

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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INTRODUCTION

Generally, revenues are increases in assets that result in fund equity increases. Receipts are increases in cash. Local Units of Administration (LUAs) classify some receipts as revenues. When using the modified accrual basis of accounting (i.e., for governmental fund types at the fund reporting level), a LUA may recognize revenue before receiving cash (e.g., an invoice is prepared for tuition costs thereby establishing an accounts receivable). Conversely, the LUA may receive cash, which is not revenue (e.g., the invoice is paid by the entity owing the tuition in the subsequent accounting period, therefore, liquidating the accounts receivable).

Generally Accepted Accounting Principles (GAAP) require that the modified accrual basis of accounting be used for governmental fund types at the fund reporting level and the accrual basis of accounting be used for proprietary fund types and fiduciary fund types at the fund reporting level. Governmental fund types and enterprise funds use the accrual basis of accounting at the government-wide reporting level.

This chapter focuses on both the use of the modified accrual basis or the accrual basis for governmental fund type transactions.

Chapter I-7 provides a summary of the general revenue recognition criteria.

GASB STATEMENT NO. 33

- GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, (GASBS 33) provides guidance for classification of a school district's transactions, including revenue recognition standards for a school district's nonexchange transactions. All external transactions of state and local governments can be categorized into one of three classes:
 - Exchange transactions
- Exchange-like transactions
- Nonexchange transactions

Exchange Transactions

GASB Statement 33 defines an "exchange transaction" as one in which "each party receives and gives up essentially equal values." In the private sector, virtually all transactions between businesses and their customers would be classified as exchange transactions. Likewise, many fees and charges imposed upon customers of proprietary funds meet this definition (e.g., a LUA's after school program).

Exchange-like Transactions

In the definition provided for an exchange transaction, it was presumed that the values exchanged between parties to the transaction would be essentially equal. In the public sector, however, GASB 33 defines situations that frequently arise where "the values exchanged, although related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction." GAAP classifies such arrangements as "exchange-like transactions." LUA's normally would not classify school food service transactions or tuition charged to other LUAs as exchange-like.

Nonexchange Transactions

LUAs, of course, engage in many transactions that do not involve the exchange of equal or approximately equal values. GAAP refer to such arrangements as "nonexchange transactions." Non-exchange transactions, in turn, can be categorized into one of four subclasses:

- Derived tax revenues
- Imposed nonexchange revenues
- Government-mandated nonexchange transactions
- Voluntary nonexchange transactions

Derived tax revenues - Derived tax revenues result from assessments placed by LUAs on exchange transactions. Common examples include taxes on consumption (e.g., the special purpose local option sales tax).

Imposed nonexchange revenues - Imposed nonexchange revenues result from assessments by LUAs on nongovernmental entities, including individuals, other than assessments on exchange transactions. Common examples include property taxes, ad valorem taxes on personal property and most fines.

Government-mandated nonexchange transactions - Government-mandated nonexchange transactions occur when a government at one level (e.g., the state or federal government) provides resources to a government (e.g., a LUA) at another level and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. Examples would include Quality Basic Education Act and Title I grants.

Voluntary nonexchange transaction - Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties (e.g., a LUA and the GA DOE). Examples include certain grants and entitlements and most donations. Revenue derived from the Georgia State Finance and Investment Commission for participation in the State Capital Outlay Program is also classified as a voluntary non-exchange transaction.

GASBS 33 provides revenue recognition guidance for each of the above types of transactions on both the accrual and the modified accrual basis of accounting.

The journal entries that follow describe the GAAP-based method of recording revenues and receipts.

TYPICAL REVENUE ACCRUALS

Some LUAs record accruals on a monthly basis and others record transactions on a cash basis during the year and make the accrual entries at year-end. The types of revenue accruals will vary from LUA to LUA depending upon its size and the types of activities and services it performs. To record a revenue accrual, a receivable account is debited and the revenue control account, as well as a subsidiary revenue account, are credited. Some revenues typically accrued, with the corresponding balance sheet accounts, are included in the following example.

In the example journal entries presented in this chapter, only the revenue subsidiary account is used, and the assumption is made that the system software automatically updates the revenue control account (0302).

