FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION (FMGLUA)

Georgia Department of Education

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Contents

Introduction

The financial management responsibilities of local units of administration (LUA), i.e., boards of education, regional educational service agencies (RESAs), and public libraries are complex and challenging. Financial Management for Georgia Local Units of Administration, a joint project between the Georgia Department of Education and the Governmental Training Division of the Institute of Government and the Georgia Center for Continuing Education, University of Georgia, has been written to assist LUAs in solving day-to-day financial management problems. Additionally, this manual provides guidance to LUA fiscal personnel and serves as a useful training and reference source for LUA employees.

LUAs are required by Georgia law [O.C.G.A. 20-2-167 (b) (1)] to comply with uniform regulations established by the State Board of Education relative to the statewide uniform computerized budget and accounting system installed in LUAs and known as PCGENESIS (PC-Georgia Education Network Exchanging School Information Statewide). PCGENESIS must comply in all material respects with generally accepted accounting principles (GAAP). This manual complies with GAAP, which means LUAs may have to change present accounting and budgeting procedures or adopt new ones to be in compliance. Rule 160-5-2-.23, Financial Management for Georgia Local Units of Administration, of the Georgia Board of Education incorporates this manual by reference.

Section I covers accounting and financial reporting principles and procedures in a governmental environment. Financial reporting is presented in Section II, including specific reporting requirements imposed by the Quality Basic Education Act (QBE). Section III reviews various accounting subsystems. A variety of financial management topics are discussed in Section IV. Section V includes travel regulations, records management, and state and federal program fiscal requirements. Section VI provides financial management guidance to RESAs. Section VII and VIII provide detailed appendices, including a glossary and an index, provide useful references for LUA administrators and fiscal personnel. The section entitled, "How to Use This Manual" contains a detailed description of the contents of the manual.

Preface

Sound financial management in the public sector is critical to the success of tax-supported institutions. State and Federal agencies, state legislative bodies, creditors, school patrons and taxpayers look to local boards of education and their administrators to provide full disclosure of financial activities, presentation of results of operations in understandable terms, accountability for use of resources and compliance with generally accepted accounting principles (GAAP) that govern financial management in both the public and private sectors.

Financial Management for Georgia Local Units of Administration, is an accounting manual which had its genesis in the Financial Accounting Handbook for Local School Systems. The former manual, written during the decades when financial management in local units of administration was emerging from a pen and ink method, and in some cases, single entry method, to double entry, computer-based systems, was inadequate for today's financial management environment. During this same period the issue of accounting standards began to focus on governmental entities.

The need for an authoritative, comprehensive accounting manual based on GAAP was magnified by the increasing use of computers in the financial management of local units of administration. In 1985 the Georgia General Assembly unanimously enacted the Quality Basic Education Act (QBE), which became effective July 1, l986. The QBE law added a program dimension to the fund, function and object structure of the state chart of accounts. In recognition of the need to improve financial management at the local level, the General Assembly mandated the development and implementation of a statewide uniform computer-based budget and accounting system which complies with GAAP.

The imposition of financial management standards by the authoritative bodies of the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants is intended to bring local governments up to the same level of accountability and full disclosure that are contained in the financial statements of private sector entities.

How To Use This Manual

The *Financial Management for Georgia Local Units of Administration* (LUA) is designed to assist LUAs with improving their financial management systems. The manual may be used as an educational tool for new personnel or for those less experienced, and as a reference guide for experienced personnel. The manual can serve as an introductory text for those needing to familiarize themselves with LUA financial management and the financial requirements for Georgia LUAs. On the other hand, this manual can aid those already proficient in these disciplines by serving as a reference tool that provides quick access to needed information.

ORGANIZATION

The structure of this manual is designed to facilitate its use and is divided into the following general sections:

- **Table of contents** includes the first two text subhead levels. In addition, the manual includes at least one additional level in some chapters to assist the reader in finding desired topics.

I. **GAAP ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES** – The first eight chapters of the manual provide an examination of the basic principles that underlie governmental accounting. The accounting for specific topics is presented in chapters 9 - 13. A detailed discussion of each of the fund types and account groups is presented in chapters 14 - 20. QBE accounting is highlighted throughout this section.

II. **FINANCIAL REPORTING** - This section includes a description of the structure and content of interim and annual financial reports in the public sector. Chapter 23 presents a detailed description of the financial aspects of the Quality Basic Education (QBE) Act. Chapters 25 and 26 contain the reporting requirements for LUAs with deficit fund balances and an explanation on the calculation of indirect costs available to LUAs.

III. **THE ACCOUNTING CYCLE PROCEDURES** - A variety of the various accounting sub-systems are reviewed in this section.

IV. **FINANCIAL MANAGEMENT** - This section includes detailed discussions of each financial management topical area. As part of these discussions, both Georgia statutes and GA DOE administrative rules are presented in detail. Both the theoretical side and the practical side of the topics are presented.

V. **OTHER INFORMATION** - Specific regulations regarding travel, state and federal programs and records retention are presented.

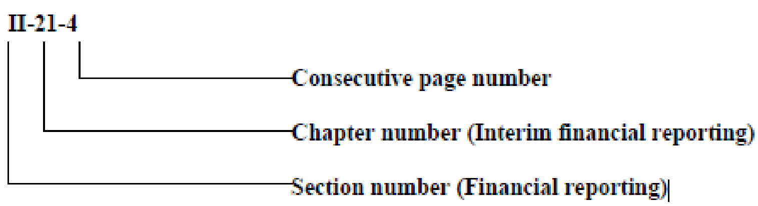
VI. **REGIONAL EDUCATION SERVICE AGENCIES** (RESA) - This section provides specific information for those personnel working in RESAs. Any general discussions that apply to RESAs are included in the applicable chapter throughout the manual. However, those issues only applicable to RESAs are presented in this chapter.

VII. **DELETED**

VIII. **APPENDICES** - These appendices provide the user a reference to answer specific questions regarding terms or account coding problems.

General Use of Manual

Each chapter of the manual begins with an information box which provides an update on the status of the chapter. The "List of Manual Updates" provides the reader with assurance that the manual has been updated by the GA DOE. Care needs to be taken to insure that all updates have been appropriately incorporated into the manual. Each chapter is numbered separately. The section number followed by the chapter number is included on each page of the manual. In addition, each chapter is numbered consecutively. A sample page number follows:



Using the Manual as an Introductory Text

As the contents of the manual change, become obsolete, or new requirements are added, the Financial Review Section will post the appropriate pages to the Index page listing the Sections and Chapters. Although the Manual's chapters are relatively self-contained, a certain order should be used in approaching the chapters to enhance an understanding of the material. If the reader lacks a sound foundation in basic accounting principles, chapters 1 - 8 should be read and reviewed in order. Each of these chapters includes a summary which might be reviewed initially to determine if the reader already has a working knowledge of the data presented. Chapters 9 - 13 provide more specificity about the chapter topic. Chapters 14 - 21 are devoted to individual fund types and account groups assume that the reader is familiar with the basic principles of governmental accounting outlined in chapters 1 - 13.

Section II provides the reader with much detail regarding LUA financial reporting. Chapters 1 and 2 of this section provide the basics of both interim and annual financial reporting. Chapters 3 – 9 provide specifics for LUAs reporting in Georgia.

Section III explains each of the accounting cycles used in LUA financial management. This section provides an overview for less experienced personnel.

Section IV illustrates numerous financial management techniques LUA use in each operating area. Each of these chapters not only provides standard topical techniques but discusses in detail the specifics of the area in the State of Georgia.

Section V is important for the less experienced personnel since it includes the state mandated travel regulations (Chapter 1), the specific state and federal accounting and reporting requirements and a brief discussion of records management.

Section VI provides specific details regarding regional education service agencies.

Sections VI presents the Appendices.

Section VIII provides recommended best practices.

Section I – GAAP Accounting and Financial Reporting Principles

Chapter 1 – 1 Introduction to LUA Accounting

Maintaining accounting records is an important function in the day-to-day operation and administration of a Local Unit of Administration (LUA). Without adequate records, LUA administrators would not have the information required for sound financial management. Records summarizing the financial transactions and other activities of an LUA assist administrators in making wise and informed financial decisions. LUA personnel who systematically record information about the various financial activities of an LUA provide a basic and indispensable service.

This chapter discusses the purposes of accounting and explains generally accepted accounting principles (GAAP).

PURPOSES OF ACCOUNTING

Accounting includes record keeping for the fiscal year budget and actual records, and subsequent internal and external reporting. The primary purposes of accounting are to:

- Safeguard the assets of the LUA.
- Report on the stewardship responsibility for individual resources.
- Provide financial information for decision-making.

Accounting records must provide meaningful, reliable, accurate and timely information to the many persons and groups with legitimate interests in the financial affairs of an LUA. These can include:

- The management of an LUA, including superintendents, school principals, program managers, and others who must evaluate past performance, make current decisions and plan future operations.

- The school board, which sets policy for the LUA and has the final responsibility for compliance with legal provisions and budgetary restrictions.

- The public, composed of residents, taxpayers, and political groups, concerned with the cost and the quality of education.

- Grantor agencies including the Georgia Department of Education (GaDOE), interested in determining LUA eligibility for grant resources.

- Oversight bodies, primarily the DOE and the Federal government departments which have statutory responsibilities to regulate various aspects of LUAs' operations and to provide source material for research and statistical purposes.

- The business community, including bond purchasers and potential bond purchasers, other creditors, investment bankers, bond-rating agencies and general vendors, who must decide whether or not to provide resources to an LUA.

Systematic and accurate records also are invaluable to the persons responsible for maintaining them. Systematic records summarize and organize the many details of day-to-day financial operations. When maintaining records in an orderly manner, it is possible to trace information on individual transactions to supporting source documents and to prepare reliable, accurate and timely financial reports. Quality recordkeeping provides an effective audit trail for use by the Georgia Department of Audits, the LUA's internal auditor, or an independent auditor, which generally results in improved quality and decreased costs of audits.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The process of recording, classifying, summarizing, reporting and interpreting the results of financial activities is the accounting process. GAAP are the accounting rules that state and local governments, including LUAs, must follow. GAAP provide a set of uniform minimum standards and guidelines for financial accounting and reporting. Adherence to GAAP results in financial reports of different LUAs containing the same types of financial statements, for the same categories and types of accounting funds. This is important for consistency and comparability.

Business Versus Government

There are differences between GAAP for the private sector and GAAP for governments, including LUAs. Private sector GAAP financial statements provide information regarding a company's profit or loss. Investors and creditors use this information when deciding whether to provide or to continue providing resources (i.e., invest in stock or loan money) to a particular company and, if so, how much to provide. Since individuals do not invest capital in LUAs, governmental GAAP financial statements need not portray the same type of information. In addition, GAAP for LUAs emphasize the accountability to its citizens/stakeholders for its use of resources and legal compliance (e.g., meeting the Quality Basic Education Act spending program requirements) while GAAP for the private sector does not.

The Standard Setters

The Governmental Accounting Standards Board (GASB) establishes GAAP for LUAs. GASB assumed this responsibility from the National Council on Governmental Accounting (NCGA) in 1984. A separate standard-setting body, the Financial Accounting Standards Board (FASB) establishes GAAP for the private sector. GASB has issued a publication, *Codification of Governmental Accounting and Financial*

Reporting Standards, which includes all GAAP.   GASB updates the Codification annually as changes occur.

It should also be noted that state charter schools and local charter schools are defined as public schools in Georgia and are also required to follow GASB GAAP. Under the Every Student Succeeds Act (ESSA), local charter activity will also be reported.

GASB 76

Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* provides the hierarchy of generally accepted accounting principles. LUAs should use this hierarchy is determining the principles used in the preparation of financial statements.

The order of priority in applying GAAP is as follows:

Category A – Governmental Accounting Standards Board statements including GASB interpretations.

Category B – GASB technical bulletins, implementation guides, and literature cleared by the GASB.

The Codification of Governmental Accounting and Financial Reporting Standards includes authoritative GAAP and is considered authoritative.

LUAs should begin with Category A when reviewing accounting treatment of a transaction. If Category A does not include the transaction, the LUA should move to Category B. If the issue is not found in Category A and B, LUAs may consider accounting treatment from nonauthoritative sources including GASB Concepts Statements, pronouncements and literature from the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, AICPA literature not cleared by the GASB, practices widely recognized and prevalent in state and local government, literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

If nonauthoritative literature is used, the LUA should consider the consistency of the literature with GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.

SUMMARY

1. Accounting records must provide a variety of financial information to a wide range of users.

2. GAAP are the accounting rules accountants in both the private sector and public sector, including LUAs, follow.

3. GAAP for the private sector provide information about income and loss.

4. GAAP for LUAs emphasize accountability and legal compliance.

5. The GASB sets GAAP for the public sector including LUAs.

6. The FASB sets GAAP for the private sector.

7. GASB publishes the Codification of Governmental Accounting and Financial Reporting Standards which includes governmental GAAP.

8. GASB Statement 76 provides the hierarchy of GAAP.

Chapter 1 – 2 Basic Accounting Theory

NATURE AND PURPOSE

One goal of accounting is to prepare various types of financial statements. The basic financial statements present information concerning:

- A Local Unit of Administration's (LUA) financial position on a certain date.
- Changes in that financial position.
- Results of operations (i.e., revenues and expenditures) during a period ending on that date.

Balance sheets/statements of net position are financial statements that present the LUAs financial position/economic condition at a certain date. Operating statements are statements reflecting changes in a LUAs financial position/economic condition and results of operations during a period ending on a certain date.

This chapter introduces the basic accounting equation, illustrates the relationship between balance sheets/statements of net position and operating statements, introduces fund accounting and illustrates how certain transactions affect the accounting equation.

BALANCE SHEET/STATEMENT OF NET POSITION

The financial position information presented on the balance sheet/statement of net position includes:

- What a LUA owns.
- What a LUA owes.
- The difference between the two which is a measure of the LUAs net worth or equity.

