

# **FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION**

<b>Date Issued</b>	<b>Effective Date</b>	<b>Section</b>	<b>Title</b>
<b>August 2008</b>	<b>Fiscal Year 2008</b>	<b>II</b>	<b>Financial Reporting</b>
<b>Revision No.</b>	<b>Date Revised</b>	<b>Chapter</b>	<b>Title:</b>
<b>New</b>	<b>N/A</b>	<b>23B</b>	<b>Closing the Fiscal Year</b>

## **NATURE AND PURPOSE**

Georgia Code Section 20-2-167 requires Local Units of Administration (LUA) to report annual financial operating data and to submit approved annual budgets to the Georgia Department of Education (GA DOE). The GA DOE provides electronic filing for LUA submission of its annual financial data and its annual approved budget.

The data presented in the data transmission must be reconciled to the LUA's accounting records. See explanation of the report in Chapter 23A. It is recommended that a preliminary financial report be produced prior to final closing of the records. When this preliminary report has been prepared, any errors discovered must be corrected in the accounting records. Appendix E-3 contains a sample financial report created for the data transmission. This chapter explains the process to review the financial data prior to transmission.

### Review of Balance Sheet - General

Review Balance Sheet accounts fund by fund to verify that accounts with negative balances should be reported as negatives and take appropriate action to correct errors. Example: Accounts Payable 0421 has a normal credit balance and should not report a negative or debit balance. A payable in the 047X range could report a negative balance if a payroll withholding vendor has been overpaid.

Verify that Assets equal Liabilities plus Fund Equity for each fund.

## Review of Current Assets

**Cash (0101)** - Reconcile cash as of 06/30/XX. The balance in general ledger account 0101 for a fund includes cash in all banks for that fund. The fiscal year should not be closed with cash out of balance. Verify that any existing negative cash balances in Cash 0101 for all funds are valid. Verify that an Interfund Accounts Receivable (0132) and/or investment is recorded in a fund with a negative cash balance. If not, this may be interpreted as an accounting error or a failure to accrue revenue and/or transfer funds from another fund prior to closing with the exception of School Nutrition.

Review outstanding check lists. If checks are outstanding more than six months, review to determine appropriate action. Refer to [www.etax.dor.ga.us](http://www.etax.dor.ga.us) for rules regarding unclaimed property for checks that do not clear.

**Investments (0111)** - Redeem Investments that will mature as of 06/30/XX. Accrue interest earned as of 06/30/XX on investments that will mature during next fiscal year if it is considered available. Use Balance Sheet Account 0114 - Interest Receivable and revenue source code 1500.

Verify that available investment reports are in balance with GL Balance Sheet Account 0111-Investments fund by fund. Money Market accounts (with maturities less than three months) and Georgia Fund 1 accounts should be included in GL Investments -0111.

**Interfund Accounts** -Verify that Interfund Loans Receivable 0131 is in balance with Interfund Loans Payable 0401, Interfund Accounts Receivable 0132 is in balance with Interfund Accounts Payable 0402, and Advances to Other Funds 0133 is in balance with and Advances from Other Funds 0403 in total for all funds. These Balance Sheet accounts are used when one fund loans another fund money that will be repaid. Refer to the chart of accounts for guidance regarding which account to use. Do not use for Debt Service activity in the Fund 2XX series.

Process applicable reports to verify that Transfers Out (Expenditure Account 5000-930) balance with Transfers In (Revenue 5200) in Total for All Funds. If one fund reports a Transfer Out then another fund should report a Transfer In. This is a reporting error that should be cleared. Errors may be corrected via journal entry.

**Taxes Receivable (0121)** - Enter a receivable in Fund 100 and Fund 200 for amount of estimated July and August ad valorem tax revenue. Use Balance Sheet Account 0121-Taxes Receivable and 1110 Ad Valorem Taxes for this transaction.

Examine SPLOST funds received to date. Any funds that have been collected but not received should be recognized and estimated as Taxes Receivable 0121 and SPLOST Revenue 1130. These funds are considered measurable and available as current resources to pay current expenditures. Any reasonable method can be used to estimate these amounts, i.e. last year's collections or last year's collection with a growth factor.

