

Arkansas Municipal League

Municipal Accounting Handbook



February 2003

INTRODUCTION

This booklet was compiled by an accounting task force formed by the Arkansas Municipal League as listed below. Our goal was to provide an accounting guide to assist local government employees in performing their financial duties. It was specifically written for non-accountants in non-technical language. I have been privileged to serve with the following task force members, who gave their time and ideas freely.

Sincerely,
Linda Baker
Chair

Accounting Task Force

Linda Baker, Chair	Finance Director, City of Hot Springs
Jane Jackson, Task Force Secretary	Finance Officer, City of Stuttgart
Paula Caudle	City Clerk/Treasurer, City of West Fork
David Kraft	Deputy Legislative Auditor, Division of Legislative Audit
John Green	Engstrom, Grayson, Green, and Patterson CPAs
Don Myers	Chief Financial Officer, Arkansas Municipal League
Marilyn Payne	Finance Director, City of Bryant
Marla Wallace	Recorder/Treasurer, City of Gillett
Regina Walker	City Clerk/Treasurer, City of Mena
Lori Sander	Finance Assistant, Arkansas Municipal League

IRS forms and publications are available by calling 1-800-829-3676 or by accessing the IRS's Web Site at www.irs.gov.

Arkansas Employment Security Division Quarterly Report

You will be notified as to the contribution rate that you will need to use for this report. Some people call this the Unemployment Report.

Quarter	Ending	Due Date
January-February-March	March 31	April 30
April-May-June	June 30	July 31
July-August-September	Sept. 30	Oct. 31
October-November-December	Dec. 31	Jan. 31

Some cities take the reimbursable option if they generally have a low claim rate. Contact Employment Security for more information on this option. For information contact Employment Security (501) 682-3131 or www.ar-tax.org or www.accessarkansas.org/esd

Miscellaneous Information

New Hire Reporting – All employers must report their new and rehired employees to the state directory of new hires. Federal law mandates the New Hires be reported within 20 days of the date of hire. For information contact the Arkansas New Hire Reporting Center at (800) 259-2095 or (501) 376-2125.

I-9 Forms – Verification that all new employees are eligible to work in the United States. Each employee must fill one out and provide the necessary documentation within three days of employment.

W-4 Forms – The IRS requires a completed W-4 Withholding Allowance Certificate before any employee is entitled to claim withholding allowances. All new employees and those employees whose withholding status has changed should file a new W-4.

Arkansas State Withholding – This form is used to claim withholdings for state tax.

Applications should remain on file for one year.
Job postings and advertisements should be on file for one year.

Employers must treat medical records as confidential information and must be kept separate and apart from the employee's general personnel file. Access should be limited to individuals with a need to know basis.

All employee files must have an application, W-4 and an I-9 on file.

Withholdings

Child Support – Remit money immediately.
Bankruptcy – Remit as per direction of the court.
Garnishment – Remit as per direction of the court.

Employee Termination

Worker who quits – Pay the next regular payday.
Worker fired – Pay within 7 days.

POSTINGS – **Federal** laws require every covered employer to post specific labor information. If your city has any branch offices or separate locations, each must display a complete set of postings.

POSTINGS – **State** laws require postings for Minimum Wage, Right to Know, Unemployment Insurance, Worker’s Compensation, and Sexual Harassment.

W-2’s – Sent to each employee by January 31st. Reports must be filed with a W-3 by February 28th to the Social Security Administration. (These forms should be ordered in October or November.)

1099’s – Form used to report income of vendors that are not incorporated, whom you have paid over \$600 and must be sent out by January 31st. Reports must be filed with the IRS with a recap form 1096. (These forms should be ordered in October or November.)

W-9 – Request for Taxpayer Identification Number and Certification – This form is used to get the correct TIN (taxpayer identification number) to report, for example, real estate transactions, transactions with vendors, etc.

Each municipality or county should have an employee handbook.

Each job position should have a job description.

This information is general in nature and does not attempt to give all information that might be needed in each municipality or county. We do not cover anything related to ADA (American’s With Disability Act), FMLA (Family Medical Leave Act), Worker’s Comp, CDL Drivers (Commercial Drivers License), Military Leave, sick leave, vacations, holidays, etc. The Arkansas Municipal League has a sample employee handbook available.

