# FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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## INTRODUCTION

Broadly defined, financial reporting is the process of communicating information concerning a Local Unit of Administration's (LUA) financial position and the results of its operations. Financial information often is disseminated through financial reports, which can be classified according to their content and the purposes for which LUAs issue them. LUAs may issue different types of financial reports according to the report's intended use (i.e., internal and external) or according to the report's timing (i.e., interim or annual).

This chapter details annual external financial reporting consistent with GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis State and Local Governments, as subsequently amended. GASB Statement No. 34, issued in June 1999, established new financial reporting requirements for state and local governments throughout the United States. The Governmental Accounting Standards Board (GASB) developed these new requirements to make annual reports more comprehensive and easier to understand and use. Subsequent GASB Statements have amended parts of GASB Statement No. 34. When applicable, the subsequently released GASB Statements are incorporated into this chapter.

GASBS Statement 34 was further modified by Concepts Statement No. 4, Elements of Financial Statements, issued in June 2007. In this Concepts Statement GASB defines the basic elements of financial position as assets, liabilities, deferred outflow of resources, deferred inflow of resources, and net position. In subsequent GASBS, 63 and 65, a standard format is presented to properly structure a statement of position (either a balance sheet or a statement of net position) using the new terms. Deferred outflows of resources should be reported in a separate section following assets, while deferred inflows of resources should be reported in a separate section following liabilities.

The General Purpose External Financial Statements (GPEFS) are an extracted piece of the CAFR. Everything in the GPEFS is in the CAFR, but not everything included in a CAFR is in the

GPEFS. The non-GPEFS data contained within the CAFR is both the detail of what constitutes the GPEFS along with summaries, statistical supplements, and analysis. The financial reporting objectives of GASBS 34 only pertain to general purpose external financial reporting.

GAAP require that the notes to the basic financial statements contain all disclosures necessary to prevent the financial statements from being misleading. Such a concept is qualitative, and cannot be reduced to a simple checklist of required disclosures. However, the 2015-16 *Codification*, Section 2300, Notes to the Financial Statements, provides a list of note disclosures that specifically is tailored to LUA financial reporting. This list provides a starting point for the financial statement preparer wishing to evaluate the adequacy of their notes to the basic financial statements.

The Governmental Accounting Standards Board's 2015-2015 *Codification of Governmental Accounting and Financial Reporting Standards* (*2015-2016 Codification*), Section 2200.101, provides that "every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR)..." Neither Georgia statutes nor the Georgia Department of Audits require LUAs to prepare CAFRs even though some have chosen to do so (e.g., Cobb County, City of Marietta). The CAFR generally contains three distinct sections: introductory, financial and statistical. These sections may be supplemented by certain specialized sections as the need arises such as the single audit section (see Section 22I).

## SECTION 1: BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

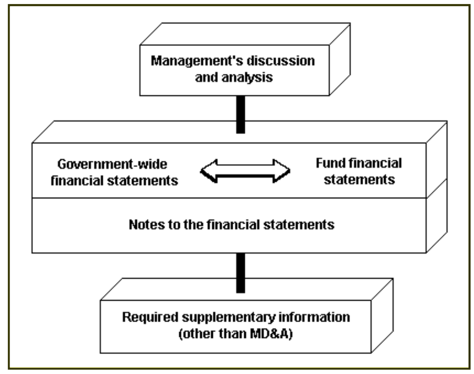
Financial statements necessary to the fair presentation of financial position and operating results, in conformity with generally accepted accounting principles (GAAP), are referred to as “basic” financial statements.

Additional schedules may supplement information presented on a legally or contractually prescribed basis that is different from GAAP or management information that is not required by GAAP. These schedules are considered “supplemental” unless referenced in the financial statements or in the notes to the financial statements.

GASBS 34 establishes reporting requirements for the basic financial statements and required supplementary information (RSI) to be issued by state and local governments. The Statement includes requirements as to the basic financial statements to be presented, the measurement focuses and bases of accounting to be used, the statement formats, and, to some extent, the statement contents.

The minimum requirements of financial reporting in GASBS 34 are:

- management's discussion and analysis (MD&A);
- basic financial statements; and
- required supplementary information (other than MD&A).




These minimum requirements of financial reporting under GASBS 34 are discussed below.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is Required Supplementary Information (RSI), governments are required to present the MD&A before the basic financial statements.

Designed to provide an objective and easily readable analysis of the government's financial activities, the MD&A is based on <u>currently known facts, decisions, or conditions</u>. However, it does not require a projection of the outcome of these items.

The MD&A requirements established by GASBS No. 34 and amended by GASBS Statement 37 and 63 are general rather than specific. This design was intentional to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. The information presented should be confined to the topics discussed in a through h, below.

a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.

b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. Governments should present the information needed to support their analysis of financial position and results of operations required in c, below, including the following elements, if relevant:

   (1) Total assets, distinguishing between capital and other assets
   (2) Total deferred outflows of resources
   (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
   (4) Total deferred inflows of resources

(5) Total net position, distinguishing among the net investment in capital assets; restricted amounts; and unrestricted amounts
(6) Program revenues, by major source
(7) General revenues, by major source
(8) Total revenues
(9) Program expenses, at a minimum by function
(10) Total expenses
(11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
(12) Contributions
(13) Special and extraordinary items
(14) Transfers
(15) Change in net position
(16) Ending net position

c. An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations.

   Furthermore, the analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, which significantly affected operating results for the year, should be discussed.

d. An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net position and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

e. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.

f. A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

g. A discussion by governments that use the modified approach to report some or all of their infrastructure assets including:[1]

1 Georgia doesn't use the modified approach for infrastructure accounting

1. Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments.
2. How the current assessed condition compares with the condition level the government has established.
3. Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.

h. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (netposition) or results of operations (revenues, expenses, and other changes in netposition).

Governments are prohibited from introducing additional information into the MD&A other than that which is specifically provided for in GASBS 34 as amended. In other words, the minimum, in this case, is the maximum. Governments can provide additional details about the required topics in a through h, above; however, information that does not relate to the required topics should not be included in the MD&A, but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information.

## BASIC FINANCIAL STATEMENTS

The basic financial statements are the core of general-purpose external financial reporting for LUAs. Basic financial statements have three components:

### Government-Wide Financial Statements

GAAP require that LUAs provide a government-wide statement of net position and a government-wide statement of activities that includes all of the LUA's governmental activities, business-type activities, and (nonfiduciary) component units (if any). These government-wide financial statements are to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

These government-wide financial statements help users:

- Assess the finances of the government in its entirety, including the year's operating results
- Determine whether the government's overall financial position improved or deteriorated
- Evaluate whether the government's current year revenues were sufficient to pay for current year services
- Understand the cost of providing services to its citizenry
- Notice how the government finances its programs – through user fees and other program revenues versus general tax revenues
- Understand the extent to which the government has invested in capital assets
- Make better comparisons between governments.

Generally accepted accounting principles (GAAP) for state and local governments, including LUAs, prescribe two basic government-wide financial statements:

- The government-wide statement of net position and
- The government-wide statement of activities.

The government-wide financial statements include all governmental and business-type activities of the primary government but *not* its fiduciary activities (e.g., school clubs). Likewise, the government-wide financial statements include most discretely presented component units. Since most Georgia LUAs do not include any component units within the reporting entity, the balance of this chapter does not address component unit issues.

See http://www.audits.ga.gov/EAD/SchoolDistrictResources.html and http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/Financial-Statements.aspx for templates used in preparing the school district's government-wide financial statements.

### Government-Wide Statement of Net Position

The government-wide statement of net position is the basic government-wide statement of position.

**Format.** By definition, a statement of net position presents all of an LUA's *permanent accounts* (assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position). GAAP allow these accounts to be presented in one of two formats:

- assets + deferred outflows of resources – liabilities - deferred inflows of resources = net position (net position approach)
- assets + deferred outflows of resources = liabilities + deferred inflows of resources + net position (balance sheet approach)

In either case, the presentation is referred to as the *statement of net position* (rather than *balance sheet*), and the difference between assets and liabilities is referred to as *net position* (rather than *equity*).

**Activity Columns.** GAAP require that the LUA's governmental activities be reported separately from its business-type activities. In general, governmental activities include activities reported in the governmental fund financial statements, and business-type activities include activities reported as enterprise funds in the proprietary fund financial statements.

The residual balances of internal service funds generally are included in the *governmental activities* column because in most cases internal service funds primarily benefit governmental funds.

**Total Column—Primary Government.** GAAP require that the government-wide statement of net position provide a total column for the LUA. A total column is necessary when the LUA reports enterprise funds. All internal balances (payables and receivables between governmental activities and business-type activities) must be eliminated from this total column.

Comparative Data. LUAs are required to present comparative data only in the management's discussion and analysis (MD&A) document. If they wish, LUAs also may present comparative data on the face of the government-wide statement of net position. As with most Georgia LUAs, only governmental activities are presented, therefore, a duplicate total column is not necessary.

Order For Presenting Assets And Liabilities - GAAP prescribe two approaches for ordering the presentation of assets and liabilities on the government-wide statement of net position. The preferred approach is to present assets and liabilities in the relative order of their liquidity. Alternatively, assets and liabilities may be classified simply as *current* or *long-term.*

Categories of Net Position - The difference between assets and liabilities in the government-wide statement of net position must be labeled as *net* position. GAAP further require that net position be subdivided into three categories:

- Net investment in capital assets;
- Restricted net position; and
- Unrestricted net position.

Net Investment In Capital Assets*.* Because the government-wide statement of net position reports *all* LUA assets, a significant portion of the net assets reported there typically reflect an LUA's investment in its capital assets. At a minimum, the specific amount to be reported is calculated as follows:

| | |
|---|---|
| Capital assets less accumulated depreciation | $XXXX |
| Less: Outstanding principal of related debt | (XXXX) |
| Adjustments for Deferred Outflows or Deferred Inflows Of Resources (attributable to unspent resources) | XXXX or (XXXX) |
| Net investment in capital assets | $XXXX |

However there may be additional adjustments to the net position amount, "net investment in capital assets." The outstanding principal of capital-related debt, and the adjustments for deferred outflows of resources and deferred inflows of resources should not include the debt associated with unspent proceeds. It would not make sense for an LUA to deduct the debt related to the unspent proceeds, since there is no offsetting asset (i.e., the capital asset has not been purchased or constructed). In addition, if there are any bonds issuance related adjustments, (e.g., bond premiums, bond discounts) they also are included in this calculation.

**Restricted Net Position.** Restrictions may be imposed on a portion of an LUA's net by parties outside the LUA (such as creditors, grantors, contributors, laws or regulations of other governments). In some cases, such restricted assets are directly associated with particular liabilities and deferred inflows of resources related to those assets. An amount equal to these restricted assets, less any related liabilities and deferred inflows of resources, is reported as *restricted net* position.

GAAP infer that the unspent proceeds of capital debt should be reported as restricted net - position rather than as part of net investment in capital assets. As a practical matter, however, the *net* amount of such assets (assets restricted for construction less related bonds payable) should not be restricted since this amount has not been included in net assets. In other words, net position may not be restricted for an amount that is not included in net position.