An Important Note: The accrual entries illustrated below are necessary for the LUA to be able to prepare the government-wide financial statements. However, the conversion from the modified accrual basis to the accrual basis will be made on a spreadsheet and will not be posted to the LUA's general ledger. The accrual entries illustrated will be used in the conversion. For more information regarding the conversion, see Chapter II - 3.

<u>Account Description</u>	<u>Subsidiary Revenue Account</u>	<u>Balance Sheet Account Affected</u>
Special Purpose Local Option Sales Tax	1130	0121
Ad valorem Taxes	1110	0121
Total QBE Formula Earnings	3120	0141
Other Federal Grants through GA DOE	4520	0141
Investment Income	1500	0114
Tuition from Other GA LUAs	1320	0143
Capital Outlay Grants	3600	0141

Special Purpose Local Option Sales Tax (SPLOST)

GASB considers SPLOST to be derived tax revenue. A LUA should recognize a receivable for SPLOST normally when the transactions underlying the derived tax revenue occur. For example, a receivable for sales taxes ideally should be recognized as soon as a sale subject to the tax takes place.

Accrual Basis of Accounting. Under the accrual basis of accounting, a LUA also should recognize the revenue when the underlying exchange transaction takes place (i.e., when the sale takes place resulting in the sales tax). Therefore, at year-end, the Georgia Department of Revenue typically owes each LUA the amount of sales taxes that it has collected for the month of June. When reporting at the government-wide level, this month must be accrued in either the capital projects fund or the debt service fund, whichever is applicable.

For example, the amount of sales taxes collected by the merchants and remitted to the state for distribution to the LUA for the month of June totaled \$405,000. This accrual would be recorded as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Taxes receivable	0121	\$405,000	
Sales taxes	1130		\$405,000

Explanation - the LUA reports the \$405,000 as revenue since it relates to sales made during the reporting year (i.e., the underlying event).

In the subsequent year when the LUA actually receives the tax distributions from the Georgia Department of Revenue, it would record the following journal entry:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$405,000	
Taxes Receivable	0121		\$405,000

Explanation - the \$405,000 is not reported as revenue since the LUA recognized revenue in the prior year.

The Modified Accrual Basis of Accounting. In governmental funds reporting at the fund level, which use modified accrual accounting, revenue recognition is also dependent upon the timing of cash collections (i.e., “availability”). How the LUA records the transaction on the modified accrual basis is determined on whether the LUA considers these tax receipts available. Normally the LUA will receive the June sales tax distributions in July in the subsequent fiscal year. Because July is within the 60 days generally recommended by GAAP for the modified accrual basis of accounting, the revenue would be recorded at year end. Any revenue not determined available (or received within the applicable time period) would be recorded as unavailable revenue.

General Property Taxes

GASB considers property taxes to be imposed nonexchange revenue. There is no exchange of a good or service as a result of the property tax revenue received by the LUA. A LUA records an asset when they have an enforceable legal claim to the resources or when they receive the resources, whichever happens first. Normally, a LUA has a legally enforceable claim when they levy the millage rate. Most Georgia school districts levy taxes in the early fall and the collection date (i.e., the due date) is at least 60 days after the tax bills are mailed.

Accrual Basis of Accounting. LUAs recognize revenues in the fiscal year when use of the resources is required or first permitted by time requirements (for example, the period for which they are levied). Resources received or recognized as receivable before the time requirements are met should be reported as deferred inflows of resources.

FOR EXAMPLE:

Assume the following tax calendar:

Fiscal year July 1, 20X0 - June 30, 20X1 (i.e., fiscal year 20X0-X1)	
July 15, 20X0	Taxes levied for calendar year 20X0
November 30, 20X0	Due and receivable

As an example, a LUA files a tax levy totaling \$100,000, the levy was made early in the year, is due and payable in the current fiscal year and they may use these resources within the current fiscal year:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Taxes receivable	0121	\$100,000	
Ad valorem taxes	1110		\$100,000

Explanation - \$100,000 is reported as revenue since the LUA has levied the taxes and these taxes may be used within the current fiscal year.