PAYROLL – Do it in-house or outsource it????

One of the most complicated functions in Municipal accounting may well be the Payroll function.

Getting people paid “correctly” and “on time” while “withholding” the appropriate amount of taxes or other authorized “deductions” and “remitting” those deducted amounts to the various governmental agencies and others can be a real challenge.

Usually only one or two employees of the municipality are trained and authorized to perform this task. If these individuals leave or take vacation at specific times of the year, there can be a real problem with this function.

Some medium to small businesses and governmental entities have chosen to “Outsource” their entire payroll processing.

Outsourcing Payroll can put the burden of getting every one paid timely and correctly on the shoulders of an outside “Professional” Payroll Accounting firm. This practice is perfectly acceptable and legal for municipalities and can greatly reduce the stress of having a small municipal accounting staff.

Outside Payroll processing services usually include 1) actual printing of the individual paycheck and remittance advice slips; 2) making direct deposits of net payroll proceeds into individual’s bank accounts, if they so desire; 3) providing payroll ledgers for the municipalities review and files; 4) providing automatic deposit of tax funds withheld to the correct governmental on a timely basis; 5) providing year end W-2s. The approximate cost of Outsourcing Payroll is about \$2.50 per check, which can actually be very cost effective in the long run.

If you would like more information regarding Outsourcing Payroll, call Lori Sander at the Arkansas Municipal League, 501-374-3484 ext. 238.

RECORD KEEPING

General Requirements

All accounting records should be maintained separately for each fund and stored in that fashion by year. The following records should be maintained for every fund of the municipality:

- Bank statements for each month with cancelled or imaged checks included.
- Cash receipt books and printers certificates
- Cash receipt and disbursement journals with monthly and year to date totals (if you maintain manual records). Transaction records and a detail general ledger should be printed out and retained for every month, if computer records are maintained.
- Check stubs.
- Detail of certificates of deposits including interest rates and renewal dates.
- Bank reconciliations for each month and deposit slips that indicate the range of receipts on each deposit ticket.
- Computer files should be backed up daily and a copy of all monthly reports should be filed.
- Paid invoices should be filed either alphabetically or preferably by month.
- IRS Forms 1099 for interest earned.

Additional information required for certain funds

Trust and Agency Funds

Pension Trust Funds

In addition to the records noted above, these funds are required by Arkansas law to maintain other documents. They are as follows:

- Statements of Participation
- Copy of annual accountant's report
- Minutes of Board meetings up to the last meeting.
- Copy of the proration calculation of State turnback between the pension funds and LOPFI.
- Listing of recipients

Agency Funds

Agency funds are defined as funds that are held for safekeeping for others or that belong to others and will ultimately be remitted to other funds/agencies. Examples of these funds that are common to municipalities are: Police Bond and Fine, District Court and Payroll funds. The records that are required to be maintained for these funds are outlined below.

Police bond and fine

- Arrest reports
- Ticket log
- Time payment records
- Monthly settlements
- NSF checks on hand until check made good and redeposited

District court

- Court reports
- Court dockets
- Monthly settlements
- Completed ticket books
- NSF checks on hand until check made good and deposited

Payroll fund

- Individual payroll records
- Quarterly payroll reports
- W-2's, W-3's, W-4's, 1099's and PERS records.

Maintenance and destruction of accounting records.

Arkansas Code Annotated 14-59-114 should be referred to for guidance in this area. This section is included in the Arkansas Municipal League handbook.

General guidance

Arkansas Code Annotated 14-59-101 through 14-59-118, referred to as the Municipal Accounting Law, should also be referred to for specific guidance as to the type and information that the above records are required to contain in accordance with Arkansas law.

