FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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10/30/91	10/30/91	II	Financial Reporting
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2	October 2016	II-8	Reporting for LUAs with Governmental Fund Deficit Balances

INTRODUCTION

Infrequently, some Georgia local units of administration (LUAs) incur fund balance deficits in their governmental funds. A fund balance deficit occurs when an LUA incurs expenditures in excess of revenues over the life of the fund (i.e., from the time the fund was created). Even though LUAs must adopt balanced budgets (see Chapter IV-2) (which if followed will not create fund balance deficits), some incur fund balance deficits as a result of collecting less revenues than estimated or over-expenditure of the budgeted appropriation. In addition, general fund deficits can be caused by deficits in other funds, particularly in school food service funds or capital projects funds. If overspending in a major construction project (i.e., a capital project fund) occurs, the deficit must be eliminated by an interfund transfer from the general fund.

The seriousness of fund balance deficits cannot be overstated. The Georgia Department of Education (GA DOE) requires those LUAs with deficit governmental fund balances to meet certain reporting requirements. This chapter illustrates these reporting requirements.

BUDGETS

Section 20-2-67 requires that any local school system with a budget deficit reported by its auditor must do the following –

1. Submit to the Georgia Department of Education (DOE) a Deficit Elimination Plan

2. Present to each school board member for review and written acknowledgment a monthly report containing all actual expenditures by budget function for the system during the current month and compare to the year to date budget expenditures. The monthly reporting is required until the next audit report indicates the deficit has been eliminated. The GaDOE Financial Review Division does exercise judgement in

suspending the monthly reporting prior to an issued audit report, depending on the status of the monthly reports and the timing of the audit. This report will be presented at each board meeting. The report must be signed by each board member and retained in the minutes of the board of education. The report shall also be forwarded to DOE monthly until the deficit is eliminated.

3. If the audit reports a significant deficiency (finding) the LUA is required to advertise in the school system's official county organ once a week for two weeks, a statement of actual financial operations in a form to be specified by the state auditor for the purpose of indicating the financial status of the school system not later than September 30 of the year in which the deficit is reported. Prior to publication, this statement must be executed by the local board of education and signed by each member of the board and the local school superintendent.

   See http://www.audits.ga.gov/EAD/SchoolDistrictResources.html, Statement of Actual Financial Operations Form.

4. Provide a copy of the published statement of actual financial operations to DOE, the local county commissioners, and local municipal authority.

5. Maintain a copy of the published statement of actual financial operations on file in the central administrative office of the local school system for public inspection for at least two years from the date of publication. Copies of the statement shall be made available upon request.

If an LUA begins a fiscal year with a deficit the equivalent of a major fraction of a mill (.5 plus mill), the budget for that year must provide for a reduction in the deficit of at least the equivalent of one tax mill. Georgia tax rates are expressed in terms of mills (i.e., One mill equals $1.00 of property taxes for every $1,000 of assessed value). Georgia property is assessed at 40% of market value. The equivalent of one mill is calculated in the following example:

The amount of the cumulative deficit is $30,000.

The amount of assessed valuation is $20,000,000.

The total deficit converted to mills.
($30,000/$20,000,000) = .0015 or 1.5 mills

One mill would equal $20,000,000 x .001 = $20,000.

If an LUA begins the fiscal year with a deficit the equivalent of less than a major fraction of a mill (less than .5 mill), the budget for that year must provide for the elimination of the deficit during the same fiscal year. Any general fund balance deficits incurred are determined by the GA DOE when the adopted budgets are submitted to the GA DOE.

If an LUA is setting the maximum maintenance and operation (M & O) millage levy allowed by law, then that LUA must reduce anticipated expenditures in the budget until the revenue from the maximum levy plus all other revenues will cause the deficit to be reduced or eliminated as outlined above.

This monthly report is required until the LUA has eliminated the deficit for at least one year or until it ends a fiscal year with an operating reserve of at least 10% of the property tax revenues collected during the calendar year. The GaDOE Financial Review Division exercises judgement of continued or suspended monthly reporting, based on the information provided.

These reports are due to the GaDOE Financial Review Section immediately after board approval.

The State Board of Education may request an LUA to attend the State Board Audit Committee meeting to discuss the status of the deficits.

SUMMARY

It is emphasized that the reporting requirements for LUAs with governmental fund deficits are quite stringent. LUAs with deficits must make every effort to eliminate those deficits as quickly as possible. However, most deficits were not created in a single year. Therefore, it may require a number of years to eliminate these deficits. LUAs that do not monitor their deficits and implement budget cuts to eliminate the deficits as quickly as possible could face even more strict reporting requirements, at the discretion of the State Board of Education.