LUAs present balance sheet data as of a particular date (e.g., the fiscal year end, June 30). We can summarize these elements of financial position and their relationship to each other mathematically in the following basic accounting equation:

OWNED - OWED = NET WORTH

In accounting terminology, assets are things that are owned, liabilities are things that are owed, and equity is the LUAs net worth. By applying this terminology to the accounting equation, it can be restated as follows:

OWNED - OWED = NET WORTH or

ASSETS - LIABILITIES = EQUITY

The Accounting Equation

To illustrate the accounting equation, assume a LUA owns assets valued at $9,000 and owes liabilities of $6,000. What is its equity? Since assets (i.e., what is owned) minus liabilities (i.e., what is owed) equals equity, the equity in this example is $3,000:

ASSETS - LIABILITIES = EQUITY

$9,000 - $6,000 = $3,000

To expand on the equation, assume that the same LUA has $240,000 in the bank (i.e., an asset) at June 30, but it owes salaries to employees (i.e., a liability) of $165,000 (i.e., for July and August payments). What is its equity? Since equity equals assets minus liabilities, then:

ASSETS - LIABILITIES = EQUITY

240,000 - $165,000 = EQUITY

$75,000 = EQUITY

If we know the value of liabilities and equity we can determine the value of the assets. In the preceding example, it states that assets minus liabilities equals equity. Using the same amounts as above for equity and liabilities:

ASSETS - LIABILITIES = EQUITY

? - $165,000 = $75,000

Using simple algebra, the accounting equation may be reorganized by moving "liabilities" from the left side of the equation to the right side of the equation and the sign (i.e., plus or minus sign) of the account moved changes (i.e., the liabilities account changes from minus to plus):

ASSETS - LIABILITIES = EQUITY

ASSETS = + LIABILITIES + EQUITY

ASSETS = $165,000 + $75,000

ASSETS = $240,000

The basic accounting equation now has been stated two ways:

1. ASSETS - LIABILITIES = EQUITY

   $240,000 - $165,000 = $75,000

   $ 75,000 = $75,000

2. ASSETS = LIABILITIES + EQUITY

   $240,000 = $165,000 + $75,000

   $240,000 = $240,000

The accounting equation can change (i.e., be added to or subtracted from) as long as additions and subtractions to both sides of the equation are in the same amount. It is important to remember that the equation always must be equal or balanced on both sides of the "equal sign."

There are instances in some LUAs when the total liabilities are greater than the total assets. In these instances, a negative fund equity, known as a deficit, occurs. For example:

ASSETS - LIABILITIES = EQUITY

$240,000 - $255,000 = ($15,000)

See Chapter II-8 for a discussion of LUAs in deficit.

Current Assets and Current Liabilities

The further classification of assets and liabilities according to their degree of liquidity (i.e., how soon they can be converted to cash, consumed or paid) is important. Current assets are assets which are likely to be used up, or converted to cash, within the next year (e.g., cash, investments, most receivables, inventories). Capital assets or non-current assets are longer lived assets, such as land, school buildings and equipment. Similarly, current liabilities are liabilities payable within one year from the balance sheet date and long-term liabilities are the balance of the liabilities. The difference between current assets and current liabilities is classified as net current assets. It is a measure of a LUAs liquidity. These elements of a LUAs liquid financial position and their relationships to each other can be summarized by the following equation:

CURRENT ASSETS - CURRENT LIABILITIES = NET CURRENT ASSETS

LUAs may classify portions of certain assets and certain liabilities as both current and non-current. For example, a portion of a liability (e.g., bonds payable) may be due within the current year (i.e., a current liability) and the balance due over the next ten years (i.e., a non-current liability).

HOW GASB 63 AND GASB 65 CHANGE FINANCIAL REPORTING

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement 65, Items Previously Reported as Assets and Liabilities, made some changes to the current financial reporting model. GASB 63 provides financial reporting guidelines for deferred inflows of resources, deferred outflows of resources, and net position; GASB 65 presents examples that will be presented in the financial statements as deferred inflows and outflows of resources.

GASB Concept Statement No. 4, *Elements of Financial Statements*, issued in June 2007, introduced and defined these terms. The elements of a statement of financial position are defined as follows:

- **Assets** are resources with present service capacity that the government presently controls. For example, cash is an asset with present service capacity that is used by the government to procure services.

- **Liabilities** are present obligations to sacrifice resources that the government has little or no discretion in avoiding. Examples of legally enforceable liabilities arising from contractual relationships include salaries payable, accounts payable for goods and services received, and bonds and notes payable.

- **Deferred outflow of resources** is a consumption of net assets by the government that is applicable to a future reporting period. An example of a deferred outflow of resources is a grant paid in advance of meeting the timing requirement. Examples include the prepaid employer contributions to a multiple employer shared pension plan.

- **Deferred inflow of resources** is an acquisition of net assets by the government that is applicable to a future reporting period. Examples of net assets acquired by the government that are applicable to a future reporting period include, but are not limited, to the following: grants received in advance of meeting timing requirements, taxes received in advance of the period for which they were levied, and "unavailable" revenue in governmental funds, that is not received within a stated time period, generally 60 days, after period end.

- **Net position** is the residual of all other elements presented in a statement of financial position.

Concept Statement No. 4 further explains that only those items that are identified by the GASB in authoritative pronouncements should be classified as deferred outflows of resources and deferred inflows of resources. These items are identified in GASB 65. The following table presents some of the significant changes:[1]

Exhibit 2-1: GASB 65 Classifications

Classification under GASB 65	Transaction	Example	Prior Classification
ASSETS	Prepayments	Prepaid expenses	Asset (no change)
	The providing of resources under a government-mandated nonexchange transaction or voluntary nonexchange transaction when eligibility requirements (excluding time requirements) have not yet been met	Your organization provides an advance funded grant to another organization on a contingent basis, and that contingency provision has not yet been satisfied.	Asset (no change)
DEFERRED OUTFLOW	Government-mandated nonexchange transaction or voluntary nonexchange transaction wherein all eligibility requirements have been met except time requirements	Your organization provides an advance funded grant to another organization, but all eligibility requirements under GASB 33 have been met other than time.	Asset
LIABILITY	Resources received in advance in an exchange transaction	Government agrees to install a water main in a subdivision and receives payment from residents before main is installed.	Liability (no change)

1 Plante & Moran, PLLC, "Where Did My Liabilities Go?" www.plantemoran.com/perspectives/articles/2012/pages/government-where-did-my-liabilities-go.aspx. Accessed 10/26/16.

	Receipt of resources under a government-mandated nonexchange transaction or voluntary nonexchange transaction when eligibility requirements (excluding time requirements) have not yet been met	Your organization receives an advance funded grant on a contingent basis, and that contingency provision has not yet been satisfied.	Liability (no change)
DEFERRED INFLOW	Resources received related to imposed nonexchange transactions before the period resources may be used	Property taxes received before the period for which they are levied	Liability
	Resources received related to government-mandated or voluntary nonexchange transactions meeting all eligibility requirements except time requirements	Grant received in June for which granting agency has indicated eligible expenditures cannot occur until next fiscal year begins	
	Unavailable revenue due to the application of period of availability in governmental funds	Government provided a service in December 2011 but has yet to receive the related cash	Liability
	Regulated operations—revenue intended to cover future costs		Liability
OUTFLOW (expenditure/expense)	Debt issuance costs		Asset

In addition, GASB 65 limits the use of “deferred” to refer to deferred outflows and deferred inflows. Therefore, governments are required to change the title of the liability account, deferred revenue, currently used. However, GASB 65 leaves that change up to the individual government. One suggestion is to designate the account “unavailable revenue” or “unearned revenue.”

GASB 63 provides financial reporting guidelines for deferred outflows and inflows of resources as well as net position. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals.[2]

The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Governments are encouraged to present the statement of net position in the following format:

[(ASSETS + DEFERRED OUTFLOWS OF RESOURCES) – (LIABILITIES –

DEFERRED INFLOWS OF RESOURCES) = NET POSITION]

The balance sheet format also may be used:

[(ASSETS + DEFERRED OUTFLOWS OF RESOURCES) = (LIABILITIES +

DEFERRED INFLOWS OF RESOURCES + NET POSITION)]

Regardless of the format used, the statement of net position should report the residual amount as net position rather than as net assets or equity. Net position represents the difference between all other elements in a statement of financial position and should be displayed in terms of three components: (1) net investment in capital assets, (2) restricted (distinguishing between major categories of restrictions), and (3) unrestricted.[3]

OPERATING STATEMENTS

Operating statements are financial statements reflecting changes in the financial position/economic condition. These may be measured and reported in several different ways. Increases and decreases in cash are called receipts and disbursements. An operating statement which summarizes cash flow during a period therefore is called a statement of cash receipts and disbursements.

Revenues and expenditures are increases and decreases in net current assets (i.e., the difference between current assets and current liabilities). Therefore, a statement of revenues and expenditures summarizes a LUA's sources and uses of its net current assets. Since net current assets are considered a measure of liquid or "spendable" resources, this operating statement presents a summary of the spending activities of a LUA during a fiscal period.

Revenues and expenses are increases and decreases in total equity. The principle way

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2 GASB 63, par. 7.
3 GASB 63, par. 8.

in which expenses differ from expenditures is that expenses include the cost of using capital assets over time (i.e., a charge for depreciation) even though the expenditures for those costs (i.e., when the capital assets are purchased) may occur in a different accounting period (the difference between expenses and expenditures is explained in detail in Chapter I-7). Therefore, a statement of revenues and expenses summarizes the effect a LUA's operations have had on its total equity during a fiscal period.

FUND ACCOUNTING

Often different functions of LUA activities require different controls for management purposes. To accommodate this need, separate funds are established to account for resources affected by different types of spending restrictions. The Georgia Department of Education (GADOE) follows the U.S. Department of Education's National Center for Education Statistics handbook, *"Financial Accounting Guide for State and Local School Systems"* for the Fund Accounting structure. This structure requires separate funds for certain activities when unique accounting and reporting requirements exist. Fund accounting is this process.

A LUA organizes its accounting records on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenditures (or expenses), as appropriate. All individual funds of a LUA are classified broadly into three categories: governmental, proprietary and fiduciary, per the Governmental Accounting Standards Board (GASB) *"Codification of Governmental And Financial Reporting Standards"* section 1300. Chapter I-6 includes a detailed discussion of fund accounting.

Governmental Fund Types

Governmental funds are those through which most LUA functions typically are financed. Generally they report only current assets and current liabilities on their balance sheets and their primary operating statement is the statement of revenues and expenditures. Equity for governmental fund types consists of "fund balance" accounts. A measure of "available spendable financial resources" is their reported fund balance (i.e., net current assets or what is available to spend). Their operating statements present increases (e.g., revenues) and decreases (e.g., expenditures) in net current assets.

Current year revenues always increase fund balance at year-end and current year expenditures always decrease fund balance at year-end as illustrated in the following equation:

FUND BALANCE (At start of year)		REVENUES (During the year)		EXPENDITURES (During the year)		FUND BALANCE (At end of year)
$45,000	+	$185,000	-	$190,000	=	$40,000

In other words, the current year's revenues are added to the beginning fund balance which results in the amount of resources available for expenditures.

Beginning fund balance	$ 45,000
Current year's revenue	185,000
Total resources available for expenditures	$230,000

Then this amount is reduced by the current year's expenditures which results in the fund balance at the end of the year.

Beginning fund balance	$ 45,000
Current year's revenues	185,000
Total resources available for expenditure	230,000
Current year's expenditures	(190,000)
Ending fund balance	$ 40,000

The above equation is expanded to demonstrate the relationship between a governmental fund's operating statement (i.e., statement of revenues and expenditures) and its balance sheet as indicated in the following accounting equation:

FUND BALANCE (At start of year)	+	REVENUES (During the year)	-	EXPENDITURES (During the year)	=	FUND BALANCE (At end of year)	=	ASSETS (At end of year)	-	LIABILITIES (At end of year)
$45,000	+	$185,000	-	$190,000	=	$40,000	=	$160,000	-	$120,000

The first four columns are included on the operating statement and the last three are included on the balance sheet.

Proprietary Fund Types

The second fund category, proprietary funds, is used to account for activities that are financed and operated in a manner similar to private business enterprises (e.g., the local grocery store or hotel) and/or where the intent of the school board is that the activities be financed primarily from user charges (e.g., student bookstore fund).

Therefore, proprietary fund types report all assets and liabilities, whether current or non-current, on their statement of position and their primary operating statement is a statement of revenues and expenses. The fact that the statement of revenues and expenses reflects changes during the year in the LUAs equity is indicated by the following accounting equation:

EQUITY (At start of year)	+	REVENUES (During the year)	-	EXPENSES (During the year)	=	EQUITY (At end of year)
$10,000	+	$300,000	-	$285,000	=	$25,000

Like the governmental fund types, the equation may be expanded by adding assets and liabilities:

EQUITY	+ REVENUES	- EXPENSES	= EQUITY	= ASSETS	- LIABILITIES
(At start of year)	(During the year)	(During the year)	(At end of year)	(At end of year)	(At end of year)
$10,000	+ $300,000	- $285,000	= $25,000	= $210,000	- $185,000

Note that the equations for illustrating the relationships of the balance sheet and operating statement for the proprietary fund types and the governmental fund types are similar.

Fiduciary Fund Types
The third fund category, fiduciary funds, is used to account for activities undertaken by a LUA on behalf of, or in a trustee capacity for, some other persons or groups. The relationship of the operating statement and statement of position for fiduciary funds is the same as for the proprietary funds, therefore, no illustration is presented.

EFFECTS OF TRANSACTIONS ON THE ACCOUNTING EQUATION

It is possible to demonstrate the effect of financial transactions on accounts by using the aforementioned accounting equation. Amounts may be added to or subtracted from the equation as long as equal amounts are applied to both sides of the equation. The accounting equation always must be in balance.