In addition to the records enumerated above, the following documents should also be maintained:

- Town/City Council minutes up to the present date
- Six-month financial statements and proofs of publication
- Insurance policies
- Personnel policies
- Budgets
- Ordinances and resolutions
- Copies of all audit reports
- For First Class Cities:

Mayor's end of the year report
Quarterly financial reports
Bids and proofs of publications

COLLATERALIZATION OF BANK DEPOSITS

Governmental units in the State of Arkansas may request that funds held by banks be secured. Please note that it is the responsibility of the governmental unit to request the security. The forms of permitted security as authorized by Act 310 of 2001 are shown below:

- The pledge or escrow of the bank consisting of any investments in which a state bank may invest pursuant to Arkansas Code 23-47-401. Investment securities authorized for national banks may also qualify as permitted securities.
- A surety bond issued by an insurance company licensed under the laws of the State of Arkansas and either:
 - a. Rated “A” or better by any one or more of the following rating agencies: A. M. Best Company, Inc., Standard & Poor’s Insurance Rating Service, Moody’s Investors Service, Inc. or Dugg & Phelps Credit Rating Co. or
 - b. Listed on the then current United States Department of the Treasury Listing of Approved Securities.
- Private deposit insurance issued by an insurance company licensed under the laws of the State of Arkansas and either:
 - a. Rated “A” or better by any one or more of the rating agencies listed above or
 - b. Listed on the then current United States Department of the Treasury Listing of Approved Securities; or
- An irrevocable standby letter of credit issued by a Federal Home Loan Bank.

The aggregate market value of assets pledged or escrowed or the face amount of the surety bond, private deposit insurance or letter of credit securing the deposit of funds by any single depositor must be equal to or exceed the amount of the deposit to be secured.

COLLATERAL SECURITY AGREEMENT

(Sample)

This Collateral Security Agreement is made and entered into on the date last herein written by and between, City of Anytown, hereinafter called "Depositor," and Anytown Bank, organized under Arkansas law and authorized by law to do business in the State of Arkansas, hereinafter called "Bank."

Background

Depositor, through action of its governing Board, has designated Bank as a depository for funds of the Depositor. During the term of this collateral security Agreement, the Depositor, will through appropriate action of its governing Board, designate the officer, or officers, who singly or jointly will be authorized to represent and act on behalf of the Depositor in any and all matters of every kind arising under this collateral Security Agreement. Bank's Deposit Agreement is incorporated herein for all purposes; however, to the extent that any provision therein conflicts with any provision herein, this Collateral Security Agreement will control. All funds on deposit with Bank to the credit of the Depositor are required to be secured by collateral as provided for in the state statutes: Arkansas code Annotated, Chapter 8, Title 19, said state law is hereinafter referred to as the "Public Funds Law."

To perfect the security interest of the Depositor in the collateral pledged by the Bank, the _____ Bank of Anywhere, State, will hold the collateral in the custodial account for the benefit of the Depositor. The said custodian is hereinafter referred to as "Trustee."

NOW THEREFORE, in consideration of the foregoing and for other consideration the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

I.

Bank hereby pledges to Depositor, and grants to Depositor a security interest in those assets owned by Bank and held by Trustee for the benefit of Depositor, in accordance with the terms of this Collateral Security (hereinafter, the "Collateral"), to secure the deposits held by Bank for Depositor as required by the Public Funds Law.

II.

The total market value of the collateral (which includes accrued interest or income to the extent it is not included in the market price) securing such deposits will be in an amount at least equal to the amount of such deposits plus the amount of any accrued interest thereon and less the amount that such deposits are insured by an agency or instrumentality of the United States Government>

The market value with respect to any securities (collateral) as of any date and priced on such date will be obtained from a primary dealer. When additional collateral is required to cover incremental deposits, Bank must receive the request for collateral prior to 10:30 a.m. central time of 11:30 a.m. eastern time on the day and deposits are actually received. Twenty-four hour notice is necessary on incremental deposits in excess of \$ _____. The Depositor will be notified via facsimile on the day that a pledge or release transaction is requested.

III.

Bank has heretofore or will immediately hereafter deliver to Trustee, collateral of the kind and character permitted by Arkansas Statutes of sufficient account and market value to provide adequate Collateral for the funds of Depositor deposited with Bank. Said Collateral or substitute collateral, as hereinafter provided by, shall be kept and retained by Trustee in trust so long as the depository relationship between Depositor and Bank shall exist hereunder, and thereafter so long as deposits made to Depositor with Bank hereunder, or any portion thereof, shall have been properly paid out by Bank to Depositor on its order.

IV.

