

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
10/21/92	07/01/92	I	GAAP Accounting and Financial Reporting Principles
Revision No.	Date Revised	Chapter	Title:
3	March 2017	I-5	Principles of Accounting

INTRODUCTION

Local Units of Administration (LUAs) have objectives that differ from business enterprises, and they operate in different economic, legal, political, and social environments. These differences often require accounting and financial reporting techniques that are unique to LUAs. This chapter explains these principles of accounting in a highly summarized fashion.

GOVERNMENT VERSUS BUSINESS

Business enterprises exist to maximize economic profits. The "bottom line" (i.e., the profit) of an operating statement (i.e., the profit and loss statement) provides a reasonably useful tool in assessing the business' success. However, for an LUA, the "bottom line" usually is not an accurate measure of its success. A LUA's primary objective is to educate children within budgetary constraints with little regard to the "bottom line" concept.

Legal Requirements

Businesses have substantial discretion in obtaining and using resources. By comparison, the financing and spending activities of LUAs are subject to very specific legal and contractual provisions.

Finance-related legal requirements for many LUAs in this country include:

- Limits on the power to raise property taxes
- Limits on the amount of bonds to sell
- Expenditure limitations
- Accounting and budget requirements
- Financial reporting requirements

Annual Operating Budget

Each year LUAs adopt a budget which indicates the anticipated sources of revenue to operate the LUA and how these resources will be used. The role of a LUA's annual operating budget is different than that in business. Budgets are an important internal planning tool for business. However, in LUAs, they also play an important external role. Because a LUA is, by nature, a public entity, parties inside and outside of LUAs should participate in the development of its annual operating budget. Statutes require Georgia LUAs to conduct public budget hearings where interested parties have an opportunity to ask questions and make suggestions related to the proposed budget.

Once the school board adopts the budget, spending limits are established and normally cannot be exceeded legally unless the budget is changed (i.e., amended) by school board approval. These limits provide constraints to LUAs which do not exist in the commercial sector.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Generally accepted accounting principles (GAAP) are the accounting rules that most accountants, business and LUA alike follow. GAAP provides a set of uniform minimum standards and guidelines for financial accounting and reporting (see Chapter I -1 for a discussion of GAAP). The 2015 – 2016 *Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification)*, Section 1700, includes discussion on the budget and budgetary accounting.

Business Versus LUAs

There are differences between GAAP for business and GAAP for LUAs. The intent of business GAAP financial statements is to provide information investors and creditors use to decide whether to provide or to continue providing resources (i.e., invest in stock or loan money) to a particular business and, if so, how much to provide.

Since individuals do not invest capital in LUAs, governmental GAAP financial statements need not portray the same type of information. Moreover, GAAP for LUAs emphasize legal compliance and accountability of resources to meet stated objectives while GAAP for business do not.

ACCOUNTING PRINCIPLES FOR LUAS

The first statement issued by the Governmental Accounting Standards Board (GASB) set forth the authoritative status of the National Council on Governmental Accounting (NCGA) pronouncements and the 1974 American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits for State and Local Governmental Units (ASLGU)*. GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide (GASBS 1)*, establish the following as GAAP until altered, amended, supplemented, revoked or superseded:

- All NCGA Statements and Interpretations in effect that have not been altered, amended, supplemented, revoked or superseded by subsequent GASB pronouncements.
- All ASLGU containing accounting and financial reporting guidance that has not been altered, amended, supplemented, revoked or superseded by subsequent GASB pronouncements.
- NCGA Statements 1, 4, & 5
- NCGA Interpretations 3, 6, 9, & 10
- American Institute of Certified Public Accountants, Audits of State and Local Governmental Units as amended by AICPA Statements of Position 80-2

The GASB subsequently has issued pronouncements, interpretations, and technical bulletins most of which are still effective.

The GAAP included in the GASB's 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification)* is organized into four parts:

Part I - General Principles

Part II - Financial Reporting

Part III - Specific Balance Sheet and Operating Statement Items

Part IV - Stand-Alone Reporting—Specialized Units and Activities

Though highly summarized below, later chapters in this manual discuss many of these topics in detail.

GAAP and Legal Compliance

A LUA's accounting system must be capable of producing financial reports in conformity with both GAAP and legal requirements if the two vary. In Georgia, LUAs differences might occur in the budget (i.e., the budget is adopted on a basis which differs from GAAP).