Many transactions affect revenues and expenditures/expenses. However, certain types of transactions affect only asset and liability accounts and hence only the balance sheet. For example,

1. An asset may increase and another asset may decrease by an equal amount. For example, a LUA purchases investments (i.e., an asset) at a cost of $15,000 and disburses cash (i.e., an asset). The asset account "Investment" increases, but the asset account "Cash in bank" decreases by the same amount, $15,000. Hence, the total assets remain the same, as follows:

ASSETS = LIABILITIES + FUND BALANCE OR EQUITY

Beginning Balance	$60,000 = $22,000 + $38,000
Transaction	($60,000 + $15,000 - $15,000) = $22,000 + $38,000
Ending Balance	$60,000 = $22,000 + $38,000

2. An asset may increase and a liability may increase by an equal amount.

For example, a LUA borrows $18,000 by issuing tax anticipation notes (i.e., resulting in a liability) and receives cash (i.e., resulting in an asset). The asset account "Cash" is increased and a liability account "Notes payable" is increased by the same amount, $18,000, as follows:

ASSETS = LIABILITIES + FUND BALANCE OR EQUITY

Beginning Balance	$60,000 = $22,000 + $38,000
Transaction	($60,000 + $18,000) = ($22,000 + $18,000) + $38,000
Ending Balance	$78,000 = $40,000 + $38,000

3. A liability may increase and another liability may decrease by an equal amount.

For example, a LUA borrows $24,000 by issuing a note payable (i.e., resulting in a liability) to redeem another note currently due (i.e., reducing a liability). Note that "in practice," this transaction is rare. The liability account "Notes payable" is decreased and the same liability account is increased by the same amount, $24,000, as follows:

ASSETS = LIABILITIES + FUND BALANCE OR EQUITY

Beginning Balance	$60,000 = $22,000 + $38,000
Transaction	$60,000 = ($22,000 + $24,000 - $24,000) + $38,000
Ending Balance	$60,000 = $22,000 + $38,000

4. An asset may decrease and a liability may decrease by an equal amount.

For example, a LUA issues checks (i.e., reducing an asset) totaling $14,000 to vendors to pay accounts payable (i.e., reducing a liability). The liability account "Accounts payable" is decreased and the asset account "Cash" also is decreased by the same amount, $14,000, as follows:

ASSETS = LIABILITIES + FUND BALANCE OR EQUITY

Beginning Balance	$60,000 = $22,000 + $38,000
Transaction	($60,000 - $14,000) = ($22,000 - $14,000) + $38,000

Ending
Balance $46,000 = $8,000 + $38,000

There are two types of transactions that ultimately (i.e., at year-end) affect fund balance (or equity): revenue transactions and expenditure (or expenses) transactions. Revenues increase fund balance (equity) and expenditures (or expenses) decrease fund balance (equity). The accounting equation now expands to reflect these types of transactions.

ASSETS = LIABILITIES + ((FUND BALANCE OR EQUITY) + REVENUES - EXPENDITURES)
(Beginning of Year)

The following sample transaction illustrates the expanded equation.

1. A LUA receives approval from the GA DOE for an unrestricted grant totaling $17,000. The asset account "Intergovernmental receivable" is increased and the "Revenue" account also is increased by the same amount, as follows:

ASSETS	- LIABILITIES	= (FUND BALANCE OR EQUITY	+ REVENUES	- EXPENDITURES)
(End of Year)	(End of Year)	(End of Year)	(During the Year)	(During the Year)

$60,000 - $22,000 = ($38,000)

($60,000 + $17,000) - $22,000 = ($38,000) + $17,000 - $0)

$77,000 - $22,000 = ($38,000 + $17,000)

The above transaction increased the fund balance by $17,000 (i.e., by increasing revenues which at year-end will be added to the fund balance) while maintaining the balance in the accounting equation since the value of the assets increased by a similar amount.

2. A LUA receives goods and/or services and approves invoices totaling $14,000. This transaction increases "Expenditures" and it increases the liability account "Accounts payable," as follows:

ASSETS	- LIABILITIES	= (FUND BALANCE	+ REVENUES	- EXPENDITURES)
(At end of year)	(At end of Year)	(At start of year)	(During the year)	(During the year)

$60,000 - $22,000 = $38,000

$60,000 - ($22,000 + $14,000) = ($38,000 + $0 - $14,000)

$60,000 - $36,000 = ($24,000)

The above transaction decreased the fund balance by $14,000 (i.e., by increasing expenditures which at year-end will be deducted from fund balance) while maintaining the balance in the accounting equation, since liabilities increased by a similar amount.

ACCOUNTING SYSTEM

The accounting system is the system used by an LUA to complete the accounting process. A LUA accounting system can consist of the following sub-systems:

- Accounts Receivable and Revenues.
- Accounts Payable and Expenditures.
- Payroll and Employee Benefits.
- Inventory and Property.
- Budgetary Control.
- General Ledger.

Accounting for these subsystems is discussed in Chapters I-9 through I-12.

SUMMARY

1. A balance sheet/statement of net position presents the financial position/economic condition as of a given date.

2. An operating statement presents the changes in financial position/economic condition and results of operations during a period ending on the balance sheet/statement of net position date.

3. Assets are things a LUA owns.

4. Current assets are assets which could be used up or converted to cash within one year.

5. Liabilities are amounts a LUA owes.

6. Current liabilities are liabilities due within one year and all other liabilities are classified as non-current.

7. Equity is the excess of assets over liabilities.

8. Net current assets is the difference between current assets and current liabilities.

9. Receipts are increases in cash and disbursements are decreases in cash.

10. Revenues are increases in assets which result in an increase in net current assets.

11. Expenditures are decreases in assets or increases in liabilities which result in a decrease in net current assets.

12. Revenues and expenses, respectively, ultimately increase and decrease equity.

13. LUAs use fund accounting to permit accounting separately for resources affected by different types of spending restrictions and/or accounting principles.

14. Governmental fund types generally report only current assets, current liabilities and net current assets.

15. Proprietary fund types report total assets, total liabilities and total fund equity.

16. Fiduciary fund types are accounted for similar to proprietary funds.

Chapter 1 – 3 Double Entry Accounting

INTRODUCTION
As illustrated in Chapter I - 2, each financial transaction increases or decreases a Local Unit of Administration's (LUA) accounts. The primary purpose of this chapter is to explain the relationship of increases or decreases and the accounting terms "debits" and "credits."

DEBITS AND CREDITS
Accounting classifies increases or decreases in an LUA's accounts as debits or credits. Sometimes, the abbreviations for these terms in the accounting records are "DR" for debit and "CR" for credit. Before the use of computers for governmental accounting purposes, a general ledger account was pictured as looking like a "T." The left side of the "T" account was the debit side and the right side was the credit side. Exhibits I-3-1 illustrates a "T" account.

Debits are recorded on the left side of an account and credits on the right side. “T” account charts are helpful when needing a visual on how proposed journal entries affect the line items presented on the financial statements.

Exhibit I-3-1
ILLUSTRATION OF A "T" ACCOUNT

Account Name and Number

Debit DR	Credit CR

With the use of various levels of technology in governmental accounting, the “T” account no longer is visible in computer systems. However, an awareness of the concept of the “T” account is useful in understanding double entry accounting.

CHANGES IN ACCOUNT BALANCES

Recording transactions in accounting systems are simply changes in account balances. Changes in account balances, (i.e., a debit or credit) either will increase or decrease an account balance depending upon where that account appears in the accounting equation. When one account is debited, another account must be credited. This is how an accounting ledger remains balanced. Using Exhibit I-3-2 below, each transaction may be analyzed individually to determine which accounts are increased and decreased, resulting in either debits or credits. Debits or credits have different effects on accounts depending on the account type.

Exhibit I-3-2
CHANGES IN ACCOUNT BALANCES
DEBITS AND CREDITS

ACCOUNT	NORMAL BALANCE	DEBIT	CREDIT
Assets	Debit	Increase	Decrease
Deferred Outflows of Resources	Debit	Increase	Decrease
Liabilities	Credit	Decrease	Increase
Deferred Inflows of Resources	Credit	Decrease	Increase
Revenues	Credit	Decrease	Increase
Expenditures/Expenses	Debit	Increase	Decrease

The following expanded accounting equation (see Chapter I - 2) illustrates when debits and credits appear as increases ↑ or decreases ↓ (for purposes of illustration, the term expenditures is used, however, the term expenses could have been substituted):

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		–	Expenditures	
D R	CR		DR	CR		DR	CR		DR	C R		DR	C R		DR	CR		DR	CR
↑	↓		↑	↓		↓	↑		↓	↑		↓	↑		↓	↑		↑	↓
+	-		+	-		+	-		+	-		+	-		+	-		+	-

Since the accounting equation always must be in balance, every transaction always must consist of the total debit amounts equal to the total credit amounts. Double entry accounting requires that for every entry (or entries) made to the debit side of an account(s), an entry (or entries) for the same total amount is made to the credit side of another account(s). The following examples illustrate the use of debits and credits.

1. A LUA begins the year with assets of $600, no liabilities and therefore a fund balance of $600.

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		–	Expenditures	
DR	CR		DR	CR		DR	CR		DR	C R		DR	CR		DR	CR		DR	CR
↑	↓	+	↑	↓	=	↓	↑	+	↓	↑	+	↓	↑	+	↓	↑	-	↑	↓
60 0													600						

Note that the accounting equation balances and the debits equal the credits.

2. The LUA receives an unrestricted state grant totaling $6,000. This transaction increases assets (i.e., a debit) and increases revenues (i.e., a credit) by the same amount.

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		-	Expenditures	
DR	CR		DR	CR		DR	CR		DR	C R		DR	CR		DR	CR		DR	CR
↑	↓		↑	↓		↓	↑		↓	↑		↓	↑		↓	↑		↑	↓
600													600						
6,000																6,00 0			
6,600		+			=			+			+		600	+		6,00 0	-		

Note that the revenue increased so the revenue account was credited and the asset account increased or was debited. The total debits still equal the total credits (i.e., $6,600).

3. The LUA receives invoices for expenditures totaling $7,000. This transaction

increases expenditures (i.e., a debit) and increases liabilities (i.e., a credit).

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		-	Expenditures	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
↑	↓		↑	↓		↓	↑		↓	↑		↓	↑		↓	↑		↑	↓
600													600						
6,000																6,000			
6,600		+			=			+			+		600	+		6,000	-		
							7,000											7,000	
6,600		+			=		7,000	+			+		600	+		6,000	-	7,000	

Note that expenditures increased so they were debited and liabilities increased so they were credited.

4. The LUA borrows $4,500 from the bank to cover future operating expenditures. This transaction increases assets (i.e., a debit) and increases liabilities (i.e., a credit).

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		-	Expenditures	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
↑	↓		↑	↓		↓	↑		↓	↑		↓	↑		↓	↑		↑	↓
600 6,000													600			6,000			
6,600		+			=			+			+		600	+		6,000	-		
							7,000											7,000	
6,600		+			=		7,000	+			+		600	+		6,000	-	7,000	
4,500							4,500												
11,100		+			=		11,500	+			+		600	+		6,000	-	7,000	

The accounting equation still balances (i.e., $11,100 = $11,500 + $600 + $6,000 - $7,000). Also, note that the recording of each transaction results in debit amounts equal to credit amounts (i.e., $18,100).

FIVE STEPS IN RECORDING JOURNAL ENTRIES

Journal entries are a common method of recording accounting transactions. The following steps will assist you in successfully recording journal entries and transactions directly into your accounting software.

Step 1: Determine which accounts are involved.

Each transaction needs to be analyzed to determine the individual accounts that are affected by the transaction.

Say, for example, a LUA receives cash. We can determine from the statement that the cash account is involved, but we need more information. We need to determine for what purpose the cash was received.

The LUA government receives cash for grants (revenue). We can now determine that the accounts affected by this transaction are cash and revenues.

Step 2: Classify the accounts according to category (A, DO, L, DI, R, E).

After determining which individual accounts are affected by the transaction, the accounts can then be classified according to category. The primary categories include assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenditures/expenses (i.e., A, DO, L, DI, R, E).

In the example from Step 1, cash and revenues are the affected accounts. Cash is an asset; grants are classified as revenue.

Step 3: Determine the normal balance of each account.

We determined in Step 2 that the categories of accounts affected are assets and revenues. Assets normally carry a debit balance; revenues normally carry a credit balance.

Step 4: Decide for each part of the transaction whether the affected accounts should be increased or decreased.

The LUA receives cash for grants (revenue). Cash, which is an asset, is increased. Assets normally carry a debit balance, and an increase is the same as the normal carrying balance. Therefore, to increase cash, we debit the account.

Grants, a revenue account, is also increased. Revenues normally carry a credit balance, and an increase is the same as the normal carrying balance. Therefore, to increase revenues, we credit the account.

Step 5: Record the entry with debit entry (entries) first and credit entry (entries) last.

Let's expand the example. The LUA receives cash in the amount of $15,000 for grants (revenues).

Using the steps, the journal entry would be recorded as follows:

	DR	CR
Cash (asset)	$ 15,000	
Revenues (revenue)		$15,000

To record cash received for grants.

SUMMARY

1. Debits are recorded on the left side of a T account and credits on the right side of a T account.

2. Assets, deferred outflows of resources, expenditures and expenses normally have debit balances.

3. Liabilities, deferred inflows of resources, and revenues normally have credit balances.

4. An LUA with a positive fund balance would have a credit balance in its fund equity account and a LUA with a fund balance deficit would have a debit balance in its fund equity account.

5. Debits increase asset balances and credits decrease asset balances.

6. Debits increase deferred outflows of resources and credits decrease deferred outflows of resources.

7. Credits increase liability balances and debits decrease liability balances.

8. Credits increase deferred inflows of resources and debits decrease deferred inflows of resources.

9. Credits increase fund equity balances and debits decrease fund equity balances.

10. Credits increase revenue balances and debits decrease revenue balances.

11. Debits increase expenditure or expense balances and credits decrease expenditure or expense balances.

12. Double entry accounting means that for every entry (or entries) made to the debit side of accounts, equal entry (entries) must be made to the credit side of the accounts.