Bank shall cause Trustee to accept said Collateral and hold the same in trust for the purpose herein stated.

V.

Should Bank fail at any time to pay and satisfy, when due, any check, draft, or voucher lawfully drawn against any deposit, or in case Bank becomes insolvent or in any manner breaches its contract with Depositor, Depositor shall give written notice of such failure, insolvency or breach to Bank, and Bank shall have ten (10) days to cure such failure, insolvency or breach within ten (10) days, it shall be the duty of Trustee, upon demand of Depositor (supported by proper evidence of any of the above listed circumstances) to surrender the above described Collateral to the Depositor. Depositor may sell all or any part of such Collateral and out of the proceeds thereof pay Depositor all damages and losses sustained by it, together with all expenses of any and every kind incurred by it on account of such failure or insolvency, or sale, accounting to bank for the remainder if any, of said proceeds or collateral remaining unsold.

VI.

Any sale of such Collateral, or any part thereof, made by Depositor hereunder may be either at public or private sale; provided, however, it shall give both Depositor and Bank ten (10) days notice of the time and place where such sale shall take place, and such sale shall go to the highest bidder therefore for cash. Depositor and Bank shall have the right to bid at such sale.

VII.

If Bank shall desire to sell or otherwise dispose of any one or more of said securities so deposited with Trustee, it may substitute for any one or more of such securities other securities of the same market value and of the character authorized herein. Such right of substitution shall remain in full force and may be exercised by Bank as often as it desires; provided, however, that the aggregate market value of all collateral pledged hereunder, shall be at least equal to the amount of collateral required hereunder. If at any time, the aggregate market value of such collateral so deposited with Trustee is less than the total sum of the Depositor's funds on deposit with said bank. Bank shall upon request of the Depositor, immediately deposit with Trustee such additional Collateral as may be necessary to cause the market value of such Collateral to equal the total amount of required Collateral. Bank shall be entitled to income on securities held by Trustee, and Trustee may dispose of such income as directed by Bank without approval Depositor.

VIII.

Bank shall cause Trustee to promptly forward to Depositor copies of safekeeping or trust receipts covering all such Collateral held for Bank, including substitute Collateral as provided for herein.

IX.

If at any time the Collateral in the hands of Trustee shall have a market value in excess of the sum of balances due Depositor by Bank, the Depositor shall authorize the withdrawal of a specified amount of collateral and Trustee may deliver this amount of collateral (and no more) to Bank, taking its receipt therefore, and Trustee shall have no further liability for collateral so received to Bank.

X.

Either Depositor or Bank shall have the right to terminate this Agreement by advance written notice to the other of its election to do so, and this Agreement shall be void from and after the expiration of sixty (60) days after the receipt of such notice, provided all provisions of the Agreement have been fulfilled.

XI.

When the relationship of Depositor and Bank shall have ceased to exist between Depositor and Bank, and when Bank shall have properly paid out all deposits of Depositor, it shall be the duty of Depositor to give Trustee written notice to that effect, whereupon Trustee shall, with the approval of Depositor, redeliver to Bank all collateral then in its possession belonging to Bank, taking its receipt therefore.

Executed this ____ day of _____, 200_, by the undersigned duly authorized officers of the parties hereto.

ANYTOWN BANK

City of Anytown

By: _____

By: _____

Title: _____

Title: _____

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Accounting Systems (Definitions and Goals)	3
Accounting Basics	4
Fund – Description/Examples	5-6
Charts of Accounts	7-8
General Payroll Information	9-11
Payroll – In House or Outsource	12
Financial Record Keeping	13-15
Collateralization for Bank Deposits	16
Sample Collateral Security Agreement	17-19
Bond Debt	20
Fixed Asset Records	20
Glossary of Terms	21-23
Resource List	24-25

BOND DEBT

For information regarding any bond debt outstanding, and any requirements regarding same, read all of your existing bond ordinances.

If you have questions regarding your municipality's bond debt or requirements related thereto, consult your bond attorney for additional information and guidance.

FIXED ASSET RECORD KEEPING

Arkansas Statute 14-59-107* requires that municipalities maintain certain records regarding fixed assets belonging to the municipality. Also GASB 34 dictates certain record procedures and records.