**Intergovernmental Accounts Receivable (0141)** - Verify that all accruals from the previous fiscal year have been reversed. Typically grant funds are disbursed on a reimbursement basis. This means the school district must incur eligible expenditures under the terms of the grant agreement before they are allowed to request reimbursement. Revenue is always recognized to the extent that eligible expenditures have been incurred and funds are available under the grant agreement.

Most Special Revenue Funds (individual grants) will maintain a zero fund balance, i.e. revenues will equal expenditures. If the district has expended more than received, an Intergovernmental Accounts Receivable should be recorded and credit revenue to bring fund balance back to zero if grant funds are available. If the district has spent more than the grant award and a receivable cannot set up to bring the fund balance to zero, a transfer from the General Fund will be necessary.

QBE revenue accruals for July and August should be entered using QBE 017 report for the current year. This report is not available until the latter part of June. Prior year QBE revenue accruals should be adjusted if outstanding as of 06/30/XX. Use QBE017-Accrual System Allotment Sheet report for prior year to reverse and access report from that menu.

Adjust accounts receivable to accrue federal program revenues for Summer Salaries.

For construction projects funded by the State, a receivable should be recorded for the June invoice and possibly the May invoice if reimbursements have not been received.

**Accounts Receivable (0153)** - Verify that the accounts receivable detailed reports are in balance with Accounts Receivable 0153 account by fund as of 06/30/XX.

**School Food Nutrition Purchased Food Inventory (0171)** - Verify account reports an accurate balance that is not "negative". If necessary, adjustments should be made.

**School Food Nutrition Inventory - U.S. Department Of Agriculture (USDA) Commodities (0173)**- Verify account reports an accurate balance that is not "negative". If necessary, adjustments should be made.

#### Review of Current Liabilities

**Intergovernmental Accounts Payable (0411)** – Verify that all accruals from the previous fiscal year have been reversed. If the district has drawn down more money than it has expended and the grant requires expenditure by June 30th, the district should enter an adjustment to an Intergovernmental Accounts Payable and debit the grant revenue account.

Process applicable reports for categorical grants to verify that funds are fully expended as of 06/30/XX. Any unexpended amounts have to be refunded to Department of Education upon request with exception of Bus Replacement funds.

**Accounts Payable (0421)** - Verify that accounts payable reports (List of Open Payables, etc.) are in balance with control accounts by fund as of 06/30/XX. Accrue liabilities for any goods or services received prior to or on June 30. Enter all invoices that are dated prior to or on 06/30/XX. This will record the expenditure in the current year, which can be paid on 06/30/XX or in the next fiscal year.

**Salaries and Benefits Payable (0422)** - Enter any salary/benefit accruals where services were performed but salaries were not paid as of 06/30/XX. These are separate from the QBE summer salary accruals.

Accrual for QBE summer salaries is required. This should include Bus Drivers, Eleven Month employees, etc. See Appendix I for accrual instructions. Debit the appropriate expenditure accounts and credit account 0422. If the accrual from the previous fiscal year is still recorded in account 0422, reverse this amount by debiting account 0422 and crediting associated expenditure accounts prior to posting the current year's entry.

Accrue summer salary and benefits for federal programs including school nutrition programs.

**Deferred Revenue (0481)** - If a grant allows expenditures subsequent to June 30 and the district has received more grant revenue than spent, the difference should be reclassified as a credit to Deferred Revenue 0481 and a debit to revenue.

#### Review of Fund Balance Accounts

**Reserved Fund Balance (0751-0780)** - If any fund balance reserve account shows a "negative" balance, a journal entry should be posted to close this into 0799 (governmental funds) or 0740 (Proprietary and Fiduciary Funds) as applicable. Credit the 07XX Fund Balance Reserve and debit 0799 or 0740. If Account 0755-Bus Replacement Reserve has a negative balance, debit 100-0799 and credit 0755 to clear balance.

Review the balance in Account 0002-Adjustments to Fund Balance on the financial report for each fund. Excessively large amounts reported here may indicate there are accounting errors that need to be corrected before closing the fiscal year.

#### Review of Revenues

##### **General Review**

1. Confirm that revenues are posted in the correct fund.
2. Review items to ensure they are in the correct revenue source.
3. Confirm that revenues reported are reasonable.
4. Verify that the only negative revenue amounts are reported except for source 3124 QBE Contra Account - Austerity Reduction and , 3140, Local Fair Share.

