

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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NATURE AND PURPOSE

GAAP contain standards for two types of external reports a government may issue at the completion of its financial cycle.¹ A government may issue a Comprehensive Annual Financial Report (CAFR), or it can issue only the basic financial requirements of GASBS 34,² and some governments will elect to issue both or some combination of the two.

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.

The biggest change in the financial statements required by Statement 34 is for governments to issue government-wide financial statements in addition to the traditional funds based statements. Prior to GASBS 34 governments only issued fund based statements.

BASIC FINANCIAL STATEMENTS vs. 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

¹ Most government’s financial cycle is a fiscal year or a calendar year.

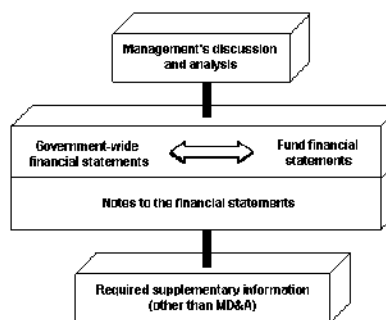
² Common usage is to refer to this as General Purpose External Financial Statements (GPEFS)

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 currently known facts, decisions, or conditions. 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 GASGS 37 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 liabilities, distinguishing between long-term liabilities and other liabilities
- (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
- (4) Program revenues, by major source
- (5) General revenues, by major source
- (6) Total revenues
- (7) Program expenses, at a minimum by function
- (8) Total expenses
- (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
- (10) Contributions
- (11) Special and extraordinary items
- (12) Transfers
- (13) Change in net assets
- (14) Ending net assets

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 assets 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:³
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 (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Governments are prohibited from introducing additional information into the MD&A other than that which is specifically provided for in GASBS 34. 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 assets 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 <https://www.audits.state.ga.us/internet/ead/schooldistrictlinks.html> and http://www.gadoe.org/fbo_financial.aspx?PageReq=FBOFinPrepareFin for templates used in preparing the school district's government-wide financial statements.

Government-Wide Statement of Net Assets

³ Georgia doesn't use the modified approach for infrastructure accounting

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

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

- $\text{assets} - \text{liabilities} = \text{net assets}$ (net assets approach)
- $\text{assets} = \text{liabilities} + \text{net assets}$ (balance sheet approach)

In either case, the presentation is referred to as the *statement of net assets* (rather than *balance sheet*), and the difference between assets and liabilities is referred to as *net assets* (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 assets 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 assets. 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 assets. 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 Assets - The difference between assets and liabilities in the government-wide statement of net assets must be labeled as *net assets*. GAAP further require that net assets be subdivided into three categories:

- Invested in capital assets, net of related debt
- Restricted net assets; and
- Unrestricted net assets.

Net Assets Invested In Capital Assets, Net Of Related Debt. Because the government-wide statement of net assets 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	<u>(XXXX)</u>
Net assets invested in capital assets, net of related debt	<u>\$XXXX</u>

However there may be additional adjustments to the net assets amount, “invested in capital assets net of related debt.” The outstanding principal of capital-related debt 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 deferrals, (e.g., bond premiums, bond discounts) they also are included in this calculation.

Restricted Net Assets. Restrictions may be imposed on a portion of an LUA’s net assets 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. An amount equal to these restricted assets, less any related liabilities, is reported as *restricted net assets*.

GAAP infer that the unspent proceeds of capital debt should be reported as restricted net assets rather than as part of net assets invested in capital assets, net of related debt. 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 assets may not be restricted for an amount that is not included in net assets.

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 Assets. GAAP direct that the difference between total net assets and the two categories just discussed (i.e., invested in capital assets, net of related debt and restricted net assets) be reported as *unrestricted net assets*. This amount may result in a deficit to the extent that an LUA has elected to fund certain liabilities (e.g., the July and August teachers’ salaries) as they come due rather than in the year they are incurred.

Government-wide Statement of Activities

The government-wide statement of activities is used to report changes in net assets on the government-wide statement of net assets.

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 assets 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) provides revenue to every LUA in Georgia. As Chapter 24 indicates, the LUA earns the QBE based upon the amount of full time equivalent students in each QBE 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 GA DOE 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.

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 net assets. 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 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 and 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 <https://www.audits.state.ga.us/internet/ead/schooldistrictlinks.html> and http://www.gadoe.org/fbo_financial.aspx?PageReq=FBOFinPrepareFin 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.

