Funds
- Fiduciary Funds (i.e. Custodial Funds)
- Expendable Trust

Internal Control. In developing and maintaining the County’s accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the County’s internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Financial systems. Financial systems will be maintained to enable the continuous monitoring of revenues and expenditures or expenses with complete sets of monthly reports provided to the Board, the County Manager, the Finance Director, and the Assistant Finance Director. Monthly expenditure/expense reports will be provided to each Department Head for their functional area and online, real time, view only, access to the financial system will be made available to Department Heads and other staff as much as practical and its use encouraged.

The County will place emphasis on maintenance of an accounting system which provides strong internal budgetary and financial controls designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, as well as the accountability of assets.

Departments and specifically the Information Technology Department shall consult with and seek input from the Finance Office concerning internal controls, integration, and reporting capabilities prior to the procurement or during the internal development of any system that will process and /or record financial transactions or data.

Audits. An annual audit will be performed by an independent certified accounting firm which will issue an opinion on the annual financial statements as required by the Local Government Budget and Fiscal Control Act.

The County will solicit proposals from qualified independent certified public accounting firms for audit services. The principal factor in the audit procurement process will be the auditor's ability to perform a quality audit. The County will enter into a multiyear agreement with the selected firm for a period of three fiscal years. Firms are not barred from consecutive contract awards.

The Finance Office will conduct some form of internal audit procedures at least one time per year, specifically focusing upon cash receipts procedures.

Other Matters. The County will prepare a CAFR. The CAFR will be prepared in compliance with established criteria set forth by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting award program.

Full and complete disclosure will be provided in all regulatory reports, financial statements, and debt offering statements.

The County will use the CAFR as the disclosure document for meeting its obligation to provide certain annual financial information to the secondary debt market via various information repositories. The annual disclosure is a condition of certain debt covenants and contracts that are required by SEC Rule 15c2-12.

The Finance Office will develop and maintain a Financial Procedures Manual as a central reference point and handbook for all financial, accounting, and recording procedures.