**Local Revenue (Accounts 1000)**

1. Confirm any appropriation from a city or county is reported in account 1170.
2. Verify that federal indirect cost revenue is reported in the general fund in account 1990 and that it agrees with total federal indirect costs recorded in account 2300-880 for all funds.
3. Confirm that Food Service daily sales are reported in accounts 1611-1623 in fund 600.

**State Revenue (Accounts 3000)**

1. Account 3120 (Budget Report) should agree with "Total QBE Formula Earnings" on latest allotment sheet. Account 3120 (Financial Report) should agree with "Total QBE Formula Earnings" plus Mid-Term Adjustment on latest allotment sheet.
2. Account 3124 (QBE Contra Account - Austerity Reduction) should be reported as a negative amount (i.e. debit).
3. Account 3125 (Financial Report) should agree with the total of all categorical grants listed on the latest allotment sheet except Mid-Term Adjustment.
4. Account 3200 should agree with "Educational Equalization Funding Grant" amount on the latest allotment sheet.
5. Account 3140 (QBE Contra Account -- Local Fair Share) should be reported as a negative amount (i.e., a debit) and should agree with total Local Fair Share shown on the latest allotment sheet.
6. Substantiate that state revenue does not appear in federal funds 470, 480 or 490.
7. School food service state revenue should be reported in account 3510.
8. Capital projects revenue from the state, regardless of the source, should be reported in account 3600.

**Federal Revenue (Accounts 4000)**

1. Funds 470, 480 and 490 should have federal revenues reported in account 4520.
2. School food service should have federal revenues recorded in accounts 4510/4511.

**Other Sources (Accounts 5000)**

1. Total incoming transfers (account 5200) must agree with total transfers to other funds (account 5000-930).
2. Account 5995 normally is used as a clearing account and should have no balance reported at year-end.

## Review of Expenditures

### **General Review**

Scan expenditures reported in the Financial Report for the following:

1. Items reported in the incorrect fund.
2. Items reported in the incorrect function and/or object.
3. Reasonableness of amounts.
4. No negative expenditure amounts exist.

### **Review by Accounts**

1. Verify that Employee Benefits are reported in Objects 210, 220, 230, etc. for all functions according to the State Chart of Accounts. Employees' benefits should be reported in the same functions as their salaries are reported.
2. Review expenditures to verify that no expenditure account reports a large negative balance. An account may report a negative balance as a result of a difference between the amounts accrued and actually paid for the prior year but the amount should not be excessive.
3. The superintendent's salary should be reported only in the General Fund account 2300-120.
4. Travel should be reported as follows - Superintendent -- Account 2300-580, Board Members -- Account 2300-585, Employees -Object 580 ordinarily in the same function as the employees' salaries.
5. Per Diem for board members should be reported in account 2300-310.
6. Only Professional Development Stipends should be reported in account 100-2210-116.
7. The federal indirect cost (account 2300-880) total for all funds must agree with federal indirect cost revenue reported in the general fund (account 1990).
8. Function 5100 only can be used in fund 200, and it should be the only function reported in fund 200.

## Special Areas

### **QBE Expenditures –**

1. Ascertain that Mid-Term Adjustment, if any, has been applied properly (for the financial report).
2. Verify the transfer, if any, of Professional Development Funds to Staff Development (for financial report). A transfer of revenue should be recorded in the accounting system.
3. Print and review the QBE Expenditure Test document included in Appendix K. Review QBE Expenditure Summary/Detail reports and Expenditure Control Failure report after file is transmitted. Correct any accounting errors with regard to classification of expenditures, etc., and provide corrections to the auditors.

### **Bus Replacement Funds - Calculate Bus Replacement:**

1. Begin with prior year remaining balance in the bus replacement reserve (0755)
2. Add current year Bus Replacement funds per Midterm Allotment, program 2410

3. Add any revenue from Sale of Buses (100-2410-5300)
4. Subtract all related expenditures - 100-2410-2700-732 (Purchase/Lease Purchase of Buses), 100-2410-2700-615 or 730 (Bus Shop Equipment) and 100-2410-4000-720 (Bus Shop Construction).
5. If the balance is a positive amount, a reserve in this amount is required in account 0755 in the General Fund. Debit 100-0799 and credit 100-0755 for the amount to bring account 0755 to the calculated total.
6. If the balance is negative, no reserve is required. (Note: It is recommended that a continuous file be maintained on the bus replacement calculations from year to year to support the accounting records.)
7. Clear any negative prior year balance in 0755 prior to setting up reserve for the current year. Post correcting journal to debit 100-0799 and credit 100-0755 for this amount.