Chapter 1 – 4 Accounting Records

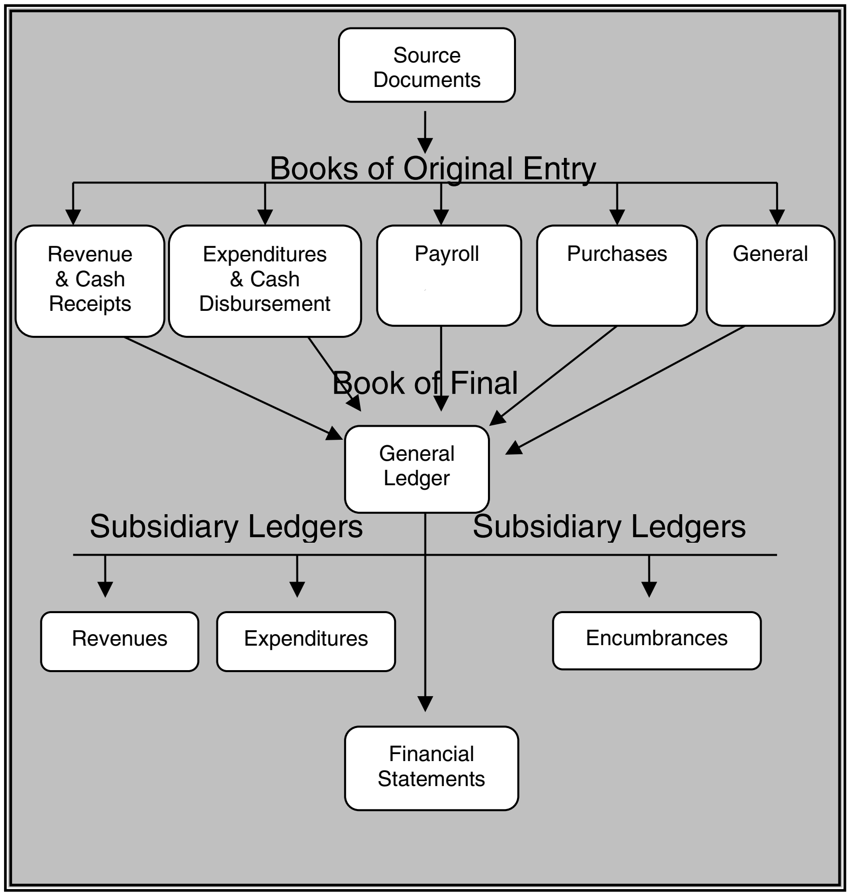
INTRODUCTION

Organized methods are necessary for a local unit of administration (LUA) to utilize the accounting process properly. These methods depend on the type of accounting records a LUA uses. Journals and ledgers are the two primary classifications of accounting records. With the sophistication of computer-based accounting systems, often specific journals and ledgers aren't visible in the same way they are in a manual accounting system. In order to gain a thorough understanding of accounting records, this chapter illustrates sample journals and ledgers which may be used in a manual accounting system. However, a discussion on how computers use similar accounting records is also included.

ACCOUNTING SYSTEMS

Every financial transaction is recorded in some form in the accounting records in order to maintain management control and provide the basis for financial reporting. The flow of data through an accounting system is illustrated in Exhibit I-4-1.

EXHIBIT I-4-1
ACCOUNTING SYSTEMS



Source documents provide evidence of original transactions. Either internally or externally generated documents should include sufficient details of the financial transaction to facilitate recording the transaction in the books of original entry (i.e., journals). Internally generated documents might include a purchase order, a cash receipt, or a check. Third parties prepare external documents as evidence of goods provided, services rendered, or fees paid. These documents might include shipping slips, vendor invoices, and state and federal checks.

In an accounting system, generally there are two types of financial records, journals and ledgers, which are discussed below.

JOURNALS

A journal is an accounting record commonly referred to as "a book of original entry." It is like a log book or a diary, and transactions are entered in the sequence in which they occur (i.e., chronological order). As transactions occur, they are recorded first in a journal. This recording is classified as a journal entry and contains a summary of the transaction as follows:

- the date on which the transaction occurred
- the accounts affected (i.e., balance sheet, revenue or expenditures)
- how they are affected (i.e., whether debited or credited)
- the amount of the transaction
- a brief description of the nature of the transaction

A journal is classified either as a general journal or a special journal.

General Journal

All financial transactions may be recorded in a general journal. However in practice, most LUAs utilize special journals (see discussion presented later in this chapter). Exhibit I-4-2 illustrates a general journal that includes columns for:

- the transaction date
- the account titles affected and an explanation of the transaction
- the account numbers affected
- a posting reference (i.e., to indicate that the transaction has been posted)
- the debit and credit amounts

EXHIBIT I-4-2
SAMPLE MANUAL GENERAL JOURNAL

GENERAL JOURNAL

Page No. ______

DATE	ACCOUNT TITLE AND EXPLANATION	ACCT. NO.	✓	DEBITS	CREDITS

As an example of a general journal entry, assume that on July 28 an LUA purchases U.S. Treasury bills with a face value of $10,000 as an investment for cash at a cost of $9,542.

EXHIBIT I-4-3
SAMPLE COMPLETED MANUAL GENERAL JOURNAL

GENERAL JOURNAL

Page No. 1

DATE	ACCOUNT TITLE AND EXPLANATION	ACCT. NO.	✓	DEBITS	CREDITS
July 28	Investments	102		9 5 4 2	
	Cash in Bank	101			9 5 4 2
	(To record the purchase of U.S. Treasury bills)				

Note that the account debited is listed first and the account credited is listed second and indented--this is the accepted format in a manual accounting system. A brief explanation of the transaction follows the recording of the account titles.

With most computer-based accounting systems, the general journal is used primarily to make corrections to previous entries or to adjust accruals at year-end. A specific form will be displayed on the screen and the applicable transactions will be entered. Typically a transaction report can be printed as documentation of the entry.

The general journal format is used in Excel when preparing the general ledger for financial statement presentation, as discussed in Chapter II - 3.

Special Journals

Special journals are used to record transactions of a like nature. Special journals include:

- A cash receipts or cash disbursements journal
- A revenue and cash receipts journal
- An expenditure and cash disbursements journal
- A payroll journal
- A purchases journal

Specific special journals are illustrated in subsequent chapters.

With computer-based accounting systems, there really are no specific journals. Rather, when a transaction is to be entered into the accounting system, a specific program will be accessed on the computer screen to enter this transaction. For example, when the payroll is to be generated, the payroll program will be opened and payroll information will be entered into the system. Upon completion of the payroll, a computer printout will be produced which is the equivalent of a special journal (i.e., a payroll journal).

LEDGERS

A ledger is an accounting record that may be used to summarize the financial activity in each account (e.g., accounts payable) of an LUA. Ledgers sometimes are called books of final entry. Ledgers are used as the primary source for the preparation of financial statements. In a manual accounting system a separate page usually is maintained for each ledger account. Ledgers are classified as either general or subsidiary.

General Ledgers

The general ledger contains the basic accounts of an LUA and serves as the source of data for preparing financial statements (e.g., the balance sheet). A general ledger might include the traditional "T" account (as illustrated in Chapter I - 3) but usually is modified to include columns to maintain a running balance (i.e., the current debit or credit balance) for each account. The balance in the account will be a debit or credit amount depending upon the totals of the entries in the debit and credit columns. The format of a general ledger is illustrated below:

EXHIBIT I-4-4
SAMPLE GENERAL LEDGER FORMAT

GENERAL LEDGER

Page No.

Account Description: CASH
Account Number: 100/ 0101

Date	Transaction	PR	Debit	Credit	Dr Balance	Cr Balance

In a computer-based accounting system, the general ledger for each account might include a beginning balance, month-to-date totals for all transactions (or a presentation of all individual transactions for the fiscal period reported) which have occurred during the fiscal period reported (e.g., a month) and an ending balance at the end of the fiscal period. Computer systems that allow direct access to review any account balance through the use of monitors usually can provide the current month's data as well as year-to-date data. Reviewing accounts electronically is just like opening a manual general ledger and looking at the details of a specific account.

Accounts normally included in the general ledger are:

- Individual asset accounts (e.g., cash in bank)
- Individual deferred outflow of resources accounts (e.g. pension contributions)
- Individual liability accounts (e.g., accounts payable)
- Individual deferred inflow of resources accounts (e.g. property tax revenue earned but not received within measurement period)
- Individual equity accounts (e.g., fund balance)
- Budgetary control accounts (e.g., appropriations)
- Revenue control account (e.g., revenues)
- Expenditure control account (e.g., expenditures)

Subsidiary Ledgers

Subsidiary ledgers provide detailed subdivisions of selected general ledger accounts. The most common subsidiary ledgers are for the budgetary, the revenue and the expenditure control accounts. For example, the general ledger might utilize a single account (e.g., the expenditure control account) to record the total year-to-date expenditures for a specific fund. Then the subsidiary ledger supporting the expenditure control account would include separate accounts for each individual expenditure account (e.g., grades 1-3 teacher's salaries). The total of the expenditure subsidiary ledgers equals the control account in the general ledger. Therefore the use of control and subsidiary accounts provides a system of "checks and balances."

RELATIONSHIP OF THE GENERAL LEDGER AND SUBSIDIARY LEDGERS

Exhibits I-4-5 and I-4-6 illustrate the relationship of the general ledger and subsidiary ledgers.

EXHIBIT I-4-5
RELATIONSHIP OF GENERAL LEDGER AND REVENUE SUBSIDIARY LEDGER
GENERAL LEDGER

ACCOUNT TITLE	DR	CR
Asset Accounts	$ XXXX	
Deferred Outflow of Resources Accounts	XXXX	
Liability Accounts		$ XXXX
Deferred Inflow of Resources Accounts		XXXX
Equity Accounts		XXXX
Estimated Revenue Control (301)	XXXX	
Revenue Control (302)		XXXX
Appropriation Control (601)		XXXX
Expenditure Control (602)	XXXX	
Encumbrance Control (603)	XXXX	
Total	$XXXX	$XXXX

REVENUE SUBSIDIARY LEDGER

SOURCE	ESTIMATED REVENUE	ACTUAL REVENUE
Property taxes	$ XXXX	$ XXXX
Tuition	XXXX	XXXX
QBE	XXXX	XXXX
Total	$ XXXX	$ XXXX

EXHIBIT I-4-6
RELATIONSHIP OF GENERAL LEDGER AND EXPENDITURE AND ENCUMBRANCE SUBSIDIARY LEDGERS
GENERAL LEDGER

ACCOUNT TITLE	DR	CR
Asset Accounts	$ XXXX	
Deferred Outflow of Resources Accounts	XXXX	
Liability Accounts		$ XXXX
Deferred Inflow of Resources Accounts		XXXX
Equity Accounts		XXXX
Estimated Revenue Control (301)	XXXX	
Revenue Control (302)		XXXX
Appropriation Control (601)		XXXX
Expenditure Control (602)	XXXX	
Encumbrance Control (603)	XXXX	
Total	$ XXXX	$ XXXX

EXPENDITURE AND ENCUMBRANCE SUBSIDIARY LEDGER

SAMPLE PROGRAM	APPROPRIATION	ENCUMBRANCES	EXPENDITURES
Grades 1 - 3	$ XXXX	$ XXXX	$ XXXX
Grades 6 - 8	XXXX	XXXX	XXXX
Grades 9 - 12	XXXX	XXXX	XXXX
Undistributed	XXXX	XXXX	XXXX
Total	$ XXXX	$ XXXX	$ XXXX

POSTING TRANSACTIONS

Posting is the process of taking information from journals and recording this data in the various ledgers as follows:

EXHIBIT I-4-7
ILLUSTRATION OF POSTING LEDGERS

In other words, transactions are recorded originally in a journal and then recorded in a summarized form in ledgers. This process is classified as posting.

General Journal ---------Posting-------------General Ledger

In a computerized accounting system, the process of journalizing and posting may occur simultaneously. Since a single transaction is recorded in both the journal and ledger with a single entry into the computer, the chance that the amount being posted (i.e., recorded) in error is reduced or eliminated.

As an example, the previous entry recorded in the general journal was to debit "Investments" and to credit "Cash in bank." The general ledger accounts now are posted from this journal entry in a manual system as follows:

EXHIBIT I-4-8
SAMPLE POSTED GENERAL LEDGER ACCOUNTS

GENERAL LEDGER

Page No.

Account Description: CASH
Account Number: 100/ 0101

Date	Transaction	PR	Debit	Credit	Dr Balance	Cr Balance
1-Jul	N/A	✓			323,500	
5 Jul	N/A	CR4	10,000		333,500	
10-Jul	N/A	CD3		2,000	331,500	
17-Jul	N/A	CR5	5,000		336,500	
21-Jul	N/A	CD4		1,500	335,000	
28-Jul	N/A	CD5		9,542	325,458	

The posting reference column in the general ledger indicates the source of the posting (e.g., which journal and page number of journal). The checkmark indicates a balance carried forward from the prior year's general ledger. The balance columns in the general ledger allow the accountant to maintain a running balance (i.e., current balance) in the account. Usually, each time the general ledger is posted, the accounts are totaled and the balance is entered in the appropriate column as a debit or credit balance.

In a computerized accounting system, posting references usually don't relate to separate journals. However, when a transaction is entered into the system, a transaction reference number may be affixed to each transaction. The reference would indicate which subsidiary module in which the transaction originated (for example, account payable module).

THE TRIAL BALANCE

If the accounts have been posted correctly, the total of all the debits posted to the general ledger should equal the total of all the credits posted. This is true because for every debit entry(ies), there has been a credit entry(ies) of an equal amount(s).