A true restriction must impose a real limitation on the use of resources. For example, a grant to an LUA that may be used only for educational purposes (e.g., federal impact aid) should not be considered restricted, since the purpose of the grant is as broad as the purpose of the LUA itself.

**Unrestricted Net Position.** The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

### Government-wide Statement of Activities

The government-wide statement of activities is used to report changes in net (expense) revenue, or net cost, of its individual functions

**Format.** The government-wide statement of activities presents expenses *before* revenues. This order is designed to emphasize that in the public sector, revenues are generated for the express purpose of providing services rather than as an end in themselves.

That is, LUAs do not seek to maximize revenues as such; instead, they identify the educational needs of students and then raise the resources needed to meet those needs.

**Direct Expenses.** The first column of the government-wide statement of activities should present the direct expenses associated with each of the LUA's functional activities. GAAP do not define the term *function*. However, the GA DOE's chart of accounts lists the major functions those LUAs should present. The normal functions presented follow:

- Instruction
- Support Services
  - Pupil Services
  - Improvement of Instructional Services
  - Educational Media Services
  - General Administration

- School Administration
- Business Administration
- Maintenance and Operation of Plant Services
- Student Transportation Service
- Central Support Services
- Other Support Services
- School Nutrition Program
- Enterprise Operations
- Community Services Operations

• Interest on Short-Term and Long-Term Debt

Direct expenses include depreciation on capital assets that are clearly associated with a given functional activity. Accordingly, direct expenses include not only depreciation on capital assets associated exclusively with a given function, but also depreciation expense on any shared capital assets whose use can readily be identified with specific functional activities, such as a school building.

GAAP have no requirement to allocate depreciation expense on capital assets that serve essentially all of an LUA's functional activities (e.g., an LUA administrative building). Instead, depreciation on such over-head capital assets may be reported as part of the general administration functional activity, or as a separate line item. In the latter case, the amount as reported should be labeled *"unallocated* depreciation expense" to indicate that a portion of total depreciation expense is reported elsewhere as part of the direct expenses of the various functional activities. However, both the GA DOE and the DOAA strongly suggest that LUAs allocate all depreciation expense to each applicable function.

Debt interest (e.g., on bonds and TANS) should be reported as a separate line on the statement of activities. This same treatment applies as well to interest associated with capital leases, even when the asset acquired can be associated with one or more individual functional activities.

Losses on the sale of capital assets, if material, should be reported as an expense in the general administration function rather than in the function reporting related depreciation expense. Immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Consolidation. The discussion on the government-wide statement of net position noted that *all* internal balances must be eliminated to arrive at a consolidated total column for the primary government. Consolidation also is required for the government-wide statement of activities to eliminate interfund transfers. Only the net amount transferred between governmental activities and business type activities should remain.

Overhead Administration Charges. Consolidation requires that overhead administration charges be reported only once in the government-wide statement of activities. Therefore, any interfund charges for overhead (indirect costs) should be eliminated in the process of preparing the government-wide statement of activities.

Program Revenues. Some functional activities are financed, in whole or in part, with resources obtained from parties *outside the LUA*. GAAP require that such program revenues be presented separately as a reduction of the total expense of the benefiting functional activities to arrive at the net expense of each.

Program revenues include the following:

- Amounts received from those who purchase, use, or directly benefit from a program (e.g., tuition).
- Amounts received from parties *outside the reporting entity's citizenry* (such as QBE, Title I and contributions) that are *restricted to one or more specific programs* (For multipurpose grants, the amount attributable to each program must be identified in either the grant award or the grant application to qualify as program revenue).
- Earnings on investments legally restricted for a specific program (such as interest earnings from special purpose local option sales taxes).

Charges for services (e.g., school lunch charges) should be reported separately from grants and contributions on the function row in which they are generated, even if they are used for some other purpose. Likewise, operating grants and contributions should be reported separately from capital grants and contributions. Grants or contributions that may be used for either capital or operating purposes should be treated as operating grants or contributions.

All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax— (e.g., special purpose local option sales tax, property tax).

Tuition. LUAs may charge tuition for out-of-district students in the regular curriculum and for some students in special education, vocational education, and adult education programs. Usually, the tuition-paying students enjoy the full benefits of enrollment and receive the same support services as other students. When the tuition fee is calculated, their tuition normally includes administrative and support services as well as instruction.

The GASB has indicated that since tuition is generated by specific instruction functions it should be reported as program revenue—charges for services, and matched against the instruction function. None of the tuition revenue need be matched against supporting services functions, even though these costs may be included in the tuition formula.

Since tuition revenue is reported as a charge for a service, the LUA may change the "charges for services" column heading to "charges for services and tuition."

QBE Revenue. The Quality Basic Education Act (QBE) is the law that prescribes the formula used by the State of Georgia to appropriate funding to LUAs each fiscal year. As Chapter II-7 indicates, the LUA earns the QBE based upon the amount of full time equivalent students in each QBE instructional program category. These categories are further classified into the standard functions. Based upon the appropriate formulas, the QBE revenue is considered program revenue, normally under the operating column. The GaDOE Financial Review

Division has developed a formula to allocate the revenue by function, as the GASB requires. See Appendix F for this information.

Indirect Cost Recovery. Often, LUAs are able to receive indirect cost reimbursement for the administration cost of carrying on a program, normally federal grant programs (e.g., Title I). Normally, indirect cost recovery is considered program revenue and would match up against the function where the administration costs are reported. For example, if an LUA actually charges the Title I special revenue fund for administration costs, then the indirect cost recovery would be matched against the instruction function. If the costs are included in the general administration, school administration or business services functions, the indirect cost recovery would be matched (netted) against these functions.

Net (Expense) Revenue. A key goal of the government-wide statement of activities is to highlight the *net* (expense)/revenue of each functional activity. Accordingly, program revenues should be subtracted from total functional expenses to arrive at the net expense or revenue for each functional activity.

General Revenues. All revenues that do *not* qualify as program revenues should be reported as general revenues. Tax revenues should be reported by type of tax (special purpose local option sales taxes, property taxes). General revenues also include nontax revenues, including grants and contributions not restricted to specific programs. General revenues should be presented immediately following the total net expense of the LUA's functions.

Gains on the sale of capital assets, if material, should be reported as general revenue. Immaterial gains may be reported as an adjustment to the current period's depreciation expense or as other miscellaneous revenue under the local revenue source.

Special and Extraordinary Items - Special and extraordinary items should be reported on a separate line after contributions. If special items and extraordinary items occur in the same period, the two should be reported separately within a single category, with special items reported before extraordinary items. Significant transactions or other events within the control of management that are *either* unusual in nature or infrequent in occurrence are special items and should be reported separately before extraordinary items.

The sale of land might be a special item and costs or cost recovery related to a flood might be an example of an extraordinary item.

Transfers - Transfers is the last item reported on the government-wide statement of activities before the total change in netposition. In Georgia LUAs, the only time transfers are reported would be when there are transfers between governmental funds and enterprise funds. All other transfers would be eliminated (netted).

Comparative Data - LUAs are required to present comparative data only in connection with MD&A. If they wish, LUAs also are free to present comparative data on the face of the government-wide statement of activities.

## Governmental Fund Financial Statements

GAAP require that the government-wide financial statements be accompanied by separate sets of financial statements for governmental funds, proprietary funds, and fiduciary funds. The financial statements for proprietary funds and fiduciary funds use the same measurement focus and basis of accounting used for government-wide financial reporting. The financial statements for governmental funds, on the other hand, are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, the governmental fund financial statements must present a summary reconciliation to explain differences between the data reported in the governmental funds and the data reported for the corresponding governmental activities in the government-wide financial statements.

Fund statements measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the performance——in the short term——of individual funds using the same measures that many LUAs use when financing their current operations.

GAAP prescribe, at minimum, two basic governmental fund financial statements: the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. Both statements should include the LUA's general fund as well as all of its special revenue funds, capital projects funds, debt service funds and permanent funds.

If the DOAA audits the LUA's financial statements, all special revenue funds are combined with the general fund for reporting purposes. Also, all individual capital project funds are presented as a single fund and debt service funds are reported as a single debt service fund.

GAAP also require that a budgetary comparison be presented for the general fund and any major special revenue funds for which legally adopted annual budgets have been adopted. While GAAP require only that this budgetary comparison be presented as required supplementary information, LUAs are specifically permitted to include this presentation as an integral part of the basic financial statements for their governmental funds.

See http://www.audits.ga.gov/EAD/SchoolDistrictResources.html for templates helpful in preparing the fund financial statements.

## Governmental Fund Balance Sheet

The governmental fund balance sheet is the basic statement of position for the governmental funds.

Included Assets. Governmental funds focus on *current financial resource*s. Accordingly, only *financial* assets are properly reported in governmental funds. An asset is considered financial if it satisfies any of the following conditions:

- The asset is a form of cash.
- The asset will convert to cash in the ordinary course of operations.
- The asset represents inventories (such as materials or supplies) or a prepayment.

Order of Presentation of Assets and Liabilities*.* As noted previously, GAAP require that assets and liabilities be presented on the government-wide statement of net position either based on their relative order of liquidity or classified as *current* and *long-ter*m. Governmental funds focus exclusively on *current* financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances). However, assets and liabilities typically are presented on that statement in the relative order of their liquidity.

Presentation of Equity. The difference between the assets and liabilities of governmental funds is reported as *fund balanc*e. Fund balance can be divided into five components, with *unreserved* representing amounts considered available for new spending.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- Nonspendable fund balance – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

- Restricted fund balance – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

- Committed fund balance – amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future construction projects).

- Assigned fund balance – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Education or by a designee to whom the Board of Education delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- Unassigned fund balance – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

- Committed Fund Balance – The Board of Education is the District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

- **Assigned Fund Balance** – The Board of Education has authorized the Superintendent and the Director of Finance as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

The financial statements or the accompanying notes should provide "sufficient detail to disclose the purposes of the classifications of fund balance.

Major Fund Reporting. Often, LUAs maintain too many funds to include information on each individual fund within the basic financial statements. GAAP resolve this reporting issue by requiring that governmental fund data be presented separately for *each major individual governmental fun*d. The financial statements for governmental funds report a separate column for each individual major fund, with data from all nonmajor governmental funds aggregated into a single *other governmental funds* column, regardless of fund type.

In preparing the LUA's statements, all special revenue funds should be combined with the general fund for reporting, all capital projects should be reported in a single column, and all debt service funds should be aggregated into a single column. In other words, only three major funds should be reported. Governments do *not* have the option of reporting separate fund-type columns for their nonmajor governmental funds.

By definition, the general fund is always considered a major fund. In addition, LUAs may report as major funds whatever other individual governmental funds they believe to be of particular importance to financial statement users. At a minimum, governmental funds other than the general fund *must* be reported as major funds if they meet *both* of the following criteria:

- *Ten percent criterio*n. An individual governmental fund reports at least 10 percent of *any* of the following:
    - total governmental fund assets plus deferred outflows of resources
    - total governmental fund liabilities plus deferred inflows of resources
    - total governmental fund revenues
    - total governmental fund expenditures

- *Five percent criterio*n. An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise funds of any one of the items for which it met the 10 percent criterion.