**School Nutrition Fund 600-** If School Nutrition records are maintained on software that does not interface with the district's accounting records, make appropriate entries to enter this activity into Fund 600 using system wide totals. This financial information must be included on the Financial Report for state reporting purposes.

**Capital Assets Fund 801** - Record Capital Assets of all Governmental Funds in Fund 801 using system wide totals via journal entry. Example: To record total value of all schools, debit Balance Sheet Account 0231-Buildings and credit Balance Sheet Account 0711-Net Capital Assets in Fund 801. If balances exist in fund 801 from previous year, reverse the amounts and post cumulative totals including the current fiscal year.

Verify that Capital Assets for School Nutrition, Fund 600, are included in totals for Fund 801. If tracked in a separate 8XX fund, adjust Fund 801 to include these for state reporting. For those districts that operate the School Nutrition Program as a Proprietary Fund, (which requires the general ledger to use the accrual method of accounting as opposed to the modified accrual method) the capital assets must be included in Fund 600. The majority of school districts in Georgia consider Fund 600 to be a governmental fund. Hence, the capital assets associated with the School Nutrition Program are reported in Fund 801.

Record Capital Assets of Proprietary and Fiduciary Funds within the individual funds as required.

Post accounting entries to record the acquisition of new capital assets during the current fiscal year. Debit appropriate general ledger capital asset account and credit general ledger account 0711-Net Capital Assets in Fund 801 for General Fund and other governmental funds.

Post entries to record sale of any asset during fiscal year. Example: School bus was sold and proceeds receipted into 100-5300-Sale or Compensation for Loss of Assets. Purchase price was \$50,000 and accumulated depreciation is \$10,000. Post this journal entry: Debit 801-0711-Net Capital Assets for \$40,000, debit 801-0242-Accumulated

Depreciation-Equipment for \$10,000 and credit 801-0241-Equipment for \$50,000. Any other disposals of capital assets must also be recorded. Other disposals of assets, other than by sale, should be recorded as well.

Calculate depreciation for current fiscal year as of 06/30/XX, and record in Fund 801 for the Governmental Funds. Depreciation expense must be posted by function based on where asset is in use. For example, if a building is used for instruction, post a journal entry to debit Depreciation Expense 801-9990-1000-742 and credit Accumulated Depreciation-Buildings 801-0232. Use Facility 8010 to designate system wide and set up expense accounts to close into 0711 not 0799 at fiscal year-end.

Verify that Fund 801 does not report any expenditures for acquisition or purchase of Capital Assets. These expenditures should be reported in the General Fund, Capital Projects and other funds. Record depreciation expense only in Fund 801 for governmental capital assets.

Review the general ledger accounts. All items being capitalized should be recorded in the 700 object codes. If there are items in these accounts that do not meet the district's criteria for capitalization, these items must be reclassified to 0615 or 0616.

**Capital Assets, Construction in Progress** - Record Construction in Progress for all building programs that have been started but not completed as of 06/30/XX. Omission of this data may result in an audit finding. Record by journal entry: Debit 801-0251-Construction in Progress and credit 801-0711-Net Capital Assets for system wide total. No depreciation is generally recorded until a building is completed and in use.

Make appropriate entries within the Capital Projects Fund 3XX series to clear negative balances in general ledger accounts. Example: Fund 310-New High School reports negative cash balance. Record a Transfer Out (9990-5000-930) of Fund 302 Bond Proceeds or General Fund (100) into Fund 310-5200 (Transfers In).to cover the shortfall.

Record any General Fund transfer to Capital Projects for "required" local match for Georgia State Financing and Investment Commission (GSFIC) projects. Debit 100-9990-5000-930-Transfers Out and credit 100-0101-Cash and debit 3XX-0101-Cash and credit 3XX-9990-5200-Transfers In via journal entry. Disburse a check from general operating bank to capital projects bank if capital projects funds are maintained in different bank.