At the end of the reporting period (e.g., a month), one of the accountant's tasks is to prepare a trial balance. The trial balance is simply a listing of all the accounts and account balances in the general ledger. The trial balance confirms that the general ledger is in balance. For example, Exhibit I-4-9 a trial balance for a manual accounting system follows:

EXHIBIT I-4-9

NAME OF LUA
TRIAL BALANCE
GENERAL FUND
JULY 31, 20X3

General Ledger Account Number	Account Title	Account Balance Debit	Account Balance Credit
0101	Cash in bank	$71,548.90	
0111	Investments	9,542.00	
0141	Intergovernmental receivables	11,000.00	
0171	Inventory for consumption	3,500.00	
0421	Accounts payable		$8,500.00
0499	Other current liabilities		1,431.20
0799	Unassigned fund balance		84,371.98
0302	Revenues and other financing sources control		17,509.44
0602	Expenditures/expenses control	16,221.72	
		$111,812.62	$111,812.62

As indicated above, the total of the debit amounts should equal the total of the credit amounts in a trial balance. If they do not agree, either a posting error has occurred (i.e., the wrong amount was posted from a journal to an account in the ledger) or either the journal does not foot (numbers in a column do not add up correctly) or crossfoot (numbers in a row do not add up correctly) or the general ledger does not foot or crossfoot.

In most computerized accounting systems, the journal entries must balance or the computer will reject these entries. Therefore, the general ledger and the trial balance usually are in balance. When one transaction is recorded in the transaction report (i.e., the journal) and in the general and subsidiary ledgers simultaneously, the chance of the trial balance not balancing is minimal. However, if a posting is made in the correct amount, but to the wrong account, the general ledger will balance but certain accounts will be misrepresented. This type of error is often difficult to locate.

A trial balance prepared from a computer-based accounting system, in addition to the period ending balances, may include the beginning trial balance and a summary of the period's (e.g., month's) transactions.

SUMMARY

1. In an accounting system, the financial transaction generates a journal entry which flows from the journal to a ledger.

2. A journal is an accounting record where transactions entries originally are recorded.

3. A ledger is an accounting record that summarizes financial transactions by the type of account.

4. The process of taking financial information from a journal and recording this data in a ledger is defined as posting.

5. A general ledger contains the basic accounts of an LUA.

6. A subsidiary ledger contains details of a specific general ledger account (e.g., expenditure control).

7. A computerized accounting system contains the same data that is included in journals and ledgers even though it might not be readily accessible.

8. A trial balance is a listing of all the accounts and account balances.

9. The purpose of preparing a trial balance is to determine whether the debits and the credits in the general ledger balance, and to summarize the activity for a defined period.

Chapter 1 – 5 Principles of Accounting

INTRODUCTION

Local Units of Administration (LUAs) have objectives that differ from business enterprises, and they operate in different economic, legal, political, and social environments. These differences often require accounting and financial reporting techniques than are unique to LUAs. This chapter explains these principles of accounting in a highly summarized fashion.

GOVERNMENT VERSUS BUSINESS

Business enterprises exist to maximize economic profits. The "bottom line" (i.e., the profit) of an operating statement (i.e., the profit and loss statement) provides a reasonably useful tool in assessing the business' success. However, for an LUA, the "bottom line" usually is not an accurate measure of its success. A LUA's primary objective is to educate children within budgetary constraints with little regard to the "bottom line" concept.

Legal Requirements

Businesses have substantial discretion in obtaining and using resources. By comparison, the financing and spending activities of LUAs are subject to very specific legal and contractual provisions.

Finance-related legal requirements for many LUAs in this country include:

- Limits on the power to raise property taxes
- Limits on the amount of bonds to sell
- Expenditure limitations
- Accounting and budget requirements
- Financial reporting requirements

Annual Operating Budget

Each year LUAs adopt a budget which indicates the anticipated sources of revenue to operate the LUA and how these resources will be used. The role of a LUA's annual operating budget is different than that in business. Budgets are an important internal planning tool for business. However, in LUAs, they also play an important external role. Because a LUA is, by nature, a public entity, parties inside and outside of LUAs should participate in the development of its annual operating budget. Statutes require Georgia LUAs to conduct public budget hearings where interested parties have an opportunity to ask questions and make suggestions related to the proposed budget.

Once the school board adopts the budget, spending limits are established and normally cannot be exceeded legally unless the budget is changed (i.e., amended) by school board approval. These limits provide constraints to LUAs which do not exist in the commercial sector.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Generally accepted accounting principles (GAAP) are the accounting rules that most accountants, business and LUA alike follow. GAAP provides a set of uniform minimum standards and guidelines for financial accounting and reporting (see Chapter I -1 for a discussion of GAAP). The 2015 – 2016 *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 *Codification*), Section 1700, includes discussion on the budget and budgetary accounting.

Business Versus LUAs

There are differences between GAAP for business and GAAP for LUAs. The intent of business GAAP financial statements is to provide information investors and creditors use to decide whether to provide or to continue providing resources (i.e., invest in stock or loan money) to a particular business and, if so, how much to provide.

Since individuals do not invest capital in LUAs, governmental GAAP financial statements need not portray the same type of information. Moreover, GAAP for LUAs emphasize legal compliance and accountability of resources to meet stated objectives while GAAP for business do not.

ACCOUNTING PRINCIPLES FOR LUAS

The first statement issued by the Governmental Accounting Standards Board (GASB) set forth the authoritative status of the National Council on Governmental Accounting (NCGA) pronouncements and the 1974 American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits for State and Local Governmental Units* (ASLGU). GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide* (GASBS 1), establish the following as GAAP until altered, amended, supplemented, revoked or superseded:

- All NCGA Statements and Interpretations in effect that have not been altered, amended, supplemented, revoked or superseded by subsequent GASB pronouncements.

- All ASLGU containing accounting and financial reporting guidance that has not been altered, amended, supplemented, revoked or superseded by subsequent GASB pronouncements.

- NCGA Statements 1, 4, & 5

- NCGA Interpretations 3, 6, 9, & 10

- American Institute of Certified Public Accountants, Audits of State and Local Governmental Units as amended by AICPA Statements of Position 80-2

The GASB subsequently has issued pronouncements, interpretations, and technical bulletins most of which are still effective.

The GAAP included in the GASB's 2015-2016Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification) is organized into four parts:

Part I - General Principles
Part II - Financial Reporting
Part III - Specific Balance Sheet and Operating Statement Items
Part IV - Stand-Alone Reporting—Specialized Units and Activities

Though highly summarized below, later chapters in this manual discuss many of these topics in detail.

GAAP and Legal Compliance

A LUA's accounting system must be capable of producing financial reports in conformity with both GAAP and legal requirements if the two vary. In Georgia, LUAs differences might occur in the budget (i.e., the budget is adopted on a basis which differs from GAAP).

Fund Accounting

A LUA's accounting system must be organized and operated on a fund basis. The funds are classified into eleven generic fund types within three broad fund categories, governmental, proprietary, and fiduciary.

A general rule to follow is for a LUA to establish and maintain the minimum number of funds possible, consistent with legal requirements and sound financial administration. Fund accounting is discussed in detail in Chapter I - 6.

Capital Assets and Long-term Debt

Only proprietary and fiduciary funds (with the exception of agency funds) record capital assets and long-term debt within their respective funds. Capital assets and long term debt are only reported in the government-wide financial statements for governmental activities. Annual capital asset acquisitions and issuance of long-term debt are reported on the operating statement for governmental fund financial statements. Governmental funds only report activity associated with a period under review. Government-wide statements record those activities that affect more than one reporting period. See Chapter II-2 for detailed discussion of the basic financial statements.

A LUA's capital assets should be reported at cost or at estimated historical cost, if cost is not known. Donated capital assets are recorded at fair market value on the date donated. Depreciation expense should only be recorded in proprietary and fiduciary funds. Depreciation for governmental activities is reported in the government-wide financial statements, not in governmental funds.

A LUA's debt should be reported in proprietary and fiduciary funds if expected to be paid from these funds. General long-term debt is not reported as liabilities in governmental funds. Instead general long-term debt should be reported in the government-wide statement of net position. The liability should be classified into its current and long-term portions.

See Chapter II - 2 for detailed discussion of the basic financial statements.

The basic financial statements include

- Management's Discussion and Analysis,
- Government-wide financial statements - Statement of Net Position and Statement of Activities,
- Fund financial statements
- Governmental funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances,
- Proprietary funds - Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows,
- Fiduciary funds - Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position,
- Reconciliations of the fund financial statements to the government-wide financial statements
- Notes to the financial statements
- Required supplementary information.

The Basis of Accounting

The accrual basis of accounting should be used for proprietary and fiduciary fund categories. The modified accrual basis of accounting should be used for governmental funds. See Chapter I - 7 for basis of accounting discussion.

Budgets

Every LUA must adopt annual operating budgets for all of its governmental funds. A comparison of the budget with actual results of operations presented on the budgetary basis actually used to control operations is a GAAP reporting requirement for the general fund and all special revenue funds with a legally adopted budget. Chapter IV – 2 includes a review of LUA budgeting as it relates to GAAP.

Appendix C provides the required classifications for Georgia LUAs.

Classification and Terminology

A LUA should provide for the classification of revenues, expenditures, and expenses into certain specific categories. Interfund transfers and proceeds from the sale of general obligation bonds should be classified separately from revenues and expenditures or expenses. A LUA consistently should utilize terminology and classifications common to the fund types maintained.

Financial Reporting

Though not required, every LUA is urged to issue a comprehensive annual financial report (CAFR). All LUAs are required to present annual financial analysis reports to the Georgia Department of Education per O.C.G.A. §20-2-167 and §20-2-320. Interim financial statements (i.e., statements covering a period of time less than one year) should be prepared to facilitate management control of financial operations. These interim statements are used by internal budget managers and may be distributed to the LUA's governing body. The reporting entity also is defined by GAAP. Chapter II -2 of this manual provides specifics about financial reporting.

SUMMARY

1. LUA accounting and financial reporting principles (i.e., GAAP) differ from business, because of LUA's objectives (e.g., providing educational services) and its legal requirements.

2. GASBS 1 sets forth the authoritative status of the NCGA pronouncements and the 1974 AICPA Industry Audit Guide.

3. Conformance with both GAAP and legal compliance is required for LUAs.

4. Fund accounting must be used by LUAs.

5. Purchased capital assets must be reported at cost or estimated historical cost.

6. Donated capital assets must be reported at fair market value on the date donated.

7. The accrual basis of accounting should be used by proprietary and fiduciary fund categories.

8. The modified accrual basis of accounting should be used by governmental funds.

9. LUAs should adopt budgets for all of its governmental fund types.

10. Standardized classifications and terminology should be used throughout the accounting and reporting system.

11. Though not required, a CAFR should be issued by every LUA. Annual financial analysis report is required to be submitted to the Georgia Department of Education per O.C.G.A. §20-2-167 and §20-2-320.

Chapter 1 – 6 Fund Accounting

As noted in Chapter I - 5, governmental resources are allocated to and accounted for in separate sub entities, identified as funds, based upon the purposes for which they are to be expended and the means by which spending activities are controlled legally.

INTRODUCTION

The definition of a fund is an entity with a separate set of accounting records segregated for carrying on a specific activity. For example, a Local Unit of Administration (LUA) generally accounts for a federal grant in its own fund. It would record the proceeds from a bond sale (e.g., a school building bond) in a different fund. The more individual funds a LUA maintains, the more administratively burdensome the record keeping becomes. Since LUAs use accounting systems designed specifically for fund accounting, these accounting systems reduce the potential record keeping problems.

This chapter defines each of the fund categories and generic fund types.

NUMBER OF FUNDS

There is no limit on the number of individual funds a LUA may use for accounting and financial reporting purposes. In practice, a single LUA can have anywhere from ten or fewer funds to dozens of individual funds. Nonetheless, it is a basic principle of governmental accounting that LUAs should use the least number of individual funds possible, consistent with its particular circumstances. For financial reporting purposes to the Georgia Department of Education (GaDOE), there are certain funds that are requested to be rolled into a singular fund. For example, GaDOE requests all Capital Projects Funds to be rolled into Fund 300 for reporting the annual financial analysis report and the budget reports to the state.

FUND CATEGORIES

The LUA official must classify all of an LUA's individual funds within three categories identified in the 2015-2016 Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 Codification) Section 1300. These categories are important because we may apply the accounting rules differently to each of the fund categories. The following are brief explanations of the three categories:

A. Governmental Funds account for general LUA operations.

B. Proprietary Funds account for a LUA's activities that are similar to the commercial sector (e.g., an after school program).

C. Fiduciary Funds account for assets held by a LUA in a trustee or agent capacity for non-school district programs. (e.g., estates willed to the LUA, student activity funds).

GENERIC FUND TYPES

GAAP subdivides the three fund categories into generic fund types. The generic fund type classifications are important to have a thorough understanding of LUA financial statements. Governmental fund types include the following generic fund types:

1. The General Fund accounts for all resources not required to be accounted for in another fund. A LUA reports most of their financial transactions in this fund. LUAs should report only one general fund.

2. Special Revenue Funds account for resources that are legally restricted for specific purposes. LUAs should classify federal or state grant funds here.

3. Capital Projects Funds account for resources restricted for major capital outlays. The proceeds from a bond issue used to construct new schools for which the LUA will repay the debt from property taxes would be accounted for here.

4. Debt Service Funds account for resources used to repay the principal and interest on general long-term debt such as general obligation bonds.

5. Permanent funds are the newest of the governmental fund type, which was first introduced as part of the governmental financial reporting model established by GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* (GASBS 34). Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting LUA's programs, that is, for the benefit of the LUA or its citizenry. Similar arrangements for the benefit of those outside the LUA (e.g., individuals, private organizations, other governments) should be accounted for as private-purpose trust funds rather than permanent funds.

