

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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INTRODUCTION

NCGAS 1, as superseded by GASBS No. 54, establishes that the General Fund is to account for and report all financial resources except those required to be accounted for and reported in another fund. Therefore, for most LUAs, the General Fund is the chief operating fund and usually the largest fund with the most activity. The General Fund is the fund that accounts for all of the general operations of the LUA.

In addition, NCGAS 1 further states that there should be a compelling reason to account for transactions in funds other than the General Fund. Those compelling reasons are usually attributable to one of the following:

- *Generally Accepted Accounting Principles (GAAP) Requirements* – GAAP requires the use of an alternative fund.
- *Legal Requirements* – The law requires another fund be used.
- *Financial Administration* – Convenience or control. For example a LUA uses a special revenue fund to track a grant.

NUMBER OF FUNDS

Only One General Fund

For GAAP external financial reporting purposes, LUAs can report only one General fund. Some LUAs maintain more than one General fund for operational purposes. For example, an LUA may determine it is more efficient to account for a particular activity in a separate fund. However, if the purpose of the fund is not required by GAAP or legal requirements to be separate, the account should be rolled into the General Fund for reporting purposes to the Georgia Department of Education (GaDOE) as a single, consolidated fund.

BUDGETARY ISSUES

The General Fund is where the recurring operating costs of the school are recorded. Care should be taken in budgeting according to the resources expected to be collected. Operating deficits (expenditures and other financing uses exceed revenues and other financing sources) must be covered by temporary borrowings or spending of the fund balance. Keep in mind the fund balance is like a savings account. Once it is spent, the resource is no longer available. It is best to use the fund balance for expenditures considered one-time such as capital expenditures.

During the fiscal year, revenues collected should be monitored to determine if expenditures will require reduction in order to maintain a balanced budget. The expectation of school districts is that the General Fund account will maintain a fund balance of roughly 5 – 10% of budgeted expenditures. This does not include the federal grant programs, or any other programs that place additional restrictions on spending which require the funds to be expended within a set time period for the revenue to be received.

ACCOUNTING

Fund Reporting Level

Basis of Accounting and Measurement Focus

At the fund reporting level, LUAs account for the General fund using the modified accrual basis of accounting and current financial resources measurement focus. Chapter I - 7 explains these concepts.

Fund Balance

Governmental funds report up to five different components of fund balance designed to indicate both the constraints on how resources of the fund can be spent and the sources of those constraints. These five components include:

- *Nonspendable fund balance.* Amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. Examples include inventories, prepaid amounts, long-term receivables, or the principal of a permanent fund;
- *Restricted fund balance.* Amounts that are constrained by external parties (creditors, grantors, laws/regulations of other governments), or by constitutional provision, or enabling legislation for a specific purpose. Examples include amounts that can be spent only for specific purposes pursuant to a state law, grant agreement or donor agreement; and the resources that will be used to liquidate encumbrances from a restricted source, such as a grant.

- *Committed fund balance.* Amounts that are constrained for specific purposes imposed by formal action of the LUA's highest level of decision making authority, such as amounts set aside for new playground equipment;
- *Assigned fund balance.* Amounts that are constrained by the government's intent to be used for a specific purpose, where intent is expressed by: (1) the governing body itself or (2) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. An example could be an amount set aside by management to fund a projected budgetary deficit in a subsequent year's budget; and
- *Unassigned fund balance.* The residual classification for LUA's General Fund. Note that the General Fund is the only fund that can report a positive unassigned fund balance.

Government-wide Reporting Level

At the government-wide financial statement reporting level, the General Fund is reported as Governmental Activities. The government-wide statements use the accrual basis of accounting and economic resources measurement focus.

Temporary and Fiscal Year End Deficits

Sometimes, the general fund will report a temporary deficit. This is common during the beginning of the school year, because property tax revenue is not generated until property taxes are levied and due. This process generally occurs in the Fall with property taxes becoming due in December. To meet the cash needs prior to the receipt of property taxes, an LUA can issue a tax anticipation note. This temporary loan is required to be repaid by December 31st of each calendar year. Tax Anticipation Notes are further discussed in Chapter IV - 5 of the handbook.

Fiscal Year End Deficits of the General Operating fund are discussed in further detail in Chapter II - 8 of the handbook. Per O.C.G.A. §20-2-67, an LUA cannot operate in a deficit unless certain reporting requirements are followed. The LUA is required to submit a board-approved Deficit Elimination Plan and monthly reporting until the deficit is eliminated. Because state appropriations and local tax revenue sources are meant to fund the educational experience of students enrolled at the LUA during the current period, a deficit that must be eliminated has to use those resources to "pay back" expenditures previously incurred. Deficits affect future fiscal years and students.

ILLUSTRATIVE JOURNAL ENTRIES' AT THE FUND REPORTING LEVEL

The following discussion and journal entries illustrate the more common General Fund transactions under the modified accrual basis of accounting.

Transaction - a LUA levies \$1,595,000 of property taxes during the current fiscal year to

provide resources for the current year's budget. Payment of the taxes is due before calendar year-end.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Taxes receivable	0121	\$1,595,000	
Ad Valorem Taxes	0481		\$1,595,000

Explanation - The LUA recognizes the entire amount as revenue since it is considered available to meet current obligations.

Transaction - the LUA collects \$1,585,000 of the current year's tax levy before year-end.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$1,585,000	
Taxes receivable	0121		\$1,585,000

Explanation: Since the LUA has recognized all the above collection as revenue, the collection of the receivable is the only required recording.

Transaction - previously purchased investments mature and proceeds of \$1,557,000 that includes \$62,000 of interest, is received.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$1,557,000	
Investments	0111		\$1,495,000
Investment Income	1500		62,000

Explanation: The cost of the investment is credited and the interest is recorded as revenue.

Transaction - the LUA invests \$1,500,000 of the property tax revenues.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Investments	0111	\$1,500,000	
Cash in bank	0101		\$1,500,000

Explanation: This transaction is a simple balance sheet transaction.

SUMMARY

1. General Fund is to account for and report all financial resources except those required to be accounted for and reported in another fund.
2. The General Fund is where the recurring operating costs of the school are recorded. Care should be taken in budgeting according to the resources expected to be collected.
3. At the fund reporting level, LUAs account for the General fund using the modified accrual basis of accounting and current financial resources measurement focus.
4. The five components of fund balance include: nonspendable, restricted, committed, assigned, and unassigned.
5. At the government-wide financial statement reporting level, the General Fund is reported as Governmental Activities. The government-wide statements use the accrual basis of accounting and economic resources measurement focus.
6. Sometimes, the general fund will report a temporary deficit. This is common during the beginning of the school year, because property tax revenue is not generated until property taxes are levied and due. To meet the cash needs prior to the receipt of property taxes, an LUA can issue a tax anticipation note. This temporary loan is required to be repaid by December 31st of each calendar year.