If an individual fund is expected to meet the minimum criteria for mandatory major fund reporting in some years but not in others, an LUA might elect to always report it as a major fund for consistency.

The single column used to report nonmajor governmental funds should report separately the portion of *nonspendable, restricted, committed, assigned, or unassigned* fund balance attributable to each fund type represented within that column.

LUAs also may take this same approach for classifying the  nonspendable, restricted, committed, assigned or unassigned fund balance of their major funds, although the presentation of fund balance by fund type for major funds is *not* required by GAAP.

Total Column. GAAP require that, like the government-wide statement of net assets, the governmental fund balance sheet also report a total column.

Measurement Focus and Basis of Accounting. Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Therefore, there are differences between the assets and liabilities reported on the governmental fund financial statements and those reported on the government-wide financial statements. For example, most nonfinancial assets (e.g., capital assets) and long-term liabilities (bonds payable) are excluded from the governmental fund balance sheet.

Because the government-wide and fund presentations are designed to function as a single, integrated set of financial statements, GAAP require that a summary reconciliation be provided between the total column reported on the governmental fund balance sheet and the governmental activities column reported in the government-wide statement of netposition. This reconciliation may be presented on the face of the governmental fund balance sheet or as an accompanying schedule following the statement.

An LUA may choose to present more detailed information on the various elements of this reconciliation in the notes to the basic financial statements.

Such additional detail is required if “aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item.”

### Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances

The governmental fund statement of revenues, expenditures, and changes in fund balances is the basic statement of activities (i.e., an operating statement) for the governmental funds. Because of the unique measurement focus and basis of accounting of governmental funds, the terminology used for this statement varies considerably from that used for other statements of activities.

Basic Elements. Consistent with the current financial resources measurement focus, the governmental fund operating statement reports *expenditures* rather than *expenses*. Likewise, there is no distinction in governmental funds between revenues and gains or between expenditures and losses. However, GAAP require that certain transactions and events be reported separately as *other financing sources (e.g., issuance of debt)* and *other financing uses (e.g., interfund transfers)* rather than as revenues and expenditures, to avoid the potential distortion of revenue and expenditure trend data.

Like the government-wide statement of activities, the governmental fund statement of revenues, expenditures, and changes in fund balances reports any special items and extraordinary items separately from revenues, expenditures, and other financing sources/uses.

Level of Detail. Revenues should be presented by source. Expenditures should be presented by function and character classification. Additional detail (such as QBE program, department, object of expenditure) may be presented but is not required by GAAP.

In theory, the character of an expenditure is based on the periods it is presumed to benefit. Expenditures that primarily benefit the present period (current expenditures) are distinguished from those presumed to benefit both the present and future periods (debt service expenditures and capital outlay expenditures). GAAP also provide for a fourth character classification, *intergovernmental expenditures*, for situations where one governmental entity provides resources to another.

However, in practice, the capital outlay's character classification often is used solely for capital outlays reported in capital projects funds. In other words, capital outlays of the general fund and special revenue often are included as part of the *current* expenditures reported for each functional activity within that fund.

Order of Presentation. The various components of the governmental fund statement of revenues, expenditures, and changes in fund balances should be presented in the following order:

- Revenues
- Expenditures
- Excess (deficiency) of revenues over expenditures
- Other financing sources and uses (including transfers)
- Special items
- Extraordinary items
- Net change in total fund balance
- Fund balance beginning of period
- Fund balance end of period

The level of detail presented in the fund financial statements may be different than the level of detail presented in the government-wide financial statements.

Major Fund Reporting. The governmental fund statement of revenues, expenditures, and changes in fund balances is subject to the same major fund reporting requirements as the governmental fund balance sheet.

Total Column and Reconciliation. GAAP require that the governmental fund statement of revenues, expenditures, and changes in fund balances report a total column. Once again, there is no requirement that interfund activities be eliminated from this total column.

Similar to the government-wide statement of net position and the governmental funds balance sheet, the government-wide statement of activities and the governmental fund statement of revenues, expenditures, and changes in fund balances report transactions differently.

For example, the governmental funds report capital outlay expenditures, while the government-wide financial statements report depreciation expense. Likewise, the governmental funds report an other financing source for the issuance of debt and an expenditure for debt service principal payments, while the government-wide financial statements report debt principal on the statement of position.

As discussed above, GAAP require that a summary reconciliation between the two statements be provided, either on the face of the governmental fund statement of revenues, expenditures, and changes in fund balances, or as an accompanying schedule.

GAAP encourage LUAs to present a variance column to highlight differences between actual amounts and the final amended budget.

When the budgetary basis of accounting differs from GAAP, reconciliation must be provided between the two bases of accounting. This reconciliation is presented either on the face of the budgetary presentation or in the notes.

## Proprietary Fund Financial Statements

GAAP prescribe three basic financial statements for proprietary funds:

- Statement of net position (balance sheet);
- Statement of revenues, expenses, and changes in fund net position;
- Statement of cash flows.

Since most Georgia LUAs do not utilize proprietary funds, this section is somewhat summarized.

## Proprietary Fund Statement of Net Position

The statement of net position (balance sheet) is the basic statement of position for the proprietary funds.

Format. An LUA may present its government-wide statement of position using either a net position format or a balance sheet format.

In either format the terminology and categories used for *net position* are the same as those described for the government-wide statement of net position.

Presentation of Assets And Liabilities*.* GAAP *require* that the proprietary fund statement of position classify assets and liabilities as *current* and *long-ter*m, while use of the relative order of
liquidity approach is encouraged for the government-wide statement of net position.

Major Fund Reporting. GAAP mandate the same major fund reporting for proprietary funds described earlier for governmental funds. However, GAAP also indicate that internal service funds are *never* to be reported as major funds.

Each individual major enterprise fund must be reported in a separate column on the face of the proprietary fund statement of position. In almost all instances, Georgia LUAs do not report any enterprise funds as major funds.

Separate Reporting For Internal Service Funds. Data from enterprise funds normally are incorporated as business-type activities in the government-wide statement of net position, just as data from governmental funds normally are incorporated as governmental activities in that same statement. Internal service funds, however, are reported differently.

Although internal service funds are proprietary funds (like enterprise funds), they normally are consolidated as part of governmental activities because their primary customers typically are the governmental funds. For example, a central store's warehouse provides most of its inventories to governmental functions (e.g., instruction, school nutrition program). However, internal service funds should be reported in a separate aggregated column on the proprietary fund statement of position, immediately following the total column for all enterprise funds, so that the amounts reported in this latter column may be traced more easily to the business-type activities column of the government-wide statement of net position.

Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. The proprietary fund statement of revenues, expenses, and changes in fund net position is the basic statement of activities for the proprietary funds.

Operating Versus Nonoperating Revenues and Expenses*.* GAAP require that the statement of activities for proprietary funds distinguish operating from nonoperating revenues and expenses.

Presentation of Revenues*.* Revenues should be reported by major source.

**Separate Reporting For Internal Service Funds.** Internal service funds should be reported separately on the statement of revenues, expenses, and changes in fund net position , immediately following the total column for enterprise funds, to facilitate tracing amounts between the fund financial statements and the government-wide financial statements.

### Proprietary Fund Statement of Cash Flows

The statement of cash flows is the third basic financial statement for proprietary funds.

**Focus.** The focus of the statement of cash flows may be either *cash* or *cash and cash equivalent*s. *Cash* includes:

- cash on hand
- cash on deposit
- cash in restricted accounts

As its name implies, the statement of cash flows is concerned solely with flows of cash (and cash equivalents). Therefore, only transactions that affect an LUA's cash account typically should be reported in the statement of cash flows. The following transactions would *not* be reflected in the statement of cash flows:

- USDA commodities although they may be reported as revenues and expenses in the statement of revenues, expenses, and changes in fund net assets (equity)
- Rollovers of certificates of deposit

**Gross versus net reporting.** In most instances, GAAP require that cash flows be reported *gross* rather than *ne*t. Special exceptions may apply, particularly with investments.

**Format.** GAAP require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

**Cash flows from operating activities.** This section includes all cash flows related to transactions and events reported as components of *operating income* in the statement of revenues, expenses, and changes in fund net assets (equity). Cash flows in this category must be reported by major categories of receipts and payments, primarily:

- Receipts from customers
- Receipts related to interfund services
- Receipts from grants for operating services
- Payments to suppliers of goods or services
- Payments to employees for services
- Payments connected with interfund services.

**Cash flows from noncapital financing activities.** This section includes borrowing and repayments (principal and interest) of debt that is *not* clearly attributable to capital purposes. In addition, the noncapital financing category includes transfers to and from other funds not related to acquisition, construction, or improvement of capital assets. Grant receipts not related to operations or capital acquisition, improvement or construction.

**Cash flows from capital and related financing activities***.* This section includes the borrowing and repayment (principal and interest) of debt clearly attributable to capital purposes. This category also is used to report the proceeds of capital grants and contributions, as well as transfers from other funds for capital purposes. Payments related to the acquisition, construction, or improvement of capital assets also are reported in this category.

**Cash flows from investing activities.** This section includes receipt of interest proceeds from the sale of investments, and changes in the fair value of investments subject to fair value reporting and classified as *cash equivalents.* Cash outflows in the investing activities category include the purchase of investments.

**Reconciliation***.* Ordinarily, there is a difference between cash flows from operating activities (as reported on the statement of cash flows) and operating income (as reported on the statement of revenues, expenses, and changes in fund net position. GAAP require that the financial statements provide a reconciliation of these two amounts. This reconciliation should be presented either on the face of the statement of cash flows or as a schedule accompanying that statement.

**Noncash investing, capital, or financing transactions.** This section includes transactions that affect investing, capital or financing transactions that do not include the exchange of cash.

Specifically, information is needed regarding noncash transactions that meet two criteria:

- The transaction affects recognized assets or liabilities
- And, had it involved cash, the transaction would not properly have been classified as cash flows from operating activities

**Traceability to Statement of Fund Net Position (Balance Sheet).** GAAP specifically indicate that the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates.

### Fiduciary Fund Financial Statements

GAAP prescribe up to two basic financial statements for fiduciary funds:

- Statement of fiduciary net position (required for all fiduciary funds)
- Statement of changes in fiduciary net position (required for all fiduciary funds except agency funds).

In most instances, Georgia LUAs will report only agency funds (i.e., school clubs) in this fund category. However, if an LUA maintains a scholarship fund, normally this fund would be considered a private purpose trust fund and the above two statements would need to be prepared.

### Statement of Fiduciary Net Position

The statement of fiduciary net position is the basic statement of position for the fiduciary funds. If the statement includes only agency funds, it should be captioned a "Statement of FiduciaryNet Position."

**Format.** The fiduciary fund statement of position must employ the net positionformat.

**Presentation of Assets and Liabilities***.* Assets should be subdivided into major categories (such as cash and cash equivalents, receivables, investments, assets used in operations).