With subsequent tax collections of cash (i.e., totaling the amount estimated to be received during the available period), the entry to record the cash (e.g., \$80,000) is as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$80,000	
Taxes receivable	0121		\$80,000

Explanation - note that this transaction does not affect the revenue control account since the first entry above recorded the revenue.

Modified Accrual Basis of Accounting

Because many governments use different time periods to apply the "available" revenue recognition criterion, the Governmental Accounting Standards Board (GASB) addresses this issue in their 2015-2016 Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification), Section P70. This section states that LUAs should recognize property taxes as revenue in the period for which they levy them (in practice this is interpreted as "budgeted") except that they shall not be recognized unless they are:

- Collected within the current year
- Or expected to be collected within 60 days after the end of the current year.

In this example:

- Any taxes collected from the 20X0 levy during the 20X0-X1 fiscal year must be recognized as revenue in this year (i.e., fiscal year 20X0-X1).
- Any taxes collected from the 20X0 levy from July 1, 20X1 - August 29, 20X1 (i.e., the 60 day period) may be recognized as revenue in this fiscal year (i.e., fiscal year 20X0-X1).

- The balance of the 20X0 tax levy would be reported as a Deferred Inflow of Resources at June 30, 20X1 (i.e., fiscal year 20X0-X1) as long as a legal enforceable claim has passed, and
- Any subsequent collections from the 20X0 levy would be recognized as revenue (i.e., Deferred Inflow of Resources would be reduced) in the subsequent year (i.e., fiscal year 20X1-X2).

Use of the 60-day period generally is widely accepted as standard, however, a period of less than 60 days (e.g., 30 days) may be used for tax revenue recognition. The 2015-2016 Codification Section P70 indicates a period of 60 days should be used for property taxes unless there are unique circumstances.

There are two methods that a LUA might use to record property taxes under the modified accrual basis of accounting. In the first method, the LUA recognizes a portion of the tax levy as revenue when the levy is filed. As an example, a LUA files a tax levy totaling \$100,000, the levy was made early in the year, is due and payable in the current fiscal year and \$80,000 is expected to be collected within the current fiscal year or within the subsequent 60 days:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Taxes receivable	0121	\$100,000	
Ad valorem taxes	1110		\$80,000
Deferred Inflow of Resources	0519		\$20,000

Explanation - \$80,000 is reported as revenue since it is estimated that it will be collected within the current year or within 60 days subsequent to year-end (i.e., it is considered available). The portion that is measurable but not available (i.e., \$20,000) is reported as a deferred inflow of resources.

With subsequent tax collections of cash (i.e., totaling the amount estimated to be received during the available period), the entry to record the cash (e.g., \$80,000) is as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$80,000	
Taxes receivable	0121		\$80,000

Explanation - note that this transaction does not affect the revenue control account since the first entry above recorded the revenue.

Any subsequent tax collections beyond the \$80,000 (e.g., \$5,000) would be recognized as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$5,000	
Taxes receivable	0121		\$5,000
Deferred Inflow of Resources	0519	\$5,000	
Ad valorem taxes	1110		\$5,000

Explanation - since only \$80,000 was estimated to be collected within the available period, the additional \$5,000, which originally was considered not available, should be recognized as revenue with deferred inflow of resources being reduced since it is now available.

At this point, there is \$15,000 remaining in the taxes receivable account.

Using the same information as above, a more conservative approach to record the tax levy is as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Taxes receivable	0121	\$100,000	
Deferred Inflow of Resources	0481		\$100,000

Explanation - the total receivable less the allowance for uncollectible is reported as a deferred inflow of resources until collected. In other words, the LUA does not try to estimate the amount of taxes the LUA may collect (i.e., the amount they consider available).

A subsequent tax collection would be reported as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$80,000	
Taxes receivable	0121		\$80,000
Deferred Inflow of Resources	00519	\$80,000	
Ad valorem taxes	1110		\$80,000

Explanation - since no revenue was reported when the tax levy was recorded, any time property taxes are collected, a like amount of revenue (e.g., \$80,000) is recognized as revenue as it is now available.

Note: If an administrative fee, or collection fee, is deducted by the collecting agency, amounts recorded as Ad Valorem Taxes would need to be adjusted accordingly.