Fund Accounting

A LUA's accounting system must be organized and operated on a fund basis. The funds are classified into eleven generic fund types within three broad fund categories, governmental, proprietary, and fiduciary.

A general rule to follow is for a LUA to establish and maintain the minimum number of funds possible, consistent with legal requirements and sound financial administration. Fund accounting is discussed in detail in Chapter I - 6.

Capital Assets and Long-term Debt

Only proprietary and fiduciary funds (with the exception of agency funds) record capital assets and long-term debt within their respective funds. Capital assets and long term debt are only reported in the government-wide financial statements for governmental activities. Annual capital asset acquisitions and issuance of long-term debt are reported on the operating statement for governmental fund financial statements. Governmental funds only report activity associated with a period under review. Government-wide statements record those activities that affect more than one reporting period. See Chapter II-2 for detailed discussion of the basic financial statements.

A LUA's capital assets should be reported at cost or at estimated historical cost, if cost is not known. Donated capital assets are recorded at fair market value on the date donated. Depreciation expense should only be recorded in proprietary and fiduciary funds. Depreciation for governmental activities is reported in the government-wide financial statements, not in governmental funds.

A LUA's debt should be reported in proprietary and fiduciary funds if expected to be paid from these funds. General long-term debt is not reported as liabilities in governmental funds. Instead general long-term debt should be reported in the government-wide statement of net position. The liability should be classified into its current and long-term portions.

See Chapter II - 2 for detailed discussion of the basic financial statements.

The basic financial statements include

- Management's Discussion and Analysis,
- Government-wide financial statements - Statement of Net Position and Statement of Activities,
- Fund financial statements
- Governmental funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances,
- Proprietary funds - Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows,
- Fiduciary funds - Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position,
- Reconciliations of the fund financial statements to the government-wide financial statements
- Notes to the financial statements
- Required supplementary information.

The Basis of Accounting

The accrual basis of accounting should be used for proprietary and fiduciary fund categories. The modified accrual basis of accounting should be used for governmental funds. See Chapter I - 7 for basis of accounting discussion.

Budgets

Every LUA must adopt annual operating budgets for all of its governmental funds. A comparison of the budget with actual results of operations presented on the budgetary basis actually used to control operations is a GAAP reporting requirement for the general fund and all special revenue funds with a legally adopted budget. Chapter IV – 2 includes a review of LUA budgeting as it relates to GAAP.

Appendix C provides the required classifications for Georgia LUAs.

Classification and Terminology

A LUA should provide for the classification of revenues, expenditures, and expenses into certain specific categories. Interfund transfers and proceeds from the sale of general obligation bonds should be classified separately from revenues and expenditures or expenses. A LUA consistently should utilize terminology and classifications common to the fund types maintained.

Financial Reporting

Though not required, every LUA is urged to issue a comprehensive annual financial report (CAFR). All LUAs are required to present annual financial analysis reports to the Georgia Department of Education per O.C.G.A. §20-2-167 and §20-2-320. Interim financial statements (i.e., statements covering a period of time less than one year) should be prepared to facilitate management control of financial operations. These interim statements are used by internal budget managers and may be distributed to the LUA's governing body. The reporting entity also is defined by GAAP. Chapter II -2 of this manual provides specifics about financial reporting.

SUMMARY

1. LUA accounting and financial reporting principles (i.e., GAAP) differ from business, because of LUA's objectives (e.g., providing educational services) and its legal requirements.
2. GASBS 1 sets forth the authoritative status of the NCGA pronouncements and the 1974 AICPA Industry Audit Guide.
3. Conformance with both GAAP and legal compliance is required for LUAs.
4. Fund accounting must be used by LUAs.
5. Purchased capital assets must be reported at cost or estimated historical cost.
6. Donated capital assets must be reported at fair market value on the date donated.

7. The accrual basis of accounting should be used by proprietary and fiduciary fund categories.
8. The modified accrual basis of accounting should be used by governmental funds.
9. LUAs should adopt budgets for all of its governmental fund types.
10. Standardized classifications and terminology should be used throughout the accounting and reporting system.
11. Though not required, a CAFR should be issued by every LUA. Annual financial analysis report is required to be submitted to the Georgia Department of Education per O.C.G.A. §20-2-167 and §20-2-320.