**Presentation of NetPosition***.* GAAP prescribe that net assets be reported in three categories on both the government-wide and proprietary fund statements of position: invested in capital assets; restricted; and unrestricted. This requirement specifically does *not* apply to the fiduciary fund statement of position.

There should be no net assets associated with agency funds, because all assets reported in agency funds must be offset by a corresponding liability.

**Reporting By Fund Type***.* Fiduciary funds are never reported as major funds. Therefore, the focus of reporting for the fiduciary fund statement of position should be the various fiduciary fund types (private-purpose trust funds, and agency funds). The statement should present one column for each fund *type* reported.

### Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net assets is the basic statement of activities for fiduciary funds.

**Format.** The statement of changes in fiduciary net assets is unique in that all changes in net assets are classified simply as either *additions* or *deduction*s.

The difference between additions and deductions is then reported as the net increase (or decrease) in fiduciary net position.

### Notes to the Financial Statements

The data displayed on the face of the government-wide and fund financial statements must be accompanied by various disclosures to ensure that a complete picture is presented in the financial statements. This additional disclosure is presented in the form of a single set of notes placed immediately following the government-wide and fund financial statements. As described, the basic financial statements represent the minimum information that must be included within a financial report of a state or local government for an independent auditor to issue a “clean” audit opinion, assuring report users that the government has complied with GAAP.

Financial statements alone do not provide all of the information required for fair presentation of the LUA's financial position and results of operations in conformity with GAAP. Additional information is needed, often too detailed in nature or otherwise unsuitable for presentation in the face of the financial statements. The notes to the financial statements provide this additional information, and so form an integral part of the basic financial statements.

GAAP requires that the notes to the financial statements contain all disclosures necessary to prevent the financial statements from being misleading. The 2015 *GASB Codification*, Section 2300, provides a list of note disclosures that specifically is tailored to LUA financial reporting. This list forms a good starting point for the financial statement preparer wishing to evaluate the adequacy of the notes to the financial statements.

Organization and Presentation of Note Disclosures.

The notes to the financial statements are an integral part of the liftable GPEFS. Therefore, they should be included as part of the CAFR financial section directly after the fiduciary fund financial statements. Moreover, the format of the table of contents should indicate clearly that the notes are part of the GPEFS, and each basic financial statement should contain a reference to the notes (e.g., "The Notes to the Financial Statements are an integral part of the financial statements").

Note disclosures should be organized and presented in a logical order. The order of presentation will vary depending on each individual LUA's disclosures. The *GASB Codification*, 2015 Section 2300.106, provides guidance on one possible sequence of note disclosures. Financial statement preparers, however, are free to modify this suggested sequence, as needed, to provide the most meaningful disclosure in a given set of circumstances.

GAAP are established under the presumption that the notes contain any material information needed to present fairly the financial statements. Therefore, as a general rule, LUAs should not present notes that indicate only that a given type of disclosure is not necessary (i.e., negative assurance). For example, if the LUA has no related party transactions, a note is not needed stating that there were no such transactions during the period.

The GPEFS, including the notes, also are presumed by GAAP to be "liftable." Accordingly, the notes should not contain references to financial statements and schedules outside of the GPEFS. Similarly, statements and schedules elsewhere in the financial section should not refer to the notes as being "an integral part of the financial statements" unless these statements and schedules themselves fall within the scope of the auditor's opinion.

See http://www.audits.ga.gov/EAD/SchoolDistrictResources.html for required note disclosures templates, under Audit Resources.

While note disclosures should be organized and presented in a logical order, the order of presentation will vary depending on each individual LUA's disclosures. The 2015-16 *Codification*, Section 2300.106, provides guidance on one possible sequence of note disclosures. Financial statement preparers, however, are free to modify this suggested sequence, as needed, to provide the most meaningful disclosure in a given set of circumstances. The following is a suggested order of presentation:

- Summary of significant accounting policies (SSAP)
- Restatement notes (if applicable)
- Budgetary and legal compliance notes
- Detailed notes
- Other notes

GAAP are established under the presumption that the notes contain any material information needed to present fairly the financial statements. Therefore, as a rule, LUAs should not present notes that indicate only that a given type of disclosure is not necessary (i.e., negative assurance). For example, if the LUA has no related party transactions, a note is not needed stating that there were no such transactions during the period.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A LUA's accounting policies are the specific accounting principles -- and methods of applying those principles -- judged by the LUA's management to be appropriate in the circumstances to present fairly the financial position and results of operations in conformity with GAAP. APB Opinion No. 22, Disclosure of Accounting Policies, requires financial statement preparers to include a description of all significant accounting policies as an integral part of the financial statements. For LUAs, the SSAP most often takes the form of a group of separate "sub notes" addressing a variety of topics. Because the SSAP is designed to provide the reader with information on the LUA's accounting policies rather than on specific transactions, dollar amounts normally are not presented in the SSAP. Generally when dollar amounts are presented in a note, the note is a detailed note.

APB Opinion No. 22, as applied to LUAs, requires that the SSAP disclose those accounting principles and methods that involve:

- Any selection of an accounting treatment when GAAP permit more than one approach (e.g., the method used to depreciate capital assets)
- Principles and practices peculiar to LUA accounting (e.g., modified accrual basis of accounting)
- Unusual or innovative applications of GAAP

**LUA Description.** Often, the SSAP begins with a brief description of the LUA. This description will reference the school board and indicate the geographic area for which it provides educational services. In reports prepared by the Georgia Department of Audits and

Accounts, the LUA Description and Reporting Entity are presented as the first section in the Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

Reporting Entity. Occasionally, a LUA's reporting entity may include a separate legal entity (i.e., certain charter schools) as component units. To ensure that financial statement users understand what entities are included, the 2015-16 *Codification*, Section 2100, provides note disclosure requirements related to the reporting entity. Normally, this note should be presented as the first sub note in the SSAP. If not presented in the SSAP, this disclosure should be formatted as the first note. This approach allows the reader to gain an understanding of the reporting entity before reading the other notes to the financial statements. In audits published by the Georgia Department of Audits and Accounts, the LUA Description and Reporting Entity are presented as the first section in the Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

All LUAs are required to present an "entity note" regardless of whether any component units are included within the reporting entity. The disclosure should include:

- A description of the component units included within the financial reporting entity;
- A description of the relationship between the component units and the primary government;
- A discussion of the criteria for including component units within the financial reporting entity;
- A discussion of how component units are reported (i.e., blended versus discrete presentation); and
- Information on how to obtain the separately issued financial statements of component units.

Although these criteria normally are taken directly from the 2015-16 *Codification*, Sections 2100.108 -.112, each component unit should be described rather than just referenced.

An example of a component unit in which disclosure is required is when a local charter school exists as a component unit of an LUA.

Basis of Presentation. This sub-note of SSAP, describes the basic financial statements of a LUA and includes information on the government-wide and fund financial statements. Because fund accounting is unique to governments, a brief explanation of this accounting convention is appropriate.

Government-wide and Fund Financial Statements. The government-wide financial statements do not, in fact, incorporate all funds and component units of a LUA. Specifically, GAAP direct the exclusion of fiduciary funds from the government-wide presentations. Therefore, to avoid any potential confusion regarding the scope of the government-wide presentations, the SSAP should disclose the omission of fiduciary funds. It also should be clear that the assets, liabilities and equity of the internal service funds are combined within the governmental activities column in the government-wide statement of net position. This disclosure often describes the two required government-wide financial statements. Also, the definition of the three types of program revenues is appropriate here.

Finally, this note should disclose the fact that all of a LUA's funds are included at the fund financial reporting level and that discretely presented component units are excluded. All of a LUA's individual funds are classified by the three fund categories, governmental, proprietary and fiduciary. A brief description of these categories is appropriate. Chapter I-6 discusses LUA fund accounting. In addition, GASBS 38 requires descriptions of the activities accounted for in each major fund, internal service fund type and the fiduciary fund types (e.g., school clubs).

Measurement Focus/Basis of Accounting. Because governmental accounting requires the use of two different measurement focuses and the use of both accrual and modified accrual basis of accounting depending upon the financial reporting level, the SSAP should include a description of the measurement focus that applies to each fund type followed by an explanation of the basis of accounting used.

Chapter I-7 describes the measurement focus and the bases of accounting that LUAs use.

Reconciliation of Government-Wide and Fund Financial Statements. Because the government-wide and fund presentations are designed to function as a single, integrated set of financial statements, GAAP require that a summary reconciliation be provided between the total column reported on the governmental fund balance sheet and the governmental activities column reported in the government-wide statement of net position. Also required is the reconciliation of the net changes in fund balances from the governmental fund operating statement to the changes in net position on the government-wide statement of activity. The reconciliations may be presented on the face of the governmental fund financial statements or in accompanying schedules. A government may choose to present more detailed information on the various elements of this reconciliation in the notes to the basic financial statements. LUAs normally present this note disclosure when reconciliation items are aggregated in the reconciliation (e.g., when capital outlay purchases and depreciation expense are netted) and the note disaggregates the amounts.

Revenues Susceptible to Accrual. The 2015-2016 *Codification*, Section 1600.108, requires that the SSAP indicate clearly, which primary revenue sources have been treated as "susceptible to accrual." At a minimum, this disclosure normally references property taxes, special purpose local option sales taxes and state Quality Basic Education (QBE) aid.

Chapter IV-2 discusses Georgia Statutes as they relate to operating budgets.

Flow Assumption for Restricted Assets. In practice, it is common for LUAs to have the option of using either restricted or unrestricted resources to make certain payments (such as capital construction costs being financed partially from restricted grants and bond proceeds and partially from the LUA's own resources). Accordingly, LUAs must select a flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. GAAP require that this flow assumption be disclosed in the SSAP.

**Cash and Investments.** If a LUA participates in a cash and investment pool, the accounting policy should explain this arrangement, which could include information on how the LUA allocates interest earnings. Although the 2015-2016 *Codification*, Section I50 Investments, requires detailed disclosures for deposits and investments (this disclosure is discussed later in this chapter), the stated basis for investments should be disclosed in the SSAP. The allowable investments under Georgia statutes should be listed here. Finally, if a LUA reports cash equivalents, they should be defined.

**Receivables.** Normally, the basis of accounting note, included within the SSAP, discloses when receivables and revenues are recorded and reported. The receivables note should disclose the LUA policy regarding the use of an allowance for uncollectibles.

**Restricted Assets.** Normally, Special Purpose Local Option Sales Tax (SPLOST), general obligation bond proceeds and property taxes levied specifically for retirement of outstanding bond principal, interest and paying agent's fees (e.g., in a debt service fund) are reported as restricted assets in the statement of net position because their use is limited by applicable bond covenants or statutory provisions. This fact should be explained in the accounting policy notes. The details of assets might be presented in this note or preferably in a detailed note for restricted assets.

**Interfund Balances.** LUAs sometimes advance resources to other funds that will not be repaid in the current period. For example, the general fund advances operating capital to a newly created internal service fund. In these instances, the SSAP should explain that the fund balance of the loaning governmental fund is reserved at the fund reporting level to indicate it is not available for expenditure.