In lieu of the two GAAP-based methods described above, most LUAs record property taxes on a cash basis during the year debiting cash in bank and crediting revenue each time taxes are remitted to the LUA.

In reality, all property taxes levied on real property (i.e., land and buildings) should be collected sometime, and tax commissioners merely file these in an “insolvency file” until the property is sold at a future date. However, property taxes levied against vehicles may not be collected over time (i.e., due to the vehicle’s sale outside the county, scrapping, etc.). The LUA may need to establish an allowance for uncollectibles ad valorem vehicle taxes, as a contra account.

State and Federal Program Aid

LUAs classify most revenue for state and federal programs as government-mandated and voluntary nonexchange transactions. LUAs should recognize:

- assets and liabilities in the period when all eligibility requirements have been met or when resources are received, whichever occurs first.
- recognize revenues and expenses/expenditures in the period when all eligibility requirements are met.

Advance receipts or payments for use in the following period should be reported as an advance or a deferred inflow of resources. A LUA meets the eligibility requirements when:

- The LUA has the characteristics specified by the provider.
- The time period required for resources to be used has begun.
- The provider offers resources on a reimbursement basis when allowable expenditures are made.
- The resources are contingent upon specific action by the LUA and action has occurred.

LUAs recognize state and federal program revenues on the accrual and the modified accrual basis in the same manner.

In Georgia, funds for state and federal programs are provided to LUAs in three ways:

1. Formula grant. Under this method, the funds are predetermined on some basis such as number of students or teachers and a payment schedule is set up and the GaDOE transfers

resources electronically to the LUA's bank account on a specific date. The LUAs do not submit any documents to obtain these funds. The Quality Basic Education (QBE) program formula earnings are an example of this type of grant.

2. Reimbursable Expenditures. Under this method, LUAs request reimbursement each month based on expenditures incurred and submit Form DE0147, *Request for Reimbursement of Monthly Cash Disbursements*, to the GaDOE Grants Accounting Section. Most federal programs and some state programs are funded in this manner.
3. Single payment. In some instances, a program or project calls for only one payment that the LUA may or may not have to submit a document to GaDOE to obtain. These usually small, one-time grants are distributed on a formula basis or for expenditures already completed.

QBE Program Grant

QBE revenue is considered a government-mandated nonexchange transaction. State law requires each LUA to provide an educational program meeting the requirements of QBE, as amended. Flexibility to expenditure controls set forth in O.C.G.A. §20-2-167 is based on the contract each district maintains with the State Board of Education.

If the LUA is going to maintain its accounting records on the accrual or modified accrual bases of accounting, it normally would record a receivable and revenue based upon the allotment sheet effective July 1 of the new fiscal year, adjusted to reflect the July and August salaries and benefits (see chapter IV – 2 to determine the amount of this adjustment). This adjustment is necessary since the formula earnings are based upon 2/12 of the prior year's salary schedule and 10/12 of the current year's salary schedule (i.e., the allotment sheet includes the amount of cash that actually will be received and does not include the two month's accrual). The mid-term allotment sheet is generally available in late April or early May for the year ended June 30.

For example, at the beginning of the year, the modified accrual amounts indicates that the LUA is entitled to QBE program aid in the amount of \$164,000 (i.e., includes the QBE formula earnings and QBE categorical grants) and the local five mill share is \$20,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Intergovernmental accounts receivable	0141	\$144,000	
QBE contra account	3140	\$20,000	
Total QBE formula earnings	3120		\$120,000
Total QBE categorical grants	3125		\$44,000

Explanation - the receivable is debited for \$144,000 since this is the amount that will ultimately be received (i.e., \$164,000 - \$20,000 = \$144,000). The \$20,000 is the reduction that the LUA will receive from the state, for its local five mill share. Note that the GA DOE chart of accounts require LUAs to report its local five mill share of the QBE in a contra revenue account (account 3140).