Excluded Assets. Governmental funds focus on *current financial resources*. 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 assets either based on their relative order of liquidity or classified as *current* and *long-term*. Because governmental funds focus exclusively on *current* financial resources, no similar authoritative guidance is provided for the governmental fund balance sheet. 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 balance*. Fund balance is divided into *reserved* and *unreserved* components, with *unreserved* representing amounts considered available for new spending. Common examples of reserved fund balance include the following:

- *Reserved for bus replacement.* Current financial resources are not considered available for general spending if they are legally restricted to bus purchases.
- *Reserved for inventories and prepaids.* Inventories (e.g., USDA commodities) and prepaids (e.g., prepaid insurance) are reported as assets in governmental funds whenever the consumption approach is used.

These inventories and prepaids are quite similar to assets subject to legal restrictions in the sense that their use is narrower than the purpose of the governmental fund in which they are reported. Accordingly, in practice, governments typically report reserved fund balance for material balances of inventories and prepaids reported in governmental funds using the consumption method. If the purchases method for inventories is used, an inventory asset and an increase in fund balance are reported if the amount of the inventories is material. The affected fund balance would be reported as reserved.

- *Reserved for encumbrances.* Often, LUAs enter into contracts and purchase orders that will be fulfilled in a subsequent fiscal year. For example, an LUA may issue purchase orders in this year for items to be used in the subsequent year. Although the contract or purchase order creates a legal commitment, the LUA incurs no *liability* until the vendor provides the requested goods and services. When an LUA intends to honor outstanding commitments in subsequent periods, such amounts are *encumbered* and a related amount for fund balance should be reserved.

The financial statements or the accompanying notes should provide “sufficient detail to disclose the purposes of the reservations (for example, “reserved for debt service” or “reserved for encumbrances.”)

Unreserved fund balance may be divided into *designated* and *undesignated* portions. Designations represent management’s intended use of resources and should reflect actual plans approved by the LUA’s senior management. Designations reflect a government’s self-imposed limitation on the use of otherwise available current financial resources. An LUA may not report designations in excess of available resources (that is, unreserved fund balance) causing a fund balance deficit.

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 fund*. 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 criterion.* An individual governmental fund reports at least 10 percent of *any* of the following:

- total governmental fund assets
- total governmental fund liabilities
- total governmental fund revenues
- total governmental fund expenditures

• *Five percent criterion.* 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 *unreserved* fund balance attributable to each fund type represented within that column.

LUAs also may take this same approach for classifying the unreserved fund balance of their major funds, although the presentation of unreserved 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.

Conversely, the government-wide financial statements do not report a liability for deferred revenue in connection with amounts that are not yet considered available for appropriation (e.g., for property taxes). 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 assets. 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 assets 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 assets (balance sheet);
- Statement of revenues, expenses, and changes in fund net assets/equity;
- Statement of cash flows.

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

Proprietary Fund Statement of Net Assets

The statement of net assets (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 assets format or a balance sheet format.

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

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

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 assets, 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 assets.

Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets. The proprietary fund statement of revenues, expenses, and changes in fund net assets (equity) 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 assets (equity), 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 equivalents*. *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 *net*. 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 assets (equity)). 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 Assets (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 assets (required for all fiduciary funds)
- Statement of changes in fiduciary net assets (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 Assets

The statement of fiduciary net assets is the basic statement of position for the fiduciary funds. If the statement includes only agency funds, it should be captioned a “Statement of Fiduciary Assets and Liabilities.”

Format. The fiduciary fund statement of position must employ the net assets format.

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 Net Assets. 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, net of related debt; 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 Assets

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 *deductions*.

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

Notes to the Financial Statements

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 2009 *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 2009 *GASB 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.

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 <https://www.audits.state.ga.us/ead/schooldistrictlinks.html> for required note disclosures templates, under Audit Resources.

Required Budgetary Comparison Presentation

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 is subject to automatic re-appropriation—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.

Other Resources

See <https://www.audits.state.ga.us/internet/ead/schooldistrictlinks.html> for a review checklist to use in reviewing your financial statements.

Note -

Portions of the text can be found in the Intermediate Government Accounting text published by the Carl Vinson Institute of Government.