If a significant amount of capital outlay expenditures have been charged to General Fund 100, set up a new Fund 3XX for Local Capital Projects and transfer the activity to the new fund. Capital Outlay expenditures charged to Function 4000 in Fund 100 may negatively impact the calculation of the Equalization grant.

Ensure that June construction invoices are recorded in the proper fiscal year. These invoices should be received within the first couple of weeks in July. Normally, construction invoices have a retainage clause where monies are being withheld from the contractor. This is usually in the 5% to 10% range. These funds are a liability of the



district and should be recognized as an expenditure and recorded as retainage payable at year end. This entry should be reversed in the next fiscal year to prevent overpayment to the contractor.

**Principal Accounts** – Recording Principal Accounts to general ledger is required for financial reporting. This activity is reported on the cash basis. See Appendix J for instructions.

Segregate school accounts into Governmental Funds (Fund 500), Student Activity Funds (Fund 705), etc. based on who controls the funds, approves disbursements, etc. If accounting records are maintained at the schools on the same software that is used at central office, verify that general ledgers for related funds are in balance. Reclassify the various funds to Funds 500 and 705 in the State Chart of Accounts for state reporting purposes.

If school accounting records are not maintained on same software as district office, verify that school accounting records are in balance. Segregate activity into Governmental or Agency Funds 500, 705, etc. Enter financial activity into district accounting records via journal entry prior to closing fiscal year. Detail by facility is not required. Facility 8010 should be used to record system wide totals.

To record revenues for governmental funds by journal entry: Debit Cash 0101 and credit Revenue Sources 1210, 1215, 1220, 1225, 1230, etc in Fund 500.

To record expenditures for governmental funds by journal entry: Debit expenditures in the various functions and objects using Facility Code 8010 (system wide) and credit Cash 0101 in Fund 500.

To record revenue for agency and trust funds by journal entry: Debit 0101 Cash and credit applicable revenue codes.

To record expenditures for agency and trust funds by journal entry: Debit Expenditure account(s) and credit Cash 0101 if payment has been made. If invoices are outstanding, Debit Expenditure account(s) and Credit Accounts Payable 0421.

**Long Term Debt** - Verify that all bond sales have been recorded in the accounting records. GAAP requires bond sales to be recorded at gross proceeds with the cost of issuance recorded as an expenditure in 5100-810. The Other Financing Sources to record the proceeds of bond issues should be segregated into the gross amount of the bonds (5100) and any premium on issuance (5101). A bond discount should be recorded as Other Financing Use – Discount on Long-Term Debt Issued (0970).

For all bonds sold, record the liability in Fund 900 by Debiting Amount Available 0303 for cash received, Debiting Deferred Charges 0185 for issuance costs, Debiting Discount on Issuance of Bonds 0305, and Crediting General Obligation Bonds Payable 0511. If a premium is received upon issuance of bonds, Credit 0601 Premium on Bonds Issued.

For all bonds redeemed, reduce the liability in Fund 900.

Refunding bond issues should be recorded in the accounting records. In the past, school districts have not recorded refunding transactions. Record as both an Other Financing Source and Other Financing Use.

**Purchase Orders** - A purchase order "encumbers or sets aside" a portion of the budget and reduces the amount available for future use. The purchase order should be liquidated and an expenditure created when shipment of goods is received. An expenditure represents an actual obligation to pay.

Close open Purchase Orders that should not be transferred to new fiscal year. If the appropriated budget for the new fiscal year is increased by an amount of "Carry Forward" purchase orders, this should be considered during budget development.

Open Purchase Orders should be transferred to the new fiscal year using procedures applicable to the LUAs software. This should be done after all current year PO's have been entered into the system.

Verify that available purchase order reports agree with GL Encumbrance accounts 0603 and 0753 by fund as of 06/30/XX. Accounts should not report negative balances.

**Employee Payroll Withholding Fund** - If this activity is recorded in a separate fund, verify that it is in balance as of 06/30/XX. Revenue should equal expenditures and cash should equal payables to keep the fund in balance.

Make necessary accounting entries to get the fund in balance. If unable to correct errors within the fiscal year, set up payables and/or receivables to applicable balance sheet accounts as necessary. Take appropriate action to correct errors in the next fiscal year.