The monthly collection of the QBE Program Aid would be recorded as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$12,000	
Intergovernmental accounts receivable	0141		\$12,000

At June 30, approximately 2/12 of the original receivable representing salaries and benefits earned would be outstanding. Under the accrual basis of accounting, the LUA would record this amount as revenue. Under the modified accrual basis of accounting, this amount is appropriately reported as revenue, if the LUA considers it available. In addition, the salaries and benefits payable relating to this receivable also would be accrued (see Chapter I - 10).

As noted with property tax collections, some LUAs report QBE program aid on the cash basis each month as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$10,333	
QBE contra account	3140	\$1,667	
QBE formula earnings	3120		\$10,000
Categorical grants	3125		\$2,000

If the cash basis is used during the year, a journal entry is required at year-end to record the amount of QBE program aid receivable and the related revenue. The journal entry required at year-end to record July and August QBE as a receivable and revenue follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Intergovernmental accounts receivable	0141	\$20,000	
QBE contra account	3140	\$3,000	
QBE formula earnings	3120		\$23,000

Federal Categorical Grants

A LUA may record federal grant revenue when it has met all of the grant eligibility requirements (see discussion above). The examples that follow illustrate expenditure-driven revenue recognition in accordance with GAAP.

For example, when a LUA receives approval for the Title I grant in the annual amount of \$345,000, it would not record any receivable or revenue since it has not met the eligibility requirements or received any resources.

The LUA incurs program expenditures of \$75,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expenditures*	XXXX*	\$75,000	
Accounts payable	0421		\$75,000
Intergovernmental Accounts Receivable – Federal	0142	\$75,000	
Other federal grants through GaDOE	4520		\$75,000

*(various Title 1 object classifications)

Explanation - the LUA recognizes revenue for \$75,000 since the LUA incurred eligible expenditures of a like amount (i.e., assuming it has met all of the eligibility requirements). Note that the fund balance would remain zero (i.e., revenues of \$75,000 less expenditures of \$75,000).

In a different example, at June 30, a LUA determines that a \$785 payable for supplies has been cancelled. Since this expenditure was previously reimbursed under a federal grant, the accounting will be a two-step process. First, the expenditure account originally charged would be credited. Next, the portion of the cash previously received from GaDOE and recorded as revenue requires reclassification to unearned revenue. Grant funds are earned when a LUA incurs a qualifying expenditure. Since the expenditure has been cancelled, the LUA must incur another qualifying expenditure to earn the grant revenue. Since the federal fiscal year ends September 30, the LUA still has time to incur a qualifying expenditure.

The following journal entries would be required if the accounting records have not been closed. We will assume the amount is still recorded as accounts payable. If the accounting records have been closed, the expenditure amount would be credited to Fund Balance - Unassigned (0799) account instead of Supplies, 0610. Fund Balance - Unassigned (0799) would be debited rather than Other Federal Grants through GaDOE 4520 if the records have been closed.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Accounts Payable	0421	\$785	
Supplies	0610		\$785
Other federal grants through GaDOE	4520	\$785	
Unearned Revenue	0481		\$785

Explanation - the invoice that was cancelled would result in a credit to the expenditure account. The accompanying revenue that was previously recognized as federal grant funds through the GaDOE would be reclassified as Unearned Revenue.

Interest Earnings

During the year, most LUAs record interest revenue on a cash basis. However, at June 30, a decision is required regarding the accrual of interest revenue. Under the accrual basis of accounting, if the LUA can calculate the amount of interest earned as of the reporting date, it should make the following journal entry.

If the amount can be determined (i.e., it is measurable) it should be accrued. If the actual interest amount is not known, but a reasonable estimate can be determined, the estimate should be accrued as earned at June 30th. The entry to record this accrual follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Interest receivable	0114	\$12,989	
Investment Income	1500		\$12,989

Explanation - since the LUA has earned the interest, it recognizes it as revenue as of June 30.

Under the modified accrual basis of accounting, the LUA would make the same journal entries if it determines that the \$12,989 at June 30 is available.

In the subsequent year when the LUA actually receives the total interest on the investment (e.g., \$15,000), the entry would be as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$15,000	
Interest receivable	0114		\$12,989
Earnings on Investments	1500		\$2,011

Explanation - note that the LUA credits the receivable for revenue they recorded in the prior year, and they recognize the balance of the receipt as revenue.