Proprietary fund types include the following generic fund types:

1. Enterprise Funds account for activities financed and operated similar to business enterprises.

2. Internal Service Funds account for operations similar to those accounted for in enterprise funds, which provide goods or services to other departments within the same LUA or to other LUAs. LUAs report activities such as central warehousing and purchasing, central data processing, and central printing and duplication operations often as internal service funds.

The last fund category, fiduciary fund types, includes the trust and agency generic fund type subdivided into three funds.

1. Agency Funds are used to account for situations where the LUA's role is purely custodial (e.g., the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments). Accordingly, all assets LUAs report in an agency fund are offset by a liability to the party on whose behalf they are held. For example, LUAs might classify student activity funds here.
2. Pension Trust Funds (and other employee benefit) account or those LUAs maintaining single employer pension plans. In other words, the assets invested and held for retirement payments to a LUA's employees (i.e., those who have or will retire) are reported here. Only a few Georgia LUAs report this fund type.
3. Private Purpose Trust Funds may be used to report any trust arrangement under which principal and income benefit individuals, private organizations, or other governments, and not the reporting LUA.

ACCOUNT GROUPS

Before the GASB issued their GASBS 34, Basic Financial Statements – and Management's Discussion and Analysis -- for State and Local Governments (GASBS 34), GAAP required LUAs to account for their general fixed assets and their general long-term debt in two account groups. However, GASBS 34 only requires LUAs to report their general capital assets and their general long-term debt in the governmental fund column on the government-wide statements. Since GAAP requires LUAs to maintain accounting records for these assets, deferred outflows, liabilities, and deferred inflows, we suggest that LUAs continue to maintain their account groups, although the LUA will never report account groups separately from other funds. Accounting software maintained by GaDOE (PC Genesis) has been modified so that revenues and expenditures can be modified in the General Fixed Assets and General Long Term Debt Account Groups. These changes have been implemented to encourage school districts to complete the financial statements to the nearest extent possible prior to closing the fiscal year and submitting to GaDOE. Additionally, Depreciation Expense is required to be considered when calculating the indirect cost rates, as discussed in the Indirect Cost Chapter II-9 of the handbook.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

Governmental fund types are accounted for on a current financial resources measurement focus using the modified accrual basis of accounting and proprietary fund types and fiduciary fund types (except agency funds) are accounted for on an economic resources measurement focus using the accrual basis of accounting. The different account measurement focus methods are further discussed in Chapter I-7.

SUMMARY

1. A fund is an accounting entity with a separate set of accounting records segregated for carrying on a specific activity.

2. GAAP classifies all individual funds of an LUA in one of three categories, governmental, proprietary or fiduciary.

3. LUA governmental funds include the generic fund types, general, special revenue, capital projects, debt service and permanent funds.

4. Proprietary funds include the enterprise and internal service generic fund types.

5. Fiduciary fund types include the pension trust, private purpose trust and agency fund types.

6. Governmental fund types use the modified accrual basis of accounting and a current financial resources measurement focus.

7. Proprietary fund types and fiduciary fund types (except agency funds) use the accrual basis of accounting and an economic resources measurement focus.

Chapter 1 – 7 Summary of the Basis of Accounting/Measurement Focus

INTRODUCTION
Two important principles contained in the 2015-2016 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification) is the basis of accounting and the measurement focus. The basis of accounting refers to the point in time when a Local Unit of Administration (LUA) recognizes revenues, expenditures or expenses (as appropriate), and the related assets and liabilities in the accounts and reported in the financial statements. In other words, the basis of accounting governs the time at which the accounting system recognizes transactions. The measurement focus tells the reader what types of transactions LUAs will report in their financial statements.

Three bases of accounting are commonly used in governments: cash, accrual and modified accrual. This chapter defines and compares each of these bases. Chapters I - 9 and I - 10 provide more specificity regarding the basis of accounting for specific transactions.

GASB STATEMENT NO. 34

Before the GASB's issuance of GASB Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments (GASBS 34), Generally Accepted Accounting Principles (GAAP) required certain fund types to be reported using the accrual basis and certain fund types to be reported using the modified accrual basis.

GASB 34 changes the fund structure (see chapter I - 6) and the basis of accounting for certain funds on certain financial statements. GASBS 34 introduces two financial reporting levels as follows:

- Governmental-wide reporting
- Fund level reporting

The governmental funds will report using a different basis of accounting for each of the two reporting levels. LUAs report this fund type on the accrual basis at the government-wide financial reporting level and on the modified accrual basis for fund level financial reporting. LUAs will report the proprietary funds using the accrual basis of accounting at both reporting levels and the fiduciary funds (i.e., they are reported only at the fund level) will use the accrual basis of accounting.

Chapter II -3 discusses these reporting levels in detail.

The adoption of GASB Statements No. 63 and 65 further clarified the treatment of certain assets and liabilities that are not considered available at fiscal year-end. Deferred Inflows/Outflows of Resources represent a consumption of resources that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) or inflow of resources (revenue) until the future period. Further detail of the change in the financial accounting equation are discussed in Chapter I-2 of the Financial Management Handbook.

In some instances, the GASB requires a government to delay recognition of decreases in the net current assets of a governmental fund as expenditures until a future period. Likewise, governments are required to delay recognition of increases in the net current assets of a governmental fund as revenues until a future period in other instances. Deferred outflows of resources and deferred inflows of resources, respectively, result from the delayed recognition of expenditures or revenues in these circumstances. Governments are only permitted to report deferred outflows of resources or deferred inflows of resources in governmental funds in circumstances specifically authorized by the GASB. GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, identifies several deferred outflows of resources and deferred inflows of resources to be reported in governmental funds. The governmental fund deferred outflows of resources and deferred inflows of resources identified in GASBS No. 65 are discussed in Chapter I - 2.

CASH BASIS ACCOUNTING

Some LUAs still use cash basis accounting in their day-to-day operations. Cash basis accounting recognizes transactions only when an LUA has received or disbursed cash.

Cash basis financial statements do not include assets and liabilities not arising from cash transactions (i.e., they ignore the effects of accounts receivable, accounts payable and other accrued items). Since these items are commonly of significant dollar amounts, cash basis financial statements usually do not present financial position or results of operations in conformity with generally accepted accounting principles (GAAP). Because of an LUAs liability at fiscal year end, the cash basis will not agree with financial statements that are prepared on the GASB GAAP basis.

Cash basis accounting permits distortions in financial statement representations due to shifts in the timing of cash receipts and disbursements relative to underlying economic events near the end of a fiscal period. For example, a LUA may speed up and/or slow cash collections and payments near the end of the period. These cash flow changes would affect the LUA's financial position and results of operations.

LUAs are urged to follow GAAP during their daily accounting and financial reporting.

MEASUREMENT FOCUS

Before discussing the accrual and modified accrual basis of accounting, the concept of "measurement focus" must be reviewed. Although there is a relationship between the measurement focus and the basis of accounting, they are distinctly separate accounting conventions. Remember that the measurement focus determines what is measured in the financial statements (i.e., the types of transactions that might be found in a LUA's financial statements). The basis of accounting determines when LUAs recognize transactions in the financial statements despite the measurement focus applied. LUAs may use two types of measurement focus depending upon the fund category and financial reporting level:

Current financial resources measurement focus. Commonly known as "flow of funds," the fund using this focus (e.g., the general fund) generally reports only current assets and current liabilities on their balance sheets. At the fund reporting level, the equity, which is the difference between current assets and current liabilities, is known as net current assets or fund balance. Funds using this focus only recognize revenue when the transaction will provide them with more resources to pay their bills in the near future. They would only report an expenditure when the transaction is going to use up current financial resources.

Economic resources measurement focus. A fund using this focus (e.g., an after-school fund) reports all assets and all liabilities on their statement of position. The difference between all assets and all liabilities is the classified as net position of the fund. The operating statements include all costs of providing a service and statement of net position includes total assets and total liabilities. In other words, LUAs would report on their operating statement transactions when they affect the LUA economically.

THE ACCRUAL BASIS OF ACCOUNTING

At the fund reporting level, all proprietary and fiduciary fund types use the accrual basis of accounting under GAAP. All governmental funds use the accrual basis of accounting when reporting at the government-wide level. Accrual basis accounting recognizes transactions when they occur, despite the timing of related cash flows. The use of accrual accounting techniques prevents distortions in financial statement representations due to shifts in the timing of cash flow and related underlying economic events near the end of a fiscal period. In other words, the receipt or disbursement of cash does not affect the reporting of revenues and expenses. Accrual accounting techniques enhance the comparability of financial statements from period to period and from one LUA to another.

Revenue Recognition

Under the accrual basis, revenue recognition occurs in the accounting period in which the revenue becomes objectively measurable and earned. "Objectively measurable" means the amount can be determined accurately. Obviously, LUAs cannot report a transaction unless they can determine the amount of the transaction. The LUA staff must either know the actual amount of a transaction or can estimate accurately this amount. This criterion is applicable to the recording of all financial transactions. For an LUA to earn revenue, it must have provided the goods or services. GASBS 33 provides guidance for revenue recognition on both the accrual and the modified accrual basis of accounting for non-exchange transactions, which is discussed in Chapter I-9.

Expense Recognition

When using the accrual basis of accounting, LUAs recognize expenses in the period incurred, if measurable. To incur an expense, the LUA must receive and consume the item purchased or the vendor or employee must have provided the service. For example, the purchase of a consumable supply in an enterprise fund must be received and consumed by the LUA before an expense can be reported. As another example, the monthly servicing of the lunchroom by the exterminator must be performed before an expense can be incurred and reported.

For an expense to be measurable, the amount must be determined. Normally this is when the LUA receives the invoice for the purchase of the service. However, the LUA could estimate this amount.

DISTINGUISHING BETWEEN EXPENSES AND EXPENDITURES

Note the use of the term expenses rather than expenditures when describing accrual accounting. Expenses and expenditures differ in several ways. An expenditure is a demand on current financial resources (e.g., cash, accounts receivable). For example, to report an expenditure, at some point in time, the LUA will write a check (i.e., a demand will occur on current financial resources).

For an LUA to incur an expense, they must be economically "worse off." For example, an LUA may incur an expense without a demand on current financial resources. The primary difference in the two terms is that expenses:

- Include various allocations of costs, such as depreciation
- Do not include the purchase of capital assets or the repayment of debt principal

Note that when an LUA incurs depreciation expense, it does not write a check (i.e., there is no demand on current financial resources). However, the LUA is economically "worse off" (i.e., their fund net position is reduced when depreciation expense is closed to the net position account at year end).

The opposite is true for expenditures. Expenditures:

- Include the purchase of capital assets
- Include the repayment of debt principal (i.e., a demand on current financial resources)
- Do not include allocations of costs such as depreciation or amortization of bond discounts (i.e., which would make the LUA economically "worse off")

MODIFIED ACCRUAL BASIS OF ACCOUNTING

All governmental fund types use the modified accrual basis of accounting at the fund level reporting.

Revenue Recognition

Under the modified accrual basis of accounting, a LUA recognizes revenues when they meet both the measurable and available criteria. As previously shown, a LUA recognizes transactions (e.g., revenues) when they are measurable under both the cash and the accrual bases of accounting. A LUA considers revenues objectively measurable if they can determine the amount accurately. Some revenues such as swimming pool user fees and daily lunch sales generally are not considered measurable until received in cash. However, this does not mean that the LUA recognizes these revenues on the cash basis. Rather, they become measurable when received (i.e., meeting one of the two revenue recognition criteria under the modified accrual basis of accounting).

The requirement that revenues be available before they are recognized, distinguishes the modified accrual basis revenue recognition from that of accrual basis. Available means that the revenue is collected in the current period or will be collected soon enough after the end of year to pay liabilities of the current period. In practice, LUAs interpret the term "available" in different ways. Alternative interpretations include:

- Collected within a period of time after year-end equal to the LUA's normal bill paying cycle.
- Collected within a specified standardized time period after year-end such as 30, 60, 90 or 120 days.
- Collected within 12 months after year-end (i.e., the transaction results in a current asset at year-end).

Under current GAAP, any of the above alternatives, are considered acceptable for revenue recognition. However, the 2015-2016 GASB Codification Section P70 clarifies revenue recognition for property taxes. LUAs recognize property taxes as revenue in the period for which the LUAs levy them (i.e., usually the period for which the taxes are budgeted) except that they will not recognize them unless:

- They are collected within the current year or expected to be collected within “60 days” after the end of the current year.

In other words, GAAP limits the available period to 60 days. Codification Section P70, Section 104 states, “when a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was levied, provided the “available” criteria are met. *Available* means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Governments should disclose in their summary of significant accounting policies the length of time used to define available for purposes of revenue recognition in the governmental fund financial statements. If, because of unusual circumstances, the facts justify a period greater than 60 days, the governmental unit should disclose the period being used and the facts that justify it."

In summary, if a time period other than 60 days is determined to be the available period, the school district should provide justification for the use of a different measurement period.

Chapter I - 9 includes journal entries illustrating the recording of property tax revenue.

If a receivable is measurable but not available, the LUA reports the credit amount as a deferred inflow of resources, following the liability section of the balance sheet. Deferred inflow of resources for property taxes (i.e., those taxes collected after the 60-day period) and some grant revenues are the most common LUA deferrals.

Expenditure Recognition

LUA's recognize expenditures under the modified accrual basis:

- When measurable,
- And generally when the LUA incurs the liability,
- And the liability will be liquidated with current resources.

An expenditure normally is considered measurable when the LUA receives the invoice for the goods or services. If the expenditure was incurred as a result of a bid or the amount could be estimated, the LUA could consider the transaction measurable before it received the invoice.

To incur a liability, the LUA must receive the goods in satisfactory condition and/or the vendor or the employee must have performed the service. For example, a LUA records the expenditure when goods or services are received (note that it is not necessary that it uses the goods) or when repairs are completed (i.e., the liability is incurred) and the invoice is received (i.e., the transaction is measurable).