**Inventories.** ARB No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter I-4, requires a disclosure of the valuation basis of inventories (i.e., cost). In addition, the method used to determine the inventory value should be presented (e.g., first-in, first-out; last-in, first-out). Finally, because governmental funds may use either the purchases or consumption method for recognizing inventory expenditures, the method chosen should be disclosed in the SSAP.

When the purchases method is used, for budgeting purposes, the sub note also should indicate that the inventory asset amount is not available for expenditures because it has been charged to expenditures when purchased rather than when used. Chapter I-12 presents information about inventories.

If the LUA recognizes revenues from commodities, it should be clear that the amount of the value of commodities unused at year-end is reported as unavailable revenues, a deferred inflow of resources.

**Prepaid Items.** Although not required by GAAP for governmental fund types, LUAs may capitalize prepaid items (e.g., prepaid insurance) and charge these costs to the appropriate fiscal period. When prepaid items are capitalized, a sub note could explain this policy and indicate that a portion of fund balance equal to the prepaid items is reserved to indicate that it is not available for expenditures.

Capital Assets. The SSAP needs to include various disclosures regarding a LUA's capital assets. Many of the disclosures are required because of the variety of accounting treatments allowed. Because capital assets purchased by governmental fund types are reported differently from those purchased by proprietary fund types at the fund reporting level, the sub note should explain both accounting treatments. This disclosure also may include the LUA's accounting for betterments (i.e., improvements to capital assets that extend their useful lives). Betterments are discussed in Chapter IV-7.

The valuation bases for both purchased capital assets and donated capital assets should be disclosed. In addition, GAAP require the disclosures of a LUA's depreciation policy including the depreciation method used and the capital assets estimated useful lives. The LUAs capitalization threshold must be disclosed.

Accounting for capital assets is discussed in Chapter I-17.

Compensated Absences. The 2015-2016 *Codification*, Section C60 Compensated Absences, provides guidance regarding the accounting treatment for compensated absences. An accounting policy note should indicate clearly that the total liability is reported on the government-wide statement of net position but only reported at the fund level when due. The compensated absence liability for proprietary fund types should be accrued as earned, consistent with the accrual basis of accounting, and the disclosure should indicate this fact when both governmental and proprietary fund types are included in the financial statements.

Long-term Obligations. It is suggested that the SSAP contain an explanation of the rationale for classifying long-term obligations as fund liabilities.

Bond Discounts, Bond Premiums, Issuance Costs, and Deferred Bond Refunding Amounts. The SSAP should include an explanation of the treatment accorded bond discounts, bond premiums and issuance costs, for governmental and proprietary fund types, as appropriate. For proprietary funds and reporting governmental fund activities at the government-wide financial reporting, APB opinion No. 21, Interest on Receivables and Payables, provides the appropriate guidance on display and amortization.

Fund Equity. An explanation of the components of fund equity often is included in the SSAP. However, the details of the restrictions, commitments and assignments should be presented in a separate disclosure.

Operating Revenues and Expenses. If a LUA reports enterprise funds, the notes should define operating revenues and expenses.

Interfund Activity. Since a LUA maintains numerous funds, the SSAP should explain the various types of interfund transactions as applicable. The 2015-16 *Codification*, Sections

1800.103 and 1800.106, provide the classification for the various types of interfund transactions. Chapter I-13 defines the various types of interfund transactions.

Estimates. This disclosure must indicate that the LUA's management uses estimates in the amounts included in the financial statements and actual amounts may differ from these estimates.

Comparative Data. Although not required by GAAP, a sub note could be included in the SSAP explaining that comparative data are presented in the financial statements to allow the reader to make appropriate comparisons with prior periods.

Implementation of New GASB Standards. This disclosure alerts the readers to what new GASB Standards have been implemented during the current fiscal year.

STEWARDSHIP, COMPLIANCE AND RESPONSIBILITY

Legal Compliance. Financial statement preparers are required by GAAP to provide certain disclosures to demonstrate compliance with finance-related legal and contractual provisions. Because of the importance of legal compliance in the public sector, it is appropriate that such disclosures immediately follow the SSAP. The 2015-16 *Codification*, Section 1200.112, requires the disclosure of material violations of legal requirements. GASBS 38 also requires LUAs to disclose what action they took to address these violations.

Such violations can occur, for example, if sufficient care is not taken to ensure compliance with Federal grant requirements. Since appropriated budgets limit the amount a LUA may legally expend, certain budgetary disclosures also are required to demonstrate compliance or to report noncompliance.

Budgetary Data. The SSAP should include various disclosures about the reporting entity's budget and budget process. The SSAP for budgets should provide:

- A description of the budgetary basis of accounting.
- An indication of the funds for which appropriated budgets have been adopted
- Details regarding appropriations
- An indication of the legal level of budgetary control (although GAAP no longer requires this disclosure, it is still recommended to be included).

If the LUA presents its budgetary comparison statement as a basic financial statement, the following notes are applicable. However, if the LUA presents its budgetary comparison statement as required supplementary information (RSI) (most Georgia LUAs will present this statement as RSI), these notes will be presented as notes to RSI.

When a LUA adopts a budget on a basis, which differs from GAAP, the 2015-16 *Codification*, Section 2400.109, requires that the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis be reported either on the face of the budgetary comparison statement or in the notes to the statement. Unless the reconciliation is quite simple, note disclosure is the more appropriate alternative.

Since under GASBS 34 there are two sets of notes, one to the basic financial statements and one for the RSI, the reconciliation would appear in the notes where the fund's budgetary data is presented. For the general fund and any major budgeted special revenue funds, the reconciliation would be presented in the notes to RSI. All other reconciliations would be presented in the notes to the basic financial statements. When the reconciliation is required, it is suggested that the differences be classified in a manner consistent with the 2015-16 *Codification*, Section 2400.110 - .119 (i.e., basis, timing, entity and perspective differences), although this specific terminology need not be used.

The data that should be reconciled are not indicated clearly in GAAP. Generally, there are at least two alternatives for this presentation.

- Operating statement approach (i.e., excess (deficiency) of revenues and other financial sources over (under) expenditures and other financing uses)
- Balance sheet approach (i.e., fund balance)

The 2015-16 *Codification*, Section 2400.103, requires the note disclosure of any individual funds that have expenditures over appropriations at the legal level of budgetary control (e.g., the function total). LUAs should disclose the individual fund, the legal level of control and the amount of over expenditure. GASB Statement No. 37, An Omnibus Statement (GASBS 37) requires this disclosure be placed in the notes to RSI if the over expenditure relates to funds presented in the RSI budgetary comparison statement. If the over expenditure relates to any other budgeted funds, the disclosure appears in the notes to the basic financial statement.

Deficit Fund Equities. GAAP require that the LUA disclose any individual fund balance deficits reported at year end.

## DETAILED NOTES -- ALL FUND TYPES

The notes to the financial statements should include detailed disclosures of all assets, liabilities and net position/fund equities essential for fair presentation at the basic financial statements level.

It also may be necessary to provide details of selected accounts to give the reader of the financial statements a better understanding of the statement disclosures. The following discussion reviews disclosures that LUAs should present in the notes to the basic financial statements but is not intended to represent a preferred order or grouping of those disclosures.

Cash and Investments. The 2015-16 *Codification*, Section C20 Cash Deposits with Financial Institutions, requires five types of disclosure regarding cash deposits with financial institutions:

- Legal and contractual provisions governing deposits;
- Policies governing deposits;
- Exposure to custodial credit risk as of the date of the statement of position;

- Losses recognized during the period due to defaults and recovery of prior-period losses; and
- Exposure to foreign currency risk.

The 2015-16 *Codification*, Section I50 Investments, requires the following types of disclosures regarding investments:

- Participation in external investment pools;
- Information concerning realized gains and losses (when disclosed);
- Legal and contractual provisions governing investments;
- Summary of investment policies;
- Exposure to custodial credit risk as of the date of the statement of position;
- Losses recognized during the period due to defaults and recovery of prior-period losses;
- Other credit risk exposure;
- Interest rate risk and; and
- Foreign currency risk

Receivables. GASBS 38 requires that LUAs include in its' notes the details of aggregated receivables and liabilities when aggregation has obscured the major components. Finally, any receivable balance not expected to be collected with 12 months must be disclosed. If applicable, the amount of the allowance for uncollectibles also should be presented.

Property Taxes. GAAP require that the notes to the financial statements disclose lien dates, levy dates, due dates, and collection dates on the LUA's property tax calendar.

Sales Taxes. Many LUAs are approved to levy a special purpose local option sales tax (SPLOST). These taxes normally are used for school construction or debt service on school construction. The disclosure should include the following:

- The current amount of SPLOST collected during the reporting year.
- The total amount allowed to be collected from the SPLOST.
- The final date of SPLOST collection.

The above information should be presented for each active SPLOST.

Capital Assets. In addition to the inclusion of accounting policies for capital assets, some additional disclosures for capital assets are required. The 2015-16 *Codification*, Section 2300.118, requires a disclosure of changes in capital assets. In addition, APB Opinion No. 12, Omnibus Opinion, requires disclosure in the notes of the separate classes of capital assets and the amount of accumulated depreciation, if not disclosed on the balance sheet. The disclosure of changes in capital assets may be more specific and include separate columns for the transfer from the construction in progress account to the other asset classes. In addition, both the changes in the asset classes as well as the accumulated depreciation must be disclosed separately. Finally, the amount of the current year's depreciation expense reported on the statement of activities must be disclosed by function in the notes to the basic financial statements.

**Deferred inflows/outflows of resources.** If a LUA has aggregated deferred inflows of resources or deferred outflows of resources on the statement of net position or a governmental balance sheet, details of the different types of the deferrals should be disclosed.

**Construction and Other Significant Commitments.** Disclosure is required by the 2015-16 *Codification*, Section 2300.106k, of significant long-term commitments not recognized in the financial statements. The most common disclosures of this type are construction commitments. Construction commitment disclosures should identify the type of project and selected details (e.g., project authorization, remaining commitment, required future financing) regarding the commitments.

**Short-term Debt.** GASBS 38 requires disclosures for short-term debt (for Georgia LUAs, this disclosure primarily relates to tax anticipation notes). The disclosures must include changes in short-term debt and the purpose of the debt issuance.

**Lease Obligations.** The 2015-16 *Codification*, Section L20.126-127, provides authoritative guidance on lessee disclosures for capital lease agreements in accordance with GASBS 62, paragraph 213. The disclosure requirements of GASBS 62 for capital leases include:

- General leasing arrangement
- The gross amount of assets recorded under capital leases presented by major asset classes as of the date of the financial statements
- Minimum future lease payments in total and for each of the next five years and in five-year increments thereafter (if applicable)
- Assets recorded under capital leases and the accumulated amortization thereon. The amount of amortization expense for the current period should be disclosed if included with depreciation expense.