Under the modified accrual basis of accounting, the LUA would make the same journal entries if it determined that the \$12,989 at June 30 is available.

Tuition Due From Georgia LUAs

LUAs consider tuition revenue as an exchange-like transaction (i.e., the tuition charge is the total cost of the pupil less the QBE earnings received for the pupil). Under the accrual basis, if a LUA has provided education to students from other LUAs, any tuition due for the year ended should be accrued at June 30 for the year ended. The entry is as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Intergovernmental AR	0141	\$9,000	
Tuition from other Georgia LUAs	1320		\$9,000

Explanation - since the LUA has earned the revenue, it records the revenue.

Ultimately, when the LUA collects the receivable from the other Georgia LUA, the LUA would record the collection as follows:

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$9,000	
Intergovernmental AR	0141		\$9,000

Explanation - since the LUA has recorded the revenue in the prior year, it treats the cash collection as a credit to the receivable.

Under the modified accrual basis of accounting, the LUA would make the same journal entries if they determine that the \$9,000 at June 30 is available.

GSFIC Program

The GSFIC revenue/receivable is a voluntary nonexchange transaction from the State of Georgia, based on a reimbursement-based (expenditure-driven) grant. Because the grant is based on a State appropriation, the appropriation is essential to making the enabling legislation effective for a particular period. The grant recipient (School District) cannot recognize the grant revenue nor the associated state receivable unless the appropriation for that program exists and the period to which the appropriation applies has begun. In accordance with GASB, GSFIC revenue should be recognized “in the period when all

applicable eligibility requirements have been met *and* the resources are available.” (Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification), N50.127d) The modified accrual basis recognition will occur in the year or subsequent year when the recipient has incurred allowable reimbursable expenditures, the General Obligation (GO) bonds have been appropriated by the State and the appropriation is in effect for a particular period of time (resources are available).

For example, the fiscal year 2013 Appropriation Act passed by the Georgia General Assembly contained the authorization to issue \$125,655,000 in GO Bonds to fund Capital Outlay Projects at Local School Districts. A portion (\$20,000,000) of these GO bonds were sold in July 2013 and the funding then became available for School Districts to submit the appropriate supporting documentation to request reimbursement for fiscal year 2013 capital outlay projects. GSFIC and GaDOE work together to ensure once an appropriation is in effect, the bonds are sold at the appropriate time in order to make bond proceeds available to meet expenditure reimbursement requested from the School Districts based on construction project completion status. Based on the ongoing analysis of the construction project completion status, once the appropriation act is in effect the School District can record State Capital Outlay revenue activity if all other applicable eligibility requirements have been met and the resources are available. Additionally, from a global perspective, this GSFIC revenue recognition process will allow for symmetry between the State Comprehensive Annual Financial Report and the School District financial statements. Utilizing the example noted above, the State CAFR for fiscal year ending June 30, 2012, contained no GO Bond liability or liability to the School Districts associated with FY 2013 Capital Outlay projects. From a State CAFR perspective, no associated GO Bond liability or liability to the School Districts can be reported by the State until the Appropriation Act is in effect and the bonds have been sold.

GSFIC Revenue Recognition Examples:

Example 1: The School District incurred allowable expenditures of \$50,000 and the capital outlay project appropriation is in effect. On the **Governmental Fund Financial Statements and District-wide Financial Statements**, an entry is necessary to accrue the total amount of State Capital Outlay revenue earned as of June 30th.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Accounts Receivable – State	0141	\$50,000	
Capital Outlay Grants	3600		\$50,000

Please note that revenue recognition criteria surrounding the availability of funds between 60 to 90 days subsequent to year end must be considered when reflecting Capital Outlay Grant activity on the Governmental Fund Financial Statements.

Example 2: The School District incurred allowable expenditures and the capital outlay project appropriation is not in effect. On the **Governmental Fund Financial Statements and District-wide Financial Statements**, the School District should not record the Capital Outlay

Revenue, Accounts Receivable – State Revenue or Deferred Inflow of Resources as the state appropriation resources are not available.

