

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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INTRODUCTION

Certain general government services traditionally have been financed through user charges. These activities include water, sewer, electric and gas utilities; airports; hospitals; ports; parking facilities; mass transit districts; housing authorities and golf courses. In Local Units of Administration (LUAs) throughout the country, the use of enterprise funds is limited but often includes the child nutrition program, bookstore operations, athletic stadiums, community swimming pools, and after-school childcare programs. According to the Governmental Accounting Standards Board's 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification)*, Section 1300.109, LUAs should use enterprise funds to account for operations in three instances:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.
- Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- The LUA’s pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Optionally, GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local governments (GASBS 34)* also allows an LUA to classify an activity as an enterprise fund when they charge a fee for its services without

regard to the above criteria. However, if the dollar amount of the activity's transactions are immaterial, the LUA may record the activity in the General Fund.

With the implementation of GASBS 34, it is recommended the school food service fund be classified as either a special revenue fund or an enterprise fund. If the program is classified as a special revenue fund, the Department of Audits and Accounts will present it as part of the General Fund in the external financial statements. Even so, the LUA should separately report it for financial reporting to GaDOE. The most common activity accounted for in enterprise funds in Georgia LUAs is the after school program. However, due to the immateriality of the after school program, most school districts report the activity in the General Fund Major Opinion Unit.

Because of the limited use of enterprise funds by Georgia LUAs, this chapter does not include all of the accrual accounting principles related to enterprise funds. The reader is encouraged to read Chapters I-6 and I-7 in conjunction with this chapter to gain an understanding of the nature of enterprise funds.

BUDGETARY ISSUES

Sound financial management in the government environment warrants some form of budgetary control for all enterprise funds. The Georgia Department of Education (GaDOE) requires a fixed dollar appropriated budget for enterprise funds. Generally, this method of budgeting is used to comply with statutory requirements. The budgetary basis of enterprise funds may be the accrual basis (i.e., the GAAP basis for enterprise funds) or the modified accrual basis (i.e., a non-GAAP budgetary basis). While the accrual basis requires budgeting for depreciation, which some question as non-productive in a governmental environment; nevertheless, it might be easier for LUAs to use the accrual basis of budgeting to be consistent with the accrual basis of accounting required for enterprise fund reporting. (See Chapters I-6, I-7 and particularly, the section in chapter IV-2, entitled "What Budgetary Basis of Accounting Should LUAs Use?")

Conversely, some LUAs adopt budgets for enterprise funds on the same basis as they adopt budgets for the governmental funds. This method allows them to appropriate resources for capital outlay and debt service payments.

ACCOUNTING ISSUES

Enterprise funds are accounted for on an economic resources measurement focus and the accrual basis of accounting as discussed in Chapter I-7 in both the government-wide financial statements and the fund level financial statements. The accounting principles that reference enterprise funds are only applicable if the LUA reports their food service or after-school programs as enterprise funds.

Revenues

A primary revenue source for LUA enterprise funds are charges for goods and/or services to parties outside the LUA (e.g., fees from parents for their children in an after school program). LUAs recognize these revenues in the period in which they earn the revenues, if measurable. That is, as soon as a service is performed or a product is provided, a receivable and revenue should be reported. In practice, the reporting of this transaction usually is delayed until the actual billing is completed (i.e., when the receivable is measurable), usually monthly. The normal day-to-day breakfast and lunch sales are recorded as revenues when the LUA receives the cash, which is usually collected at the same time the lunch is sold.

State and Federal Breakfast and Lunch Reimbursement – GASB Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions provides the guidance for revenue recognition relating to grants, including school lunch and free and reduced-price breakfast and lunch reimbursement. There are four revenue recognition eligibility criteria and the LUA must meet all of these criteria:

- *Required characteristics of recipients.* The recipient has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)
- *Time requirements.* Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used (sold, disbursed, or consumed) or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)
- *Reimbursements.* The provider offers resources on a reimbursement (“expenditure driven”) basis and the recipient has incurred allowable costs under the applicable program.
- *Contingencies.* The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred (e.g., the LUA has provided the meals.)

Once the LUA has provided the meals, generally they have met all eligibility requirements and can record the receivables and the revenues.

USDA Commodity Revenue Recognition - Most Georgia LUAs participate in the United States Department of Agriculture (USDA) commodities program. Generally, LUAs should recognize both revenue and expense when the LUA uses or consumes the commodities in their meal preparation. When the LUA receives the commodities, they should record the commodities inventory as an asset and credit unearned/unavailable revenue for a like amount. When the LUA uses the commodities, they should record an expense and reduce the inventory. LUAs should value commodities at those values the USDA provides. See Chapter I-12, Inventory Accounting for Consumable Supplies, for explanation of different methods of determining inventory expenditures and value of ending inventory.

At the time the expense is recognized, an equal amount should be recognized as revenue by debiting unearned revenue and crediting revenue for the same amount.

Expenses

LUAs recognize enterprise fund expenses in the period in which they incur the expenses. For services rendered, the expense is reported when the service has been performed and the amount of the liability can be estimated. Practically, this type of transaction usually is recorded upon receipt of a vendor invoice. LUAs recognize inventories of consumable materials and supplies as expenses when they consume them in providing the service. For example, purchased food is reported as an expense in the food service enterprise fund when the meals are prepared. Usually, the cost of supplies and materials used is reported as an expense when the inventory is withdrawn from the inventory stock (i.e., the central stores).