GASBS 62 also requires the following disclosures for LUAs participating as lessees in operating leases:

- General leasing arrangements
- The future minimum rental payments in total and for each of the next five years and in five-year increments thereafter (if applicable)
- Total minimum rentals to be received in the future under noncancelable subleases
- Current year rental costs

**Long-term Debt.** LUAs are required to present detailed disclosures relating to outstanding long-term debt. Some of the topics that should be included are:

- A description of issues
- Changes in long-term debt
- Debt service requirements to maturity including both principal and interest
- Details regarding advance refunding of debt
- Bonds authorized but unissued

Debt Description. It is suggested that a LUA include a brief description of each outstanding bond issue that could include the following:

- Purpose of bonds
- Original amount of the issue
- Type of debt (e.g., general obligation)
- Amount of annual installments
- Interest rates
- Maturity date range

Changes in Long-term Debt. GAAP require the presentation of changes in long-term debt be presented by type of debt (e.g., general obligation bonds, capital leases). Note that the changes (i.e., increases and decreases) must be presented separately.

Amortization Schedules. The 2015-16 *Codification*, Section 2300.106i, mandates the disclosure of debt service requirements to maturity for all long-term debt. At a minimum, this disclosure must include the required payments of principal and interest to maturity, presented separately for each of the succeeding five years and for each five year increments, thereafter. For variable-rate debt, the terms by which the interest rate changes should be disclosed.

Debt service to maturity normally is presented by type of debt. The debt service requirements for capital lease obligations should be included with this disclosure. The amounts reported for the long-term also could include compensated absences and claims and judgments.

Debt Refundings. The 2015-16 *Codification*, Section D20, Debt Extinguishments and Troubled Debt Restructuring, provides guidance on disclosure requirements for debt refundings. For advance refundings, the required disclosures in the year of the advance refunding include:

- A general description of the transaction
- The difference between the cash flows required to service the old debt and the cash flows required to service the new debt, adjusted for additional cash (e.g., for issuance costs or payments to the escrow agent), but unadjusted for the time value of money
- The economic gain or loss resulting from the refunding transaction (i.e., the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid).

When the advance refunding results in an in-substance rather than a legal defeasance of debt, the amount of the defeased debt outstanding at year-end should be reported in the notes in all periods following the advance refunding for which the debt remains outstanding.

Unissued Authorized Debt. When bonds have been authorized at year-end but remain unissued, a disclosure explaining this fact is suggested.

Pensions. Substantially all teachers, administrative and clerical personnel employed by local school systems are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer defined benefit pension plan.

GAAP requires the following disclosure requirements for employer LUAs that participate in defined contribution pension plans or defined contribution OPEB plans:

- The name of the plan;
- The entity administering the plan;
- An indication that the arrangement is a defined contribution plan;
- A brief description of the plan's provisions and the authority for establishing or amending the plan's provisions;
- Contribution requirements (either as a dollar amount or as a percentage of salary) for the employer, participating employees, and other contributors;
- The authority for amending contribution requirements; and
- Contributions actually made by the employer and plan members
- Total employer's plan liabilities, plan assets, deferred outflows or resources and deferred inflows of resources related to plan, and plan expense/expenditures for the period if the total amounts are not identifiable from the financial statements
- Whether the plan issues a stand-alone financial report and how to access the report.

Interfund Transactions. Two primary types of interfund transactions occur—receivables/payables and transfers. The 2015-2016 *Codification*, Sections 2300.126 and 127, require the disclosure within the basic financial statements of the amounts of interfund receivables and payables for each individual major fund, all non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund types. GASBS 38 also requires that LUAs disclose the purpose of each of these interfund balances (e.g., for cash flow purposes). Any portion of these receivables and payables that is non-current also must be disclosed.

GASBS 38 requires disclosure of amounts transferred from other funds to individual major funds, non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund type. The principal purposes of the interfund transfers also must be disclosed. However, this disclosure only is required if:

- The transfers do not occur on a routine basis or
- The transfers are inconsistent with the activities of the fund making the transfer.

## OTHER DISCLOSURES

In addition to the SSAP and the detailed notes, other disclosures should be presented that are essential for a fair presentation of a LUA's financial position results of operations and cash flows in conformity with GAAP.

Risk Management. Many LUAs have been choosing to finance all or a portion of their risks rather than to seek traditional commercial insurance coverage. The 2015-2016 *Codification*, Section C50.145 requires the following information to be disclosed:

- A description of the risks of loss to which the LUA is exposed and the ways in which those risks are handled;
- A description of significant reductions in insurance coverage from the prior year by major categories of risk;
- Instances when claims paid exceeded coverage during the period, the total amount of settlements in excess of insurance coverage for each of the past three years:
- If the LUA participates in a risk pool, a description of the nature of the participation including the rights and responsibilities of both the LUA and the pool;
- If the LUA retains the risk of loss:
  - The basis for estimating the liabilities for unpaid claims,
  - The carrying amount of liabilities for unpaid claims that are presented at present value in the financial statements and the range of discount rates used to discount those liabilities,The aggregate outstanding amount of claims liabilities for which annuity contracts have been purchased, and
- A reconciliation of changes in the aggregate liabilities for claims for the current year and prior fiscal year.

If the LUA participates in the Georgia Education Workers' Compensation Trust or the Risk Management Program of the Georgia School Boards' Association, specific disclosures should be disclosed. Chapter IV-9 discusses risk management.

Segment Information - Enterprise Funds. The 2015-2016 *Codification*, Section 2500, Segment Information, requires the inclusion of summary segment financial information. For purposes of this disclosure, a segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that are required to be accounted for separately. Segment disclosure requirements for each segment should be met by identifying the types of goods and services provided by the segment and by providing condensed financial statements in the notes. The following disclosures should be presented in either of these situations for each enterprise fund:

- Type of goods or services provided by the segment
- Condensed statement of net position
- Condensed statement of revenues, expenses, and changes in net position
- Condensed statement of cash flows

Related Party Transactions. The 2015-2016 *Codification*, Section 2250, Additional Financial Reporting Considerations, requires certain disclosures of related party transactions. These related party disclosures include the nature of the relationship involved, a description of the transactions, the dollar amount of transactions and the amounts due to or from related party. When the report preparer believes a related party transaction exists, the relationship between the reporting entity and the related party first should be evaluated using the criteria of the 2015-2016 *Codification*, Section 2100 Defining the Financial Reporting Entity, to ensure that the related party is not to be included as part of the reporting entity. Normally, Georgia LUAs do not have related party transactions.

Contingent Liabilities. The 2015-2016 *Codification*, Section C50.155, describes the probability classifications for loss contingencies. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset, or the incurrence of a liability, can range from probable to remote. The 2015-2016 *Codification* classifies the ranges as follows:

- Probable - the future event or events are likely to occur.
- Reasonably possible - the chance of the future event or events occurring is more than remote but less than likely.
- Remote - the chance of the future event or events occurring is slight.

According to 2015-2015 *Codification*, Section C50.162, when it is reasonably possible that a contingent liability may result in a loss, this fact should be disclosed in the notes to the financial statements. The disclosure should indicate the nature of the contingency and should give an estimate of the possible loss or range of loss or state that an estimate cannot be made. Generally, pending litigation and the potential loss of grant funds resulting from a pending grant audit are the most common contingencies disclosed.

When the chance of a contingent liability resulting in a loss is only remote, no disclosure is ordinarily necessary.

Joint Ventures. The 2015-2016 *Codification*, Section J50.109, requires the inclusion of the following disclosures within the notes to the financial statements when this information is not displayed on the financial statements.

- A general description of each joint venture that includes:
  - The participants' ongoing financial interest or ongoing financial responsibility.
  - Availability of separate financial statements.

On-behalf Payments. When a government makes payments for fringe benefits or salaries to a third party on behalf of another government's employees, the employer government is required to disclose in the notes to its financial statements the related amounts recognized in its financial statements. In Georgia, the State of Georgia makes payments on behalf of all LUAs to the Teachers' Retirement System of Georgia, and to the Public School Employees' Retirement System for certain retirement payments.

The note should indicate which governments have been making on-behalf payments and the amount of these payments.

Extraordinary Items. GASBS 34 requires LUAs to report extraordinary items, when applicable. GASBS 34, paragraph 55 incorporates the definition of extraordinary items as provided by APB Opinion No. 30 and provides guidance regarding what data need to be reported as extraordinary items. When such events or transactions occur, they should be explained in the notes.

Prior Period Adjustments. GASBS 62 provides general guidance on the proper use of prior period adjustments. Such adjustments, whether resulting from the correction of an error or the implementation of a new authoritative standard, and the effects on the change in net position of prior periods should be explained in the notes. Although sometimes necessary, these should be avoided in the normal course of business, as an internal control weakness may exist.

Subsequent Events. The LUA should disclose any significant events directly affecting it that occurred between the end of the period covered by the financial statements (i.e., the year ended June 30) and the statement issuance date. The two items normally included in this disclosure are  the issuance of debt and the settlement of material litigation.

Other Employee Benefits.  LUAs often disclose details of various employee benefits other than pension plans.

Postretirement Benefits. The 2015-2016 *Codification*, Section P50 requires LUAs covering their employees' postretirement benefits to disclose:

- Plan description.
  - Name of plan, identification of the PERS or other entity that administers the plan, and identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan.
  - Brief description of the types of benefits and the authority under which benefit provisions are established or amended.
  - Whether the OPEN plan issues a stand-alone financial report or is included in the report of the PERS or another entity, and, if so, how to obtain the report.
- Funding Policy.
  - Authority under which those who contribute to the plan are established or may be amended.
  - Required contribution rate of plan members. This rate could be expressed as an amount per member or a percentage of covered payroll.
  - Required contribution rate of the employer, in dollars or as a percentage of current-year covered payroll, and, if applicable, legal or contractual maximum contribution rates.

In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date and the nature of the actuarial valuation process and significant methods and assumptions used. Also, additional note disclosures for cost sharing multiple-employer plans include identification of the way that the contractually required contribution rate is determined.

As discussed earlier, the SSAP should include the accounting policy for compensated absences, consistent with the 2015-2016 *Codification*, Section C60 Compensated Absences. However, a detailed disclosure could be presented that explains how employees earn benefits and when they are paid. Optionally, this additional information could be joined with the accounting policy disclosure in the SSAP.

Tax Abatements. GASBS 77 (effective for financial statements for periods beginning after December 15, 2015) requires LUAs to disclose in the notes to their financial statements certain information related to tax abatement agreements. This information includes:

- Descriptive information to include
  - Names and purposes of tax abatement programs
  - Specific taxes being abated
  - Authority under which tax abatement agreements are entered into
  - Criteria that make a recipient eligible to receive a tax abatement
  - Mechanism through which taxes are being abated
- The gross dollar amount of taxes abated during the period
- Commitments made, other than to abate taxes, as part of a tax abatement agreement.