Example 3: The School District incurred \$50,000 in allowable expenditures and the capital outlay project appropriation is in effect; however, the School District has not completed all required documents to receive the final payment. On the **Governmental Fund Financial Statements**, an entry is necessary to accrue and defer the final 10% of GSFIC receivable that is not available as of June 30th.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Accounts Receivable – State Revenue	0141	\$50,000	
Unavailable Revenue	0481		\$50,000

On the **District Wide Financial Statements**, the revenue meets the available criterion; therefore, State Capital Outlay Revenue is recognized using the accrual basis of accounting.

Unavailable Revenue	0481	\$50,000	
Capital Outlay Grants	3600		\$50,000

The Net Position, Restricted for Capital Projects, should be increased by the same amount on the **District Wide Financial Statements**.

Net Position - Unrestricted	0740	\$50,000	
Net Position – Restricted for Capital Projects	0730		\$50,000

JOURNALS

As indicated in Chapter I-4, the LUA could use the general journal to record all financial transactions, including revenues and receipts. However, in most LUAs certain transactions occur with greater frequency, creating a need for a more efficient mechanism. Cash receipts and the recognition of revenue are two such transactions. For these purposes, a cash receipts journal and a revenue journal could be used.

LEDGERS

As indicated in Chapter I-4, the general ledger, an accounting record containing a page for each balance sheet account and revenue and expenditure/expense control accounts, was introduced. There are numerous accounts that have a high volume of activity and require considerably more detailed classification for accurate control. Among these accounts are those for the budgetary accounts, Estimated Revenues and Other Financing Sources Control (0301) and Revenues and Other Financing Sources Control (0302). Accounting system

software typically includes revenue subsidiary accounts to record the details of the estimated revenue and actual revenue realized. These accounts are recorded in a subsidiary ledger. In a manually maintained subsidiary ledger, a separate page is maintained for each individual revenue category so that budgetary control may be maintained. Once the activity for the month has been posted, totals for the preparation of an interim financial statement are available. Totaling the estimated and actual revenue columns provides year-to-date amounts and the budget balance is readily available.

When using revenue subsidiary ledgers, for every entry made to the general ledger accounts Estimated Revenues Control or Revenues Control, an additional entry must be made in the appropriate column in the revenue subsidiary ledger. Some small LUAs, or LUAs with a detailed computerized system, may include each individual revenue account as part of the general ledger. In these instances, the general ledger would not utilize the Estimated Revenue Control (0301) account or the Revenue Control (0302) account. The advantages of utilizing both the control accounts and the subsidiary accounts (i.e., the subsidiary ledgers) are:

- The general ledger is reduced to a manageable size, which facilitates the preparation of trial balances and monthly balance sheets.
- The monthly operating revenue report may be taken directly from the subsidiary ledger accounts.
- The subsidiary accounts provide a control for balancing the general ledger.

DEFERRED INFLOW OF RESOURCES

As a review, if a transaction meets the measurable revenue recognition criteria but not the available criteria under the modified accrual basis of accounting, the LUA should record the receivable and record a deferred inflow of revenues. A deferred inflow of resources account is potential revenue that either does not meet the available criteria or the potential revenue might be received before meeting the revenue recognition criteria (e.g., property taxes). A deferred inflow of resources is reported on the balance sheet between liabilities and net position on the government wide Statement of Net Position, or between liabilities and fund balance on the Balance Sheet of governmental funds.

SUMMARY

1. A LUA considers QBE revenues to be a government-mandated nonexchange transaction.
2. A LUAs SPLOST is classified as a derived tax revenue.
3. Normally a LUA would accrue revenue for SPLOST, property taxes, and QBE state appropriations.
4. In most instances, a LUA will recognize federal grant revenue when it incurs the eligible expenditures.

5. If a revenue is measurable but not available, the LUA would defer the amount of the receivable.
6. QBE is considered a formula grant.
7. A LUA may recognize a revenue before receiving the cash.
8. When accounting for Georgia State Financing and Investment Commission projects, the timing of the sale of GO bonds can affect how the revenues are recorded for on an LUA's general ledger.
9. The primary difference between revenue recognition for the accrual basis of accounting and the modified accrual basis of accounting is the "available" criteria.