When the LUA purchases food inventory for resale, such as in the school food service enterprise fund, the LUA reports this purchase as an asset. Subsequently when the inventory is sold, the cost of the inventory is reported as an expense and removed from the inventory account.

ILLUSTRATIVE JOURNAL ENTRIES

The following journal entries and discussion, where applicable, illustrate the financial transactions required for the establishment and the operation of an LUA school supplies store enterprise fund to sell books and supplies to high school students.

An athletic activity fund provides \$35,000 of working capital to this enterprise fund. Of this amount, \$20,000 must be repaid in equal annual installments over a five-year period (i.e., \$4,000 per year) and the remaining \$15,000 is considered a transfer of financial resources, which never will be repaid.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$35,000	
Advance from other funds - athletic activity fund	0403		\$20,000
Operating Transfer-In	5200		\$15,000

Explanation - The LUA reports the amount to be repaid as an advance payable with the balance reported as revenue (i.e., as an operating transfer) since the school store activity fund need not repay it.

Capital assets (e.g., shelving, cash registers), previously used for this activity, in which the LUA accounted for in the athletic activity fund are transferred to this enterprise fund. The capital assets transferred have an original cost of \$31,000 and a book value at time of transfer of \$19,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Machinery and equipment	0241	\$31,000	
Accumulated depreciation - machinery and equipment	0242		\$12,000
Revenue – capital contributions	6100		\$19,000

Explanation - The capital assets should be capitalized and recorded as revenue at the original cost less an amount equivalent to the depreciation that would have been recorded had the capital asset been recorded initially in the enterprise fund. Since depreciation is recorded at the government-wide financial reporting level, this information should be readily available.

The value of the capital assets is treated as capital contributions (i.e., a revenue account) from the athletic activity fund since this equipment was purchased originally from athletic fund resources. However, no entry should be made in the athletic fund for this equipment transfer because the capital assets were written off as expenditures in governmental funds when purchased.

Cash sales totaling \$3,000 are received and deposited.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$ 3,000	
Other local revenues	1995		\$ 3,000

Explanation – To record cash receipts for cash sales.

Departments within the school are billed \$4,000 for purchased supplies.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Interfund - Accounts receivable	0132	\$ 4,000	
Other local revenues	1995		\$ 4,000

Explanation – To record billings for supplies rendered.

Investments costing \$5,000 are sold for \$5,500.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$ 5,500	
Investments	0111		\$ 5,000
Earnings on investments or deposits	1500		\$ 500

Explanation – To record the sale of investment and the related interest revenue earned. In most enterprise funds, interest revenue is classified as nonoperating revenue.

Interest earned on investments, but not yet received at year-end, totaled \$700.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Interest receivable	0114	\$ 700	
Earnings on investments or deposits	1500		\$ 700

Explanation – LUAs should record accrued interest on investments as it is earned.

Supplies to be resold costing \$10,000 are purchased on account and delivered.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Inventory for resale	0172	\$ 10,000	
Accounts payable	0421		\$ 10,000

A three-year fidelity bond in the amount of \$3,000 is purchased with cash.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Prepaid expenditures/expenses	0181	\$ 3,000	
Cash in bank	0101		\$ 3,000

Explanation – To record purchase of three-year fidelity bond.

Various services are provided by outside vendors and invoices are received totaling \$12,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expenses	Various accounts	\$ 12,000	
Accounts payable	0421		\$ 12,000

Explanation - To record operating expenses.

20 percent of the advance due to the athletic activity fund is classified as current.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Advance from other funds - athletic activity fund	0403	\$4,000	
Interfund loans payable - athletic activity fund	0401		\$4,000

Explanation - To reclassify current portion of long-term loan from athletic activity fund. Since this amount (\$20,000 @ 20% = \$4,000) is now a current liability, it must be reclassified from an advance payable (i.e., a long-term payable) to an interfund payable (i.e., a current payable).

Excess cash is invested in short-term investments in the amount of \$18,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Investments	0111	\$ 18,000	
Cash in bank	0101		\$ 18,000

Explanation - To record purchase of short-term investments.

A payment in the amount of \$1,000 is made pursuant to an operating lease for a copy machine. This amount has not been recorded in accounts payable.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Rental of equipment and vehicles	0442	\$ 2,000	
Cash in bank	0101		\$ 2,000

Explanation - To record payment on operating lease. Operating leases are reported similar to other operating expenses.

Supplies valued at \$1,200 are withdrawn from the supplies for resale inventory and used for internal purposes.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expense - supplies	0610	\$ 1,200	
Inventory for resale	0172		\$ 1,200

Explanation – To record inventory for resale withdrawn and sold.

Depreciation expense on equipment for the year totaled \$8,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Depreciation	0744	\$ 8,000	
Accumulated depreciation – machinery and equipment	0242		\$ 8,000

Explanation – To record depreciation expense.

One-third of the fidelity bond expires and is charged to current operations.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expense - insurance	0520	\$ 1,000	
Prepaid expenses	0181		\$ 1,000

Explanation – To adjust prepaid expenses at year end.

SUMMARY

1. Georgia LUAs do not commonly use enterprise funds.
2. In Georgia, the most common use of enterprise funds is the after school care program, although due to immateriality, the after school program is generally presented in the General Fund Major Opinion Unit.
3. LUAs recognize revenues in an enterprise fund when earned, if measurable.
4. LUAs recognize expenses when incurred and measurable.
5. Using the accrual basis of accounting, LUAs record inventory purchased for resale as an asset until sold. When sold, it is charged as an expense.