Consult that state statute and the Arkansas Municipal League GASB 34 Implementation Guide for information and guidance.

* See Chapter 59 "Municipal Accounting Law," in the Arkansas Municipal League Handbook.

GLOSSARY OF TERMS

Administration of Justice Fund – A specific fund required under Arkansas Statutes to record the activities associated with receipts and disbursement of funds received by the City Clerk from the District or Municipal Court.

Agency Fund – One of four types of fiduciary funds. Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Capital Projects Fund – A fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Credit – An accounting term used to describe an increase in liabilities, fund equity or fund balance, and revenues. A credit will also decrease an asset or expenditure account. A credit is denoted by a minus sign or brackets.

Debit – An accounting term used to describe an increase in an asset or expenditure account. A debit will also decrease a liability account, fund equity or fund balance account, or a revenue account. A debit is denoted by a plus sign or without brackets.

Debt Service Fund – A governmental fund type used to account for the accumulation of resources and for, and the payment of, general long-term debt principal and interest.

Enterprise Fund – A proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

Fiduciary Fund Type – Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Fund – A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Classification – One of three broad categories (governmental, proprietary, and fiduciary) used to classify fund types.

Fund Type - One of 11 classifications into which all individual funds can be categorized. Governmental Fund types include the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Proprietary fund types include enterprise funds and internal service funds. Fiduciary fund types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

General Fund – The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund is one of five governmental fund types and typically serves as the chief operating fund of a government.

Governmental Fund Type – Funds generally used to account for tax-supported activities. There are five different types of governmental funds; the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

Imprest Fund – A type of fund where cash is set aside for a specific purpose, such as payroll or petty cash, and only those specific transactions are processed in that fund.

Internal Service Fund – A proprietary fund type that may be used to report any activity that provides good or services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost-reimbursement basis.

Investment Trust Fund – A fiduciary fund type used to report governmental external investment pools in separately issued reports and the external portion of these same pools when reported by the sponsoring government.

LOPFI Assistance Fund – A fund used to accumulate the portion of funds received from the State Insurance Commission to assist the government in providing local match for pensioners in the Arkansas Local Police and Fire Retirement System.

Pension Fund - A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined pension benefit plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans.

Permanent Fund – A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizens.

Private Purpose Trust Fund – A fiduciary trust fund type used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Proprietary Fund Type - Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

Special Revenue Fund – A governmental fund type used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

State Turnback – Monthly the State Treasurer is required to remit certain revenues to cities in Arkansas based on relative population in two distributions: one for general government purposes and one for street maintenance purposes. These monies are referred to as State Turnback.

RESOURCE LIST

Governmental Accounting, Auditing, and Financial Reporting, by Stephen Gautier, copyright 2001. Available from the Government Finance Officers Association, 180 North Michigan Ave., Suite 800, Chicago, IL 60601.

Handbook for Arkansas Municipal Officials, most current edition, see specifically, Chapter 59, "Municipal Accounting Law."

Arkansas Code Annotated online – www.state.ar.us

Organizations

Division of Legislative Audit

Arkansas City Clerk, Records, Treasurers Association

Arkansas Government Finance Officers Association

Arkansas Municipal League

Government Finance Officers Association, 180 North Michigan Ave., Suite 800, Chicago, IL 60601.

Payroll tax information

1. Publications

Circular E of the Internal Revenue Service

www.irs.gov

2. Websites

State withholding information- www.state.ar.us

Suspected fraud and/or misuse of public funds

1. Organizations

Local Prosecuting Attorney

Division of Legislative Audit

Financial Reporting

1. Publications

Governmental Accounting Standards Board Statement No. 34 and sequence

2. Websites

<http://accounting.rutgers.edu/raw/gasb/index.html> (GASB home page)

Miscellaneous items

1. Publications

GASB Implementation Guide for Arkansas governments- Arkansas Municipal League

2. Websites

www.legaudit.state.ar.us :