LUAs should organize these disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

There are additional disclosures for tax abatements entered into by other governments that also affect LUAs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. For those tax abatement agreements, the disclosures should include:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

LEAs generally cannot enter into their own tax abatement agreements, but are affected by the agreements entered into by other governments. For tax abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenues, the following information should be disclosed in the notes to the financial statements by the reporting government:

1. A brief description of the abatements, including the names of the governments entering into the tax abatement agreement and the specific taxes being abated;
2. The gross dollar amount, on an accrual basis, by which the reporting government's tax revenues were reduced during the reporting period as a result of tax abatement agreements;
3. If amounts are received or are receivable from other governments in association with the abated tax revenue, disclosure is required that includes the names of the governments, the authority under with the amounts were or will be paid, and the dollar amount received or receivable from the other governments;
4. If the tax abatement agreements are disclosed individually, a brief description of the quantitative threshold the reporting government used to determine which agreements to disclose individually; and

5. If the government omits specific information required by GASB 77 because the information is legally prohibited from being disclosed, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

Below is an example of a general note disclosure of abatements by other governments:
The school district property tax revenues were reduced by $8,346,000 under agreements entered into by the County of Sample. Under the County's annual budget for fiscal year 20X16-20X7, the county reimburses the school district for one-third of the reduction in tax revenues. The school district received $2,449,000 in fiscal year 20X7.
*Regional Economic Development Corporation (REDC) Tax Abatements*
Under agreements entered into by REDC, the school district's property tax revenues were reduced by $1,657,000.

The school district should consider when to disclose an abatement agreement individually versus in the aggregate. GASB 77 states the determination of the quantitative threshold is a matter of professional judgment that could, for example, be a percentage of the total amount of taxes abated or a specific dollar amount. GASB 77 requires a brief description of each quantitative threshold that the reporting government used in determining if an individual agreement should be disclosed separately. The Georgia Department of Education's Financial Review Division recommends that a school district set a quantitative threshold within the financial statement preparation procedures to document consistency in applying the analysis from year to year. The reason a threshold and a description of that determination is required is to establish a consistent application so the annual financial reports are comparable from year to year. GASB 77 does not set a recommended threshold, however, most examples establish a threshold of 10% of total taxes abated. See the example below:

> The County enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the County.
> For the fiscal year ended June 30, 20X7, the County abated property taxes levied on October 1, 20X6 and due on December 1, 20X6 totaling $458,000. Included in that amount abated, the following are individual tax abatement agreements that each exceeded 10 percent of the total amount abated:
>
> - A 30 percent property tax abatement to a manufacturing plant relocating and increasing employment. The abatement amounted to $157,480.
> - A 100 percent property tax abatement to a timber company employing residents. The company provides a payment in lieu of taxes of $120,000. The abatement amounted to $240,000.

The Financial Review Division recommends that all abatement agreements that total 10% or more of the total taxes abated are disclosed individually. However, each LEA must determine the appropriate threshold for their school district, considering the number of agreements and amount of property tax revenue abated. If an LEA determines that a threshold other than the 10% of total taxes abated is more appropriate for their district, the LEA needs to maintain documentation of the establishment of that threshold in the financial statement preparation procedures. It is imperative that a threshold is established and maintained for comparative purposes among fiscal years. It is not appropriate to adjust the threshold annually to limit the amount of individual disclosures.

It is important to note that disclosing an abatement agreement individually does not require disclosure of the actual company. The individual disclosure is still reported in general terminology.

Another important requirement to keep in mind is the requirement to disclose the gross amount of taxes abated in accrual basis. To meet this requirement, the district will have to determine the total amount abated on the levy date. The note disclosure will report the total amount of taxes abated, because the full amount would have been reported as revenue on the full accrual basis of accounting. For example, if the levy date is October 1, 2016, and the due date of the taxes is December 1, 2016, at June 30, 2017, the LEA will report the total amount of taxes abated that were not received as of December 31, 2016.

If there are other types of abated taxes other than property taxes, the LEA will have to determine the appropriate disclosure based on due date of the taxes.

The Government Finance Officers Association published a Best Practice paper on Tax Abatement Transparency, which can be found at the link below:
http://www.gfoa.org/tax-abatement-transparency

The recommendations include developing relationships with the economic development authorities and other governments within the jurisdiction that are charged with initiating, developing, and affirming tax abatements to ensure the proper disclosure of information. The LUA should also develop a timeline in coordination with the other entities to ensure all necessary information is provided in a manner as to not delay the issuance of the LUA's financial reports.

## REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

Governments are required to compare actual results (using the budgetary basis of accounting) with the original budget and the final amended budget for the general fund and each individual major special revenue fund. (GAAP specifically permit the budgetary comparison to be included as one of the basic financial statements for governmental funds rather than presented as RSI.)

A budgetary comparison must be presented for the general fund and for each major individual special revenue fund for which an annual budget is legally adopted. The budget presentation will be presented as "required supplementary information" (RSI) rather than as a basic statement, although GASB permits the latter. Since it is RSI, the title should include "schedule" instead of "statement".

In keeping with DOAA's guidance, generally there will be one presentation – the general fund that includes the LUA's special revenue funds.

When the budgetary comparison is presented as part of the basic governmental fund financial statements, it is properly referred to as a *statement,* while the term *schedule* describes this same information when it is presented as RSI. Otherwise, the requirements regarding form and content are identical, whether the budgetary comparison is presented as a basic financial statement or as RSI.

At a minimum, the budgetary comparison must include the following:

> *Original budget.* GAAP define the *original budget* as "the first complete appropriated budget." Amounts automatically carried over from one budget to the next—such as encumbrances that are committed or asssigned—should be included as part of this original budget.
>
> *Final amended budget.* The final amended budget should reflect the ultimate appropriation authority for the period.
>
> *Actual amounts.* Because a goal of the budgetary comparison is to demonstrate legal compliance, the actual amounts of revenues and expenditures reported on that comparison should be presented using the same budgetary basis of accounting used to present both the original and the final amended budget, *even when the budgetary basis of accounting differs from GAAP.* The schedule should be reconciled to the GAAP information.

## REQUIRED SUPPLEMENTARY INFORMATION – PENSION FUNDING

GAAP require governments to provide certain information on pension funding, presented as RSI, if the governments: sponsor single-employer defined benefit pension plans, participate in agent multiple-employer defined benefit pension plans, or include a defined benefit pension trust fund in their financial reporting entity. The schedule of net pension liability compares over time the total pension liability with the plan's net position, and the net pension liability. The schedule of employer contributions compares over time the employers' actuarially determined annual required contribution with actual contributions. GASB Statement 68 now requires additional disclosures as required supplementary information that will affect most Georgia LUAs. These additional disclosures include 10-year schedules containing:

- The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

- Information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios, including the contributions as a percentage of covered-employee payroll.

GAAP have established the basic financial statements and RSI as the minimum standard for financial reporting.  Governments are expressly encouraged to go beyond these minimum requirements and to present a comprehensive annual financial report (CAFR).

A CAFR has three major sections:

- Introductory
- Financial
- Statistical

## Introductory Section

The introductory section (and related front matter) is the first section of a CAFR. It is intended to familiarize the reader with the organizational structure of the LUA, the nature and scope of the services it provides, and a summary of an LUA's financial activities and the factors that influence these activities. Some of the introductory section material is subjective in nature in contrast to the relatively objective information reported in the financial and statistical sections. The introductory section also includes future-oriented predictive information such as economic forecasts and discussions of future initiatives. Because of the subjective and predictive nature of the introductory section material, ordinarily it is excluded from the scope of the independent auditor's examination.

This section includes the following:

- Report cover and title page.
- Table of contents - The report should have a single table that lists the various statements and schedules included in the CAFR, broken down by location in the introductory, financial, and statistical sections. In addition, the table of contents also makes it clear that the notes to the financial statements are an integral part of the basic statements.
- Letter of transmittal.

Governments are encouraged to include, in this section, other material deemed appropriate by management. Some examples of other material might include the following:

- A reproduction of the Certificate of Achievement on the prior year's financial statements, if this award was in fact obtained *(even though this is no reflection of the quality of the current  year's report)*;
- A list of the principal officials of the government (no prescribed format);
- An organizational chart of the government showing the assignment of responsibilities of personnel (no prescribed format).

What follows are some technical points on each of the components:

### Report cover

- The cover should contain the title "Comprehensive Annual Financial Report."
- The cover should indicate the name of the government and state in which it is located.
- The cover should indicate the period covered-- the month, day and year of the government's fiscal year end ("Fiscal Year Ended June 30, 20XX).

Title page

- The title should include the wording "Comprehensive Annual Financial Report";
- The name of the government and fiscal year end should be indicated; and
- The individual or department responsible for preparing the CAFR should be indicated.

Table of contents

- Normally the introductory and financial sections should be presented as the first and second sections, respectively, of the comprehensive annual financial report.
- There should be only one table of contents.
- The table of contents should clearly be segregated into three distinct and separate sections labeled: introductory, financial and statistical.
- The table should focus the reader's attention on the basic statements and clearly distinguish them from other financial section contents.
- The table should describe the statements, schedules, and tables by their full titles.
- The table should include page number references for each item in the CAFR.

Letter of transmittal

- The letter should be included in the introductory section.
- The letter should be presented on the letterhead stationery of the government.
- The letter should be dated on or after the date of the auditor's report.
- The letter should be signed, at a minimum, by the chief financial officer.
- The letter's contents should include, at a minimum, discussions of the following topics:
    - Formal transmittal, including such topics as:
        a) Management's responsibility for financial information;
        b) Management's explanation regarding the establishment of a comprehensive system of internal control;
        c) Refer readers to the Independent auditor's report and mention the type of opinion received;
        d) Refer the reader to the Management's Discussion and Analysis (MD&A)

    - Profile of the school district, including such topics as:
        a) Population or enrollment;
        b) Types and level of services provided;
        c) Structure or governing body;
        d) Component units;
        e) Brief summary of the budget process;

f) Legal level of budgetary control.

- Economic condition and outlook, including such topics as:
  a) Overview of the local economy;
  b) Information regarding major industries affecting the local economy;
  c) Future economic outlook;
  d) Relevant financial policies.

- Other information, including such topics as:
  a) Audits;
  b) Awards;
  c) Acknowledgments.

Each LUA and the needs of its financial report users are unique. Thus, presentations of introductory section materials will vary from LUA to LUA.

## FINANCIAL SECTION

### Audit Reports

The first component of the financial section is the auditor's report. There are four different types of reports an auditor may issue as illustrated in the following table:

| TYPE OF REPORT | WHAT IT MEANS |
|---|---|
| Unmodified Opinion | Good-Statements fairly presented in accordance with GAAP |
| Qualified Opinion (Modified) | Not so good – Minor problems/departures from GAAP |
| Adverse Opinion (Modified) | Bad – Financial statements are not fairly presented in accordance with GAAP |
| Disclaimer of Opinion (Modified) | Worst – Your accounting records are in such poor shape, it is not known whether the statements are or are not fairly presented |

The auditor's opinion is issued on the basic statements and does not extend to either supplementary or RSI (required supplementary information). However, the auditor is required to review the other information and comment on it, if in the auditor's professional judgement, the information does not appear accurate. These comments do not affect the opinion on the basic statements.