The third expenditure criteria, "the liability must be liquidated from current resources", is not as easily defined. Some consider current resources to be equal to fund balance. Therefore, when using this consideration, if there is a fund balance (i.e., no fund balance deficit), expenditures and liabilities outstanding can be recorded. However, this recording cannot exceed the amount of fund balance available. Alternatively, if the paying of the liability occurs after year-end but within the normal bill paying cycle, this criterion usually is considered met. As noted, GAAP allows flexibility when applying this criteria, however, a LUA should use a similar "available period" consistently from year to year. Most often, if a LUA has a liability at year-end, they should report this amount as an expenditure.

There are some exceptions or alternatives to this expenditure recognition criteria.

1. Principal and interest on general long-term debt generally are recognized when the payments for these purposes are due.

2. Inventory items such as consumable supplies may be considered as expenditures either when purchased or when used. Chapter I - 12 explain this option.

3. Expenditures that are prepaid for insurance and similar services extending over more than one accounting period (e.g., the fiscal year) may be allocated between accounting periods (i.e., one-third of a three-year insurance premium could be charged as an expenditure each year) or may be recognized in the period of acquisition. The latter alternative is most common.

4. At the fund reporting level, LUAs report expenditures for compensated absences (e.g., vacation, sick pay) in a governmental fund when they will liquidate them with expendable available current financial resources. Unfortunately, as with the revenue recognition "available" criteria, the term "expendable available current financial resources" is not defined clearly or applied consistently from LUA to LUA.

Chapters I-10 and III-4 explains detailed expenditure recognition.

Summary of the Bases of Accounting
The modified accrual basis of accounting falls somewhere between the cash basis of accounting and the accrual basis of accounting. A revenue is recognized on the modified accrual basis similar to revenue recognition under the accrual basis, since the cash is received soon enough after year-end (i.e., it is considered available). Generally, a LUA records an expenditure similar to recognition under the accrual basis, since the liability resulting from the expenditure is liquidated from current resources.

When the cash for a revenue transaction is collected, and when the liability resulting from an expenditure is liquidated, affects when a transaction is recorded under the modified accrual basis of accounting. When the LUA receives the cash from the transaction determines when the revenue is considered available. When the liability resulting from the expenditure is liquidated determines whether the liability was liquidated from current resources.

As indicated, there are major differences between the non-GAAP cash basis of accounting and the two GAAP methods of accrual accounting. The three bases discussed above can be compared as they relate to cash received and disbursed as follows:

1. Cash basis - Revenues and costs are reported only when cash is received or disbursed.

2. Accrual basis - Revenues and expenses are reported without regard to when cash is received or disbursed.

3. Modified accrual basis - Revenues and expenditures normally are reported before cash is received or disbursed, however, when cash changes hands does affect when the transactions are reported (i.e., when revenues are available or expenditures are liquidated from current recourses).

Exhibit I-7-1 summarizes the two acceptable bases of accounting explained above.

EXHIBIT I-7-1
COMPARISON OF THE BASES OF ACCOUNTING

	(1) Accrual Basis	(2) Modified Accrual Basis
A. Revenues are recorded on the operating statement when:	Measurable (the amount can be determined) and Earned (the service has been provided)	Measurable (the amount can be determined) and Available (the revenue was collected in the fiscal year or will be collected soon enough after the close of the fiscal year to pay liabilities of the current year)
B. Expenses/expenditures are recorded on the operating statement when:	(Expenses) Measurable (the amount can be determined) and Incurred (the goods or services have been received and consumed)	(Expenditures) Measurable (the amount can be determined) and Incurred (the goods or services have been received s) Payable from current financial resources
C. Capital Assets	An asset on the statement of net position.	An operating expenditure in the fund where the purchase is made (Note – the LUA also maintains a record of these assets in its capital asset system)
D. Depreciation is reported:	As an expense on the operating statement	Not reported
E. The issuance of debt is reported:	As an increase in the liability on the statement of net position	As an “other financing source” on the operating statement (Note – the LUA also maintains record of these liabilities)
F. The payment of debt is reported:	As a reduction of the liability	As an operating expenditure on the operating statement

RELATIONSHIP TO FUND ACCOUNTING

Under GAAP, all generic fund types must use either the accrual or the modified accrual basis of accounting as illustrated in Exhibit I-7-2. At the fund reporting level, governmental fund types use the modified accrual basis of accounting and current financial resources measurement focus and proprietary fund types and fiduciary fund types use the accrual basis of accounting and the economic resources measurement focus.

EXHIBIT I-7-2
FUND ACCOUNTING SUMMARY @ THE FUND REPORTING LEVEL

Fund Type	Fund Category	Measurement Focus	Basis of Accounting
General Special Revenue Debt Service Capital Projects Permanent Enterprise Internal Service Pension Trust Private Purpose Trust Agency	Governmental Governmental Governmental Governmental Governmental Proprietary Proprietary Fiduciary Fiduciary Fiduciary	Flow of current financial resources Flow of current financial resources Flow of current financial resources Flow of current financial resources Flow of current financial resources Flow of economic resources Flow of economic resources Flow of economic resources Flow of economic resources Not applicable	Modified accrual Modified accrual Modified accrual Modified accrual Modified accrual Accrual Accrual Accrual Accrual Accrual

At the government-wide financial reporting level, governmental and proprietary fund types use the accrual basis of accounting and the economic resources measurement focus.

EXHIBIT I-7-3
FUND ACCOUNTING SUMMARY @ THE GOVERNMENT-WIDE REPORTING LEVEL

Fund Type	Fund Category	Measurement Focus	Basis of Accounting
General Special Revenue Debt Service Capital Projects Permanent Enterprise Internal Service Trust and Agency: Pension Trust Private Purpose Trust Agency	Governmental Governmental Governmental Governmental Governmental Proprietary Proprietary Fiduciary Fiduciary Fiduciary	Flow of economic resources Flow of economic resources Flow of economic resources Flow of economic resources Flow of economic resources Flow of economic resources Flow of economic resources Not applicable Not applicable Not applicable	Accrual Accrual Accrual Accrual Accrual Accrual Accrual Not applicable Not applicable Not applicable

SUMMARY

1. Cash basis accounting permits distortions in financial statement representations due to shifts in the timing of cash receipts and disbursements relative to underlying economic events near the end of a fiscal period. This method is not recommended for LUAs.

2. The measurement focus determines "what" LUAs measure in their financial statements.

3. The basis of accounting determines "when" LUAs record transactions in their financial statements.

4. Funds using the current financial resources measurement focus generally report only current assets and current liabilities on their balance sheets.

5. Governmental fund types use the current financial resources measurement focus at the fund reporting level.

6. Funds using the economic resources measurement focus report all assets and all liabilities on their balance sheets.

7. Proprietary fund types and fiduciary fund types (except agency funds) use the economic resources measurement focus at the fund reporting level.
8. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and are earned.

9. Under the accrual basis of accounting, expenses are recognized in the accounting period incurred, if measurable.

10. Proprietary fund types and fiduciary fund types use the accrual basis of accounting at the fund reporting level.

11. Expenses include the allocations of costs including depreciation, but do not include the purchase of capital assets or the repayment of debt principal.

12. Expenditures include the purchase of capital assets and the repayment of debt principal, but do not include allocations of cost such as depreciation.

13. Under the modified accrual basis of accounting, LUAs recognize revenues in the accounting period when they become susceptible to accrual, that is, when they become measurable and available (i.e., collected soon enough after year end to pay liabilities of the current period).

14. LUAs recognize property taxes as revenue in the period for which they are levied except that they will not be recognized unless they collected within the current year or expected to be collected within 60 days after the current year.

15. Under the modified accrual basis of accounting, LUAs recognize expenditures in the accounting period when measurable and generally when they incur the liability and they will liquidate it with current resources.

16. Governmental fund types use the modified accrual basis of accounting at the fund reporting level and use the accrual basis of accounting at the government-wide financial reporting level.

Chapter 1 – 8 Budgetary Accounting

INTRODUCTION

The 2015-2016 Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 *Codification*) Section 1700 calls for the adoption of an annual budget by every government. The local unit of administration's (LUA's) accounting system should provide the basis for appropriate budgetary control. Unless the accounting system is well organized and maintained, it is difficult to prepare an accurate budget. The accounting system is the basis for evidence of past experience needed for the preparation of the budget. Budget execution is dependent upon the accounting system to provide controls over expenditures and for the monitoring of revenues. LUAs are required to adopt annual budgets.

This chapter includes a discussion of budgets and the budgetary bases of accounting, introduces the budgetary control accounts, illustrates how the budgetary control accounts are integrated formally into the accounting system, and presents in detail the journal entries necessary to report encumbrances.

REVENUE BUDGETS

The revenue budget should include all revenues anticipated within the fund in a given fiscal year, and generally they are segregated by source (e.g., property taxes, Quality Basic Education Act revenues). In addition to revenues, the category "other financing sources" also may be used. Generally, this category describes financial resources that are non-revenue receipts, but are treated as revenue to an individual fund within the LUA. Included in this classification are proceeds from the sale of bonds, sale (or compensation for the loss) of fixed assets, and interfund operating transfers in. The available fund balance at the beginning of the fiscal year which may be spent in the subsequent year's budget is also considered a financial resource for budget purposes.

EXPENDITURE BUDGETS

Generally, expenditure budgets are considerably more detailed than revenue budgets. Governmental expenditures are classified in several ways, using the dimensions illustrated in Appendix C. An important aspect of expenditure budgets is the legal level of budgetary control. This is the level which may not be over expended without the school board's approval. As set forth in Chapter IV - 2, local boards should adopt a policy setting forth the level of budgetary control. A copy of that policy should be available for review as necessary by the Financial Review Unit of the GaDOE and the audit firm responsible for the annual audit of the LUA.

In addition to expenditures, the category "other financing uses" also may be used. This category is reported similarly to "other financing sources" and includes transactions that reduce equity in an individual fund but do not reduce the total equity of the LUA. The primary classification included here is interfund operating transfers out.

BUDGETARY BASIS OF ACCOUNTING

Neither GAAP nor the State Board of Education have any rules about which budgetary basis must be used by LUAs. However, the financial analysis report must be reported on the Modified Accrual Basis, therefore, the GAAP basis for budgetary reporting is recommended for budget to actual comparisons. The most common budgetary bases are these:

1. GAAP Basis. The budget is prepared on the modified accrual basis of accounting for governmental fund types and should be the easiest to understand since this basis is consistent with GAAP basis. This means that the actual financial data (i.e., revenues and expenditures) will be the same on the budgetary comparison operating statements as it is on the GAAP operating statements.

2. GAAP Basis and Encumbrances. Using this basis means that the modified accrual basis of accounting is used; however, actual expenditures on the GAAP basis are adjusted for outstanding encumbrances. Encumbrances are explained later in this chapter. On GAAP basis, encumbrances are not considered expenditures because a fund liability has not yet occurred.

3. Other Bases. Cash basis accounting, modified cash or any modification of the above are acceptable as a budgetary basis. However, the cash and modified cash basis are unacceptable for GAAP accounting as addressed earlier.

Regardless of the budgetary basis used, any "budget and actual" operating statements must be prepared using the budgetary basis. For LUAs, the budgetary basis reported as Required Supplementary Information is using the Modified Accrual Basis. Chapter IV -2 discusses this topic in detail.

BUDGETARY SUBSIDIARY AND CONTROL ACCOUNTS

GAAP suggests that budgets be integrated formally into the subsidiary ledgers and the general ledger control accounts. The PC GENESIS system includes a budget module with the accounts needed to integrate the budget.

Subsidiary Ledger Accounts

Each of the items of estimated revenue and budgeted (i.e., appropriated) expenditures should be accounted for in a separate account so that variances may be identified readily by source as the fiscal year progresses. This accounting is accomplished by the use of subsidiary ledgers: the revenue ledger and the expenditure ledger. These ledgers are illustrated in Chapters I-9 and I-10.

Budgetary Control Accounts. All subsidiary ledgers should be summarized in control accounts in the general ledger. The budgetary general ledger control accounts and numbers are:

- ESTIMATED REVENUES AND OTHER FINANCING SOURCES CONTROL (0301)
- APPROPRIATIONS AND OTHER FINANCING USES CONTROL (0601)

Each of these budgetary general ledger control accounts is supported by a budgetary subsidiary ledger.

The other budgetary account that may be used is the FUND BALANCE - UNASSIGNED account (0799). This account is used to record the difference between the ESTIMATED REVENUE AND OTHER FINANCING SOURCES CONTROL account and the APPROPRIATIONS AND OTHER FINANCING USES CONTROL account. That is, when beginning fund balance is used to balance the budget the difference between the above accounts is reported in the FUND BALANCE - UNASSIGNED account.

The initial step in accounting for any budgeted fund is to record the legally adopted budget. The entry may be recorded in two parts. To record the estimated revenues and other financing sources:

Description	Account No.	DR	CR
Estimated Revenue and Other Financing Sources Control	0301	$1,235,000	
Fund Balance - Unassigned	0799		$1,235,000

In the example, the effect of revenues and other financing sources on the fund balance account is an increase (i.e., credit) of $1,235,000. The second entry is to record the appropriations and other financing uses:

Description	Account No.	DR	CR
Fund Balance - Unassigned	0799	$1,375,000	
Appropriations and Other Financing Uses Control	0601		$1,375,000

The total effect of appropriations and other financing uses on the fund balance account is a decrease (i.e., a debit) of $1,375,000. The total effect on the fund balance account is a decrease of $140,000 (i.e., $1,375,000 minus $1,235,000). This means that if the actual amounts equaled the budgeted amounts at year end, the actual fund balance would decrease $140,000. However, in many states the law requires that revenues and other financing sources must equal the expenditures and other financing uses without the use of the fund balance. The type of budget illustrated here (i.e., a budget which could result in a decrease in fund balance) would be illegal in those states. However, Georgia LUAs may use the fund balance to balance their budgets. Of course, the two budgetary entries illustrated above could be made in a single journal entry. Obviously, if the appropriations and other financing uses exceed the estimated revenues and other financing sources, the budget is considered a "deficit budget" and the deficit would have to be made up from the beginning fund balance.