List of banks approved for check imaging for governments in Arkansas

Copies of audit reports already presented to the Legislative Joint Auditing Committee-downloadable from website

www.arml.org

Arkansas Municipal League – miscellaneous help items

www.irs.gov

Internal Revenue Service – rules/regulations, general information

www.gasb.org

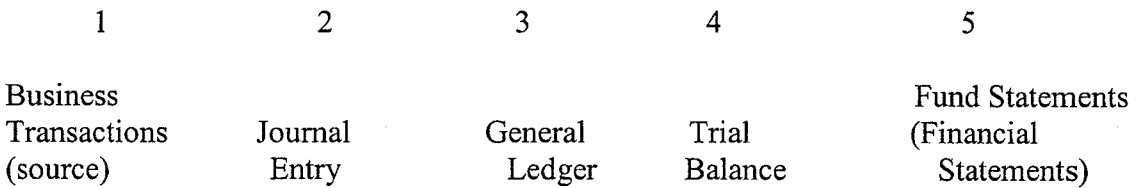
Governmental Accounting Standards Board-various governmental accounting issues

ACCOUNTING SYSTEMS AND BASIC ACCOUNTING EQUATION (FORMULA)

THE ACCOUNTING SYSTEM (Definitions and Goals)

Before you can set up or understand your accounting records, dive into your day to day transactions, and get your books ready for end-of-month or end-of-year reporting you must gain an understanding of basic accounting concepts.

Accounting is the method in which financial information is gathered, processed and summarized into financial statements and reports. An accounting system is represented by the following graphic which is explained below.



1. Every accounting entry is based on a business transaction, which is usually evidenced by a business document, such as a check or invoice.
2. A journal is a place to record the transactions of a municipality. The typical journals used to record the chronological, day-to-day transactions such as revenue and expenditures are cash receipts journals and cash disbursements journal.
3. While a journal records transactions as they happen, a ledger groups transactions according to their type, based on the accounts they affect. A General Ledger is a collection of all balance sheet, revenue and expense accounts used to keep municipalities accounting records. At the end of an accounting period (a calendar month), all journal entries are summarized and transferred to the general ledger accounts. This procedure is called "posting".
4. A trial balance is prepared at the end of an accounting period by adding up all the account balances in your general ledger. The sum of the debit balances should equal the sum of your credit balances. If total debits do not equal total credits you must track down the errors.
5. Finally, financial statements (fund statements consisting of balance sheets and income statements) are prepared from the information in your trial balance.

Basic accounting records are required by Arkansas Law and are important because the resulting financial statements and reports assist you, your mayor and city council in planning and making sound financial decisions.

ACCOUNTING BASICS

$$\text{Assets} = \text{Liabilities} + \text{Fund Balance}$$

If you understand the definition and goals of an accounting system, you are ready to learn the following accounting concepts and definitions.

Assets: Items of value held by the municipality. Assets are balance sheet accounts. Examples of assets are cash, investments, fixed assets etc.

Liabilities: What your municipality owes to creditors. Liabilities are balance sheet accounts. Examples are payroll taxes payable, loans and bonds payable, money due to other governmental agencies etc.

Fund Balances: The net worth of each of your funds. An accumulation of revenues received less expenses incurred. Assets, liabilities and fund balances are permanent accounts. (Do not close at the end of accounting period.)

The accounting equation: $\text{Assets} = \text{Liabilities} + \text{Fund Balance}$. Note that assets are on the left-hand side of the equation, and liabilities and fund balances are on the right-hand side of the equation.

Once you master the above accounting terms and concepts, you are ready to learn about the following day-to-day accounting terms.

Debits: At least one component of every accounting transaction (journal entry) is a debit amount. Debits increase assets and decrease liabilities and fund balance.

Credits: At least one component of every accounting transaction (journal entry) is a credit amount. Credits increase liabilities and fund balances and decrease assets.

(In bookkeeping texts, examples, and ledgers, you may see the words “Debit” and “Credit” abbreviated. **Dr.** stands for Debit; **Cr.** Stands for Credit.)

Assets = Liabilities + Equity (Fund Balance)

Revenues – Expenditures

Assets (Increase = Debit)
(Decrease = Credit)

Liabilities (Increase = Credit)
(Decrease = Debit)

Fund (Increase = Credit)
(Decrease = Debit)

Revenue (Increase = Credit)
(Decrease = Debit)

Expenditures (Increase = Debit)
(Decrease = Credit)

WHAT IS A FUND?