### Basic Financial Statements

See Section I for a detailed discussion of the Basic Financial Statements

## COMBINING AND INDIVIDUAL FUND STATEMENTS

The primary government's major governmental and enterprise funds are required to be reported on the face of the fund financial statements. Combining and individual fund statements required in the financial section of the CAFR for the funds of the primary government include:

- Nonmajor governmental funds
  (1) Combining balance sheets
  (2) Combining statements of revenues, expenditures, and changes in fund balances

  Individual fund balance sheets and statements of revenues, expenditures, and changes in fund balances, and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of governmental funds.

- Nonmajor enterprise funds
  (1) Combining statements of net position
  (2) Combining statements of revenues, expenses, and changes in fund net position
  (3) Combining statements of cash flows

  Individual statements of net position; statements of revenues, expenses, and changes in fund net position and of cash flows; and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of proprietary funds.

- Internal service funds
  (1) Combining statements of net position
  (2) Combining statements of revenues, expenses, and changes in fund net position
  (3) Combining statements of cash flows

  Individual statements of net position; statements of revenues, expenses, and changes in fund net position and of cash flows; and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of proprietary funds.

- Fiduciary funds
  (1) A combining statement of fiduciary net position for each category
  (2) A combining statement of changes in fiduciary net position for each category
  (3) A combining statement of changes in assets and liabilities—all agency funds

Total columns of combining statements of nonmajor governmental and enterprise funds and for internal service and fiduciary funds should agree with the appropriate aggregated column in the fund financial statements. Likewise, any interfund and similar elimination should be made apparent from the headings or disclosed in the notes to the financial statements.

## COMPONENT UNITS

The data presented for each component unit in the combining statements generally should be the entity totals derived from the component units' statements of net assets and activities. Presentation of the fund financial statements of the individual component units is not required unless such information is not available in separately issued financial statements of the component unit.

Combining financial statements for nonmajor discretely presented component units should be included in the reporting entity's CAFR using the same methodology as combining (and individual fund) statements of the nonmajor funds of the primary government.

## THE STATISTICAL SECTION[2]

The statistical section contains tables which present comparative data for several periods of time, often ten years or more, or contain data from sources other than the accounting records. Examples of such non-accounting information are assessed valuations and tax rates, economic and population data, and the legal debt margin.

A statistical table differs from a financial statement insofar as the table usually covers more than two fiscal years and may present non-accounting data. In substance the statistical tables reflect social and economic data, financial trends, and the fiscal capacity of the government.

The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

Statistical section information should be presented in five categories[3]:

a. *Financial trends information* is intended to assist users in understanding and assessing how a government's financial position has changed over time. Examples include:

   - Net -position by component, last 10 fiscal years;
   - Changes in netposition, last 10 fiscal years;
   - Fund balances by classification, governmental funds, last 10 fiscal years; and
   - Changes in fund balances, governmental funds, last 10 fiscal years.

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2 Some people argue that the value of the information in the statistical section, when combined with the notes to financial statements, exceeds that which is displayed on the face of the basic statements.
3 Statements of the Governmental Accounting Standards Board No. 44, *Economic Condition Reporting - The Statistical Section -- An Amendment of NCGA Statement*, par. 6.

b. *Revenue capacity information* is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues. Examples include:

- Assessed and actual values of taxable property, last 10 fiscal years;
- Direct and overlapping property tax rates, last 10 fiscal years;
- Principal property taxpayers, current year and nine years ago; and
- Property tax levies and collections, last 10 fiscal years.

The assessed and actual values of taxable property, last 10 fiscal years table should include the ratio of total assessed value to actual value for real and personal property (i.e., 40%). Any property tax exemptions also should be included in this calculation.

The direct and overlapping property tax rates table should indicate clearly that the tax rates are expressed in "mills per $1,000" of assessed valuation. Often the LUA presents its own tax rates in this table. When the LUA's tax rates are presented, the tables should identify that "direct" tax rates have been incorporated. In addition, the LUA rates presented on this table multiplied by the adjusted assessed valuation should equal the total tax levy for the year. Also, when a number of overlapping governments (e.g., cities) have insignificant tax rates, they may be grouped in a single column under the caption "other."

The principal property taxpayers table is intended to indicate the extent to which the LUA is dependent upon a limited number of taxpayers for its operating resources. For Georgia LUAs this table generally presents data on property taxpayers. Both the amount of assessed valuation and percentage of total assessed valuation for each primary taxpayer should be presented.

Only taxes levied for the LUA should be included in property tax levies and collection table. Sometimes this table is presented by tax year rather than fiscal year. In this instance, the period presented (i.e., tax year) should be identified clearly in the table's title. This table usually includes the percentage of current year's taxes collected in the current year, the total and percentage of delinquent taxes collected and the total outstanding delinquent taxes in the years reported. The outstanding delinquent taxes should agree with the presentation in the financial statements and normally are calculated by taking the prior year's outstanding amount plus the current year's levy minus current and delinquent tax collections during the year.

c. *Debt capacity information* is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt. Examples include:

- Ratios of outstanding debt by type, last 10 fiscal years;
- Ratios of net general bonded debt outstanding, last 10 fiscal years;
- Direct and overlapping governmental activities debt as of current year end;
- Legal debt margin, last 10 fiscal years; and
- Pledged revenue coverage, last 10 fiscal years.

The table for ratios of outstanding debt by type should include each type of debt outstanding (i.e. general obligation bonds, capital lease obligations, etc) categorized by governmental and business type activities with a total for the primary government. Total per capita debt by personal income should be presented, as well as a per capita ratio of outstanding debt.

The table for ratio of net general bonded debt to assessed value and net bonded debt per capita includes a calculation of net bonded debt (i.e., gross general obligation debt less amounts available for repayment of the debt in the governmental funds) that should be traceable to the appropriate amounts in the financial statements. In addition, the population used in the debt per capita computation and the assessed value should agree with this same data presented in other tables. Some LUAs present "debt per FTE."

The table for the computation of direct and overlapping debt includes the debt for the LUA as well as any debt from overlapping governments (i.e., counties and cities). The computation is intended to demonstrate the total property tax burden on the taxpayers within the LUA's geographic jurisdiction and the total debt that their property taxes will be expected to repay. A common format includes the columns presenting the LUA's and overlapping jurisdictions' net outstanding debt and the percentage and amount of debt applicable to the LUA. The table should specify consistently either gross debt or net debt. When the LUA has numerous overlapping entities (e.g., cities) with insignificant amounts of debt, they may be grouped as long as the overlapping debt has been computed separately for each unit of government and then totaled for the presentation.

The table for the computation of an LUA's legal debt margin includes its debt limitation less the net amount of debt applicable to the limitation (i.e., gross debt less nonapplicable debt and debt service fund amounts available for debt repayment). In Georgia, this amount is limited to 10% of the assessed value.

d. *Demographic and economic information* is intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments. Examples include:

- Demographic and economic statistics, last 10 calendar years; and
- Principal employers, current year and nine years ago.

At a minimum, LUAs should present the following demographic and economic information: population, total personal income (if it is not presented with the ratios of outstanding debt), *per capita* personal income, and unemployment rate.

For the current year and the period nine years prior, governments should identify the principal employers in its jurisdiction, the number of persons each employs, and the percentage of total employment that each represents. Governments should present the ten largest employers in terms of number of persons employed, unless fewer are needed to reach 50 percent of total employment.

e. *Operating information* is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition. Examples include:

- Full-time equivalent employees by function/program, last 10 fiscal years;
- Operating indicators by function/program, last 10 fiscal years;
- Capital asset statistics by function/program, last 10 fiscal years;
- Per student cost, last 10 years.

For LUAs, the disclosure should include data regarding teachers, enrollments, attendance, and building capacities.

Capital asset statistics should include usage data for capital assets classified by governmental activities and business-type activities and by functional category within activities.

Other data may be included in the statistical section as long as it relates to financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

Award Programs

Both the ASBO and the GFOA present awards to LUAs for excellence in financial reporting. The following discussion provides a brief overview of each of these excellent programs.

Government Finance Officers Association. The Certificate of Achievement for Excellence in Financial Reporting Program (certificate program) was established in 1945 by the GFOA to encourage government units including LUAs to produce and publish excellent CAFRs and to provide educational assistance and well deserved peer recognition to the report preparers. The certificate program is recognized as the highest award in governmental financial reporting.

LUAs choosing to participate in the program submit copies of their CAFRs for review by an impartial Special Review Committee (SRC) of qualified judges. Reports meeting program standards are awarded Certificates of Achievement. The CAFR generally should demonstrate a constructive "spirit of full disclosure" effort to clearly communicate its financial picture, to enhance understanding of the logic underlying the traditional governmental financial reporting model and to address CAFR user needs.

The certificate program is not an accreditation program. Therefore, an LUA can neither "lose" a certificate nor can a certificate be "revoked," "cancelled" or "withdrawn." However, the fact that an LUA has received a Certificate of Achievement in one or more years is not a guarantee that its subsequent reports will be similarly honored.

For more information on this program, go to the following link for requirements and checklists to assist in the preparation of a CAFR.

http://www.gfoa.org/index.php?option=com_content&task=view&id=35&Itemid=58

CONDENSED SUMMARY DATA

In addition to publishing and distributing a CAFR, some LUAs also separately issue their "liftable" GPEFS. These separately issued GPEFS are useful for inclusion in official statements related to bond offerings. They also may be helpful to certain users of the LUA's financial statements who have less need of detailed information. A third option is provided in the 2015-2016 *GASB Codification*, Section 2700.104. This option publishes highly condensed summary financial data , usually as “popular” reports directly primarily to citizens. While condensed summary data are not sufficient to meet the requirements of GAAP, these popular reports can be an invaluable means of conveying financial information to the public and to others unfamiliar with LUA accounting and financial reporting.

Reports presenting condensed summary data therefore are designed to meet a special need not satisfied by the more traditional CAFR or GPEFS presentations. These reports by no means should be considered as eliminating the need for GAAP financial reporting; they supplement, rather than supplant, traditional financial statements. To underscore this point, the 2015-2016 *Codification*, Section 2700.104, states that condensed summary data should be reconcilable with the GAAP financial statements and that the reader of these reports should be referred to the CAFR or basic financial statements.

Popular Report Presentation

Glossy report covers, the use of colored illustrations, and pictures and typesetting are standard in many popular reports. This results in a document the LUA and its citizens can be proud of and may enhance the use of the reports by some groups. Obviously, these popular reports can be provided to potential employers and residents of the LUA's geographic area as a public relations tool.

An emerging trend in the preparation of popular type reports is the use of charts and graphs to portray the financial position and activities of the LUA. Graphs may be used primarily to describe trends and to make comparisons, either between actual and projected data or among different aspects of the reporting entity's activities. Graphics are particularly useful when an LUA issues a very condensed popular report (e.g., four pages) and wishes to briefly highlight financial resources and uses.

## Other Resources

For a checklist to assist in preparing a CAFR for LUAs, go to
http://www.gfoa.org/sites/default/files/GFOASchoolDistrictChecklist.pdf