Anytime an entry is made to a control account, an entry must be made to a subsidiary account. Therefore, when the ESTIMATED REVENUE AND OTHER FINANCING SOURCES CONTROL account is posted for $1,235,000 in the above example, detailed revenue accounts within the revenue subsidiary ledger are posted, such as:

Ad valorem taxes	$ 585,000
Earnings on investments	50,000
QBE formula earnings	650,000
QBE contra account	(50,000)
Total estimated revenue control	$1,235,000

The entries required to close the budgetary accounts at year end are a reversal of the entries formally integrating the budget.

ENCUMBRANCES

Encumbrance accounting is a logical extension of the management control technique of formal budgetary integration. Often, LUAs obligate budget appropriations long before those funds actually are expended. These obligations or commitments are classified as encumbrances.

For example, a purchase order is issued in October for a new truck to be delivered in April at a cost of $25,000. The purchase order represents a commitment to buy a truck at a certain price if it is delivered on schedule and in good condition--provided the purchase order is not later changed or canceled. Since the truck will not be delivered, nor the invoice paid, for several months, it is desirable to reflect this commitment against the capital outlay budget appropriation. In this instance, the purchase order is the source document that results in an encumbrance.

Encumbering Appropriations

By recording an encumbrance in the capital outlay account, the available appropriation balance may be reduced without actually reporting an expenditure. Later, when the truck arrives and the invoice is approved for payment, the encumbrance is liquidated (i.e., canceled), and the actual expenditure is recorded (i.e., since an expenditure and a liability have occurred).

Assume that there is an appropriation of $550 for office supplies in the principal's office. On July 5 a purchase order (i.e., P.O. #17) is issued to the ABC Supply Company in the amount of $50.00 for office supplies to be used in the principal's office. The general journal entry is:

Description	Account No.	DR	CR
Encumbrances Control*	0603	$50	
Fund Balance - Reserved for Encumbrances	0753		$50

* Subsidiary account - 100-0000-2400-610.XX

This entry establishes a debit to the ENCUMBRANCES CONTROL account (0603) and a credit to FUND BALANCE--ASSIGNED FOR ENCUMBRANCES (0753) to set aside a portion of the fund balance to pay this commitment in the future.

Notice that the purchase order has been posted as an encumbrance (i.e., a positive number) and the amount of the encumbrance is subtracted from the available balance. This indicates that there now is only $500 available to spend from the original $550 appropriation.
If a separate journal entry were required each time a purchase order is issued (i.e., an encumbrance is created), the accounting would become quite complex. However, with a computer system, usually all purchase orders are entered into the computer in a single batch and one entry is made in the encumbrance control account for the total of the purchase orders issued. Normally in a computer system, this entry is recorded automatically and posted (i.e., without an additional entry within the computer). However, the individual purchase orders are recorded in the computer's memory and are retrievable.

Liquidating Encumbrances

Assume now that the supplies ordered above are delivered in good order on July 28 and that they are accompanied by an invoice for $53--$50 for supplies and $3 for shipping charges. When the invoice is received, four general ledger accounts are affected: Expenditures/Expenses Control (0602), Accounts Payable (0421), ENCUMBRANCES CONTROL (0603) and FUND BALANCE--ASSIGNED FOR ENCUMBRANCES (0753). This transaction is reported in a single journal entry below, however, the recording of two entries (i.e., canceling the encumbrance and recording the expenditure and liability) is acceptable:

Description	Account No.	DR	CR
Fund Balance Assigned for Encumbrances	0753	$50	
Encumbrances Control*	0603		$50
Expenditure/Expenses Control*	0602		$53
Accounts Payable	0421		$53

* Subsidiary account - 100-0000-2400-610.XX

This entry increases Expenditures/Expenses Control and Accounts Payable accounts by the amount of the invoice ($53), and "liquidates" the encumbrance by reversing the original entry made on July 5. The original amount encumbered always is the same amount liquidated regardless of actual amount of the expenditure.

The entry is posted in the expenditure subsidiary ledger to liquidate the encumbrance and record the expenditure.

The effect of this transaction on the supply subsidiary account available balance is $3 (i.e., the expenditure of $53 less the encumbrance of $50) since the encumbrance originally reduced the account balance by $50.

Encumbrances Outstanding at Year-End

LUAs need a system to determine the amount of outstanding encumbrances at any point in time. In a computer accounting system, the amount of outstanding encumbrances is available in a computer-generated report for any single account or in purchase order number.

The 2015-2016 *Codification* Section 1700.127 provides specific guidance regarding the reporting of outstanding encumbrances at year end. Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed. Encumbrances outstanding at year end do not constitute expenditures or liabilities on a GAAP basis. At year end the outstanding encumbrance budgetary accounts should be closed with a reversal of the original journal entry in the amount of the outstanding encumbrances.

Description	Account No.	DR	CR
Fund Balance - Assigned for Encumbrances	0753	$876,493	
Encumbrances Control	0603		$876,493

Where appropriations lapse at year end, even if encumbered, the LUA may intend either to honor the contracts in progress at year end or to cancel them. If the LUA intends to honor them, encumbrances at year end should be disclosed in the notes to the financial statements. 2015-2016 Codification Section 1800.184 states encumbered amounts for specific purposes for which resources have already been restricted, committed, or assigned should not result in separate display of the encumbered amounts within the classifications. The LUA may choose to increase the next year's appropriation (i.e., the amount of the outstanding encumbrances should be reappropriated), in order to provide authority to complete these transactions without affecting the next year's budget.

Where appropriations do not lapse at year end, or only unencumbered appropriations lapse, encumbrances outstanding at year end should be reported as an assignment of fund balance if designated as such by board policy.

Most often, an amount of fund balance equal to the outstanding encumbrances is assigned.

Description	Account No.	DR	CR
Fund Balance - Unassigned	0799	$876,493	
Fund Balance - Assigned for Encumbrances	0753		$876,493

This entry reclassifies the Fund Balance - Unassigned account by the amount of outstanding encumbrances into the Reserve for Encumbrances account. After recording this entry, the fund balance section of the balance sheet would be reported as follows:

Fund balances:	
Assigned for encumbrances	$876,493
Unassigned	72,090
Total fund balance	$948,583

This means that of the total fund balance of $948,583, $876,493 is encumbered and $72,090 is available for future appropriations. At the beginning of the next fiscal year (e.g., July 1, 20X1), usually the year-end journal entry would be reversed:

Description	Account No.	DR	CR
Fund Balance -			
Assigned For Encumbrances	0753	$876,493	
Fund Balance - Unassigned	0799		$876,493

In addition, an entry to report the amount of outstanding encumbrances (i.e., $876,493) should be made to the encumbrance budgetary accounts in the new fiscal year as follows:

Description	Account No.	DR	CR
Encumbrances Control*	0603	$876,943	
Fund Balance - Assigned for Encumbrances	0753		$876,493

* Various subsidiary accounts

PC GENESIS users do not make entries to the encumbrance control accounts (0603 and 0753). An encumbrance (a purchase order) is entered in the purchase order file in the computer at the fund, function, object, and program level as if the transaction were an expenditure. The software is programmed to recognize and treat the transaction as an encumbrance.

At year-end the PC GENESIS purchase order file is closed to fund balance and assigned for the purpose of encumbrances. The next year, the encumbrances are added to the budget to record the expenditure when the purchase order is liquidated.

SUMMARY

1. A budget is a dollar amount established as an estimate of expenditures and how they will be financed.

2. An appropriation is the authority to spend and the expenditure limit.

3. Revenue budgets include revenues and other financing sources.

4. Expenditure budgets include expenditures and other financing uses.

5. Three of the more common budgetary bases are GAAP basis, GAAP basis including outstanding encumbrances and cash basis.

6. The budgetary general ledger control accounts include ESTIMATED REVENUES AND OTHER FINANCING SOURCES, APPROPRIATIONS AND OTHER FINANCING USES.

7. An encumbrance is an obligation of a budgetary appropriation.

8. The journal entry to record an encumbrance is a debit to ENCUMBRANCES CONTROL (0603) and a credit to FUND BALANCE - ASSIGNED FOR ENCUMBRANCES (0753).

9. The journal entry to liquidate an encumbrance is a debit to FUND BALANCE ASSIGNED FOR ENCUMBRANCES (0753) and a credit to ENCUMBRANCES CONTROL (0603).

10. At year end, all budgetary control accounts should be closed and if the LUA intends on honoring the outstanding encumbrances, an amount of the unassigned fund balance equal to these outstanding purchase orders should be assigned for the purpose of encumbrances.

Chapter 1 – 9 Revenue and Receipt Accounting

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.

Account Description	Subsidiary Revenue Account	Balance Sheet Account Affected
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

Subsidiary Balance Sheet

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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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.

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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.

Description	Account No.	DR	CR
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.

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
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:

Description	Account No.	DR	CR
Intergovernmental AR	0141	$9,000	
Tuition from other Georgia LUAs	$9,000		1320

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:

Description	Account No.	DR	CR
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.

Description	Account No.	DR	CR
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.

Description	Account No.	DR	CR
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.

Chapter 1 – 10 Expenditure and Disbursement Accounting

INTRODUCTION

This chapter reviews how local units of administration (LUA) should record expenditures and cash disbursements. Also, it includes the recording of expenditure accruals at year-end. Chapter I - 7 provides a detailed discussion of expenditure recognition under the modified accrual basis of accounting.

As discussed in Chapter 22A, the Governmental Accounting Standards Board (GASB) prescribes two levels of financial reporting, the fund level and the government-wide level. LUAs prepare fund level financial statements using the trial balance information from the general ledger. As a result, LUAs should record transactions in governmental fund types on the modified accrual basis and record transactions in proprietary and fiduciary fund types on the accrual basis.

The government-wide financial statements are prepared by adjusting the fund level financial information to the accrual basis of accounting and to the economic resources measurement focus. **These adjustments are generally made outside the accounting system, usually by LUA personnel, and in some instances, with the assistance of the LUA's independent auditor.**

CASH DISBURSEMENTS

Disbursements are decreases in cash. Generally, when an LUA disburses cash they either:

- Purchase an asset (e.g., an investment or capital outlay item)
- Liquidate a liability (e.g., pay accounts payable)
- Incur an expenditure (e.g., pay payroll)

GASB INTERPRETATION NO. 6 GUIDANCE

GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements (GASBI 6), provides guidance for liability and expenditure recognition under the modified accrual basis of accounting for specific transactions. Governmental funds use this basis at the fund reporting level.

Normal Liabilities and Expenditures - Without an applicable accrual modification, governmental fund liabilities and expenditures should be accrued. Liabilities that LUAs normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

For example, assuming a June 30 fiscal year end, in the past some state governments have deferred paying their June 30 payroll payment until July 1. Their argument was that since there were no financial resources available at June 30, generally accepted accounting principles (GAAP) did not require them to record the June 30 payroll as a liability at June 30. GASBI 6 does not allow this deferral. In other words, if a LUA has payroll or other normal invoices outstanding at June 30, they are required to record both the expenditure and the fund liability, without regard to when they will be paying these liabilities. This reporting is similar to how these transactions would be reported under the accrual basis.

Unmatured Long-term Indebtedness - Normally, liabilities have to be discussed at the same time expenditures are discussed. GASBI 6 introduces the “when due” concept. A LUA may only report an expenditure and liability in a governmental fund on the modified accrual basis if it is “due.” A LUA’s unmatured general long-term indebtedness (other than "specific fund debt" of proprietary and trust funds) should be reported as general long-term liabilities at the government-wide financial reporting level, rather than as governmental fund liabilities at the fund reporting level.
This requirement applies not only to formal debt issues, such as bonds, but also to other forms of general long-term indebtedness, including compensated absences, capital leases, claims and judgments, special termination benefits, and "other obligations" that are not due for payment in the current period.

For example, at June 30, if a LUA owes its employees for accumulated vacation, the LUA only may report the expenditure and the liability in a governmental fund if the employee has applied for payment, but the payment was not made by June 30. Practically, this means that most LUAs will not report any compensated absences in their governmental funds. However, the total liability, whether due or not due, will be reported in the governmental activities column of the government-wide statement of net position.

Debt Service Expenditures - Normally, LUAs must report debt service expenditures when they are due, similar to the discussion above. A LUA may accrue an additional governmental fund liability and expenditure for debt service on general long-term debt at the fund
reporting level, beyond the amounts matured, if it has provided financial resources to a debt service fund for payment of liabilities that will mature early in the following year. GASBI 6 clarifies that the application of the phrase “early in the following year” to refer to a short time period, usually one to several days but not more than one month.

For example, without an exception to the “when due” criteria, if the principal and interest on bonds are due July 1, the LUA could not recognize the expenditure and liability at June 30 since they are not due. GASBI 6 allows LUAs to recognize the expenditure and liability at June 30 if the bond principal and/or interest are due by July 31 of the subsequent year.

Expendable Available Financial Resources - As indicated above, liabilities for compensated absences, claims and judgments, and special termination benefits are "normally expected to be liquidated with expendable available financial resources," and should be recognized as governmental fund liabilities, to the extent that they mature each period.

According to Codification 1600.124 the "accumulation of financial resources" in a governmental fund for eventual payment of unmatured liabilities (for example, compensated absences) "does not constitute" an outflow of current financial resources or result in the recognition of an additional governmental fund liability or expenditure. In other words, an LUA may not record an expenditure and a liability unless due, even if it has enough fund balance to cover the cost.

SPECIFIC EXPENDITURE RECOGNITION

Generally, expenditures are decreases in assets or increases in liabilities that ultimately result in decreased fund equity. Disbursements are decreases in cash. On occasion, LUAs report cash disbursements and record expenditures at the same time. Depending upon the circumstances, this reporting may be consistent with GAAP.

Salaries and Related Benefits - During the year, most LUAs report salary costs as expenditures when the payment is made (i.e., the cash basis). Technically, every