A fund is an accounting entity with a set of self-balancing accounts. It is used to record financial information associated with the specific activities of that entity. Sounds simple enough. A bunch of account numbers or names that tell the financial story of an activity. Self-balancing means debits equal credits. Every time a financial transaction takes place at least one account is debited and one account is credited.

HOW MANY FUNDS SHOULD A GOVERNMENT HAVE?

There is no set number of funds that a government should have. The number depends on the complexity and size of a government. A practical accounting rule states that a government should use the smallest number of funds possible that will allow the government to meet legal and sound financial administration requirements. Arkansas statutes require a minimum of two funds and bank accounts: General Fund and Street Fund (see Arkansas Code 14-59.101 et al).

WHAT ARE FUND TYPES AND CLASSIFICATIONS?

Every general purpose (City, County, State, etc.) government should have a *General Fund*. A General Fund means **one, and only one** General Fund. There are 3 types of funds that a government may use: governmental fund types, proprietary fund types and fiduciary fund types. The chart below shows all of the fund types and fund classifications. Don't panic! The list is here just to let you know that these things exist. You will probably not have to use all of them.

Fund Type:	<u>Governmental</u>	<u>Proprietary</u>	<u>Fiduciary</u>
Fund Classifications:	General Fund Special Revenue (1) Debt Service Capital Projects Permanent Funds	Enterprise Funds Internal Service (2)	Pension Funds (3) Investment Trust Private Purpose Trust Agency Funds(4)
Examples:	General Fund Street Fund (1)	Water Fund (2) Sewer Fund (2)	Fire Pension (3) Admin of Justice (4)

WHICH FUNDS WILL I HAVE TO USE?

Most cities and towns in Arkansas will use two fund types and three fund classifications. Under the Governmental Fund type, the General Fund and Special Revenue Fund (for Street Fund classifications will be used. Under the Fiduciary Fund type, the Agency Fund (for Payroll Fund)) and the Pension Fund (for Police Pension and Relief Fund) classification will be used.

DESCRIBE THE GENERAL FUND.

The General Fund is used to record all financial activities that are not required to be recorded elsewhere. It's the potpourri of funds...the animal shelter for wayward financial transactions. Basically, the General Fund is the main operating fund of the government.

WHEN WILL I USE SPECIAL REVENUE FUNDS?

Special revenue funds are used when revenues are legally restricted for a specific purpose (other than capital projects). For instance, a portion of the State Turnback revenues are legally restricted for street maintenance. You have to show that the monies you received for that purpose are spent for that purpose. A Special Revenue Fund called Street Fund will enable you to show legal compliance with this legislation. The City receives two checks or a direct deposit from the State Treasurer's Office for Turnback. The one labeled "Municipal Highway Aid Funds" will be deposited into the Street Fund and the other will be deposited into the General Fund.

Another Special Revenue Fund should be created for the State Insurance Commission revenues that can only be used to pay the matching portion of police and firefighter's retirement (LOPFI Assistance Fund and Pension Funds) . A point to remember is that the restriction for special revenue funds can be from outside agencies like the State of Arkansas or by the governing body of the government.

WHEN WILL I USE AGENCY FUNDS?

Agency Funds are used to account for situations where the government's role is strictly custodial in nature. A good example of an agency fund is the Administration of Justice Fund. State legislation requires that the City Clerk deposit the court costs received from the Municipal/District Court into a fund entitled "Administration of Justice Fund." Basically, the City Clerk deposits a check from the Court and then writes checks to the State and County and other agencies that are entitled to the revenues. The Administration of Justice Fund is just a pass through fund that is required by state legislation to act as a custodian of the court costs. Usually, Agency Funds consist of assets and liabilities, with the asset being the checking account balance and the liabilities being payable to other agencies. The imprest payroll account is another example of an Agency Fund.

CHART OF ACCOUNTS

The chart of accounts is a listing of all of the accounts used in keeping your books. It should be a comprehensive listing of all the accounts you will need organized by type. These accounts will be the basis for most of your financial records and reports including the general ledger and financial statements.

The sample chart of accounts shown here assumes that your books are kept on the cash basis meaning that you record revenues when cash is received and expenditures when paid. If you use an accrual or modified accrual basis of accounting you will need to add certain asset and liability accounts such as Accounts Receivable, Prepaid Expenses and Accounts Payable. The accrual basis means that you recognize revenues when earned instead of when received and expenditures when liabilities are incurred instead of when paid.

Most Arkansas municipalities will use the cash basis. The sample chart of accounts shown here can be used for each fund although some of the funds will not need all of the accounts.

Sample Chart of Accounts

(Account numbers shown are for example only, but do portray a logical numerical sequence for accounts)

A/C #	Account Name	Type
1000	Petty Cash	Asset
1005	Cash in Bank - Checking	Asset
1010	Cash in Bank - Savings	Asset
1015	Investment Accounts	Asset
1025	Due From Other Funds	Asset
2005	Due to Other Funds	Liability
2010	FICA Withheld	Liability
2015	Medicare Withheld	Liability
2020	Federal Tax Withheld	Liability
2025	State Tax Withheld	Liability
3000	Fund Balance	Fund Balance
4000	Court Bonds and Fines	Revenue
4005	Federal Grants	Revenue
4010	Fees	Revenue
4015	Franchise Fees	Revenue
4020	Interest Income	Revenue

Sample Chart of Accounts
(continued)

4025	LOPFI Funds	Revenue
4030	Miscellaneous Revenues	Revenue
4035	Permits and Licenses	Revenue
4040	Property Taxes	Revenue
4045	Sales Tax Revenues	Revenue
4050	State General Turnback	Revenue
4055	State Grants	Revenue
4060	Transfers From Other Funds	Revenue
5000	Advertising	Expense
5005	Capital Outlays	Expense
5010	Contract Labor	Expense
5015	Depreciation	Expense
5020	Dues	Expense
5025	Insurance	Expense
5030	Interest Expense	Expense
5035	Legal and Accounting	Expense
5040	Miscellaneous Expenses	Expense
5045	Municipal League Fees	Expense
5050	Payroll Tax Expense	Expense
5055	Postage and Freight	Expense
5060	Repairs & Maintenance	Expense
5065	Salaries	Expense
5070	Supplies	Expense
5075	Training/Travel Expense	Expense
5080	Transfers to Other City Funds	Expense
5085	Uniforms	Expense
5090	Utilities	Expense
5095	Vehicle Expenses	Expense

GENERAL PAYROLL INFORMATION

Employers Payroll Tax – (Federal, Social Security and Medicare)

For simplicity, we recommend that these funds be deposited with the IRS either by phone or deposit at a local bank the next day after writing payroll checks. (Note: This is not an option. Failure to make timely deposits will result in substantial fines.) Refer to Circular E Employer's Tax Guide for additional information. For forms and other information check out www.irs.gov or call 1-800-829-1040.

Federal – send in what is held out.
Social Security - 6.2% withholding + 6.2% match
Medicare - 1.45% withholding plus 1.45% match

Your town may have a “218” agreement with the IRS that exempts certain municipal employees from Social Security deductions. For information, call Ardary Taylor, Social Security Division of Arkansas, Public Employees Retirement System, at 1-800-682-7377.

Arkansas State Income Tax

Most employers are classified as a “Monthly Filer” for reporting Arkansas income tax withholding. You will receive this information by the end of each year from the Department of Finance and Administration. A report is due for each month, regardless of the amount withheld. The report (AR-941M) is used to enter the total amount of Arkansas income tax withheld from the wages of your employees for the reporting period.

The due date of the reports will be the fifteenth day of the month following the month being reported. Example – the January withholding due date will be February 15. Interest at the rate of 10% per annum will be assessed on any tax paid after the due date. A penalty of 5% per month will also be charged on any report that is not paid by the due date.

You must also file an Annual Reconciliation form (AR 3MAR) by February 28 of the year immediately following the tax year you are filing.

Employer's Quarterly Federal Tax Return

Employers who withhold Federal Income Tax on wages, or who must pay social security or Medicare tax, must file Form 941 each calendar quarter.

Quarter	Ending	Due Date
January-February-March	March 31	April 30
April-May-June	June 30	July 31
July-August-September	Sept. 30	Oct. 31
October-November-December	Dec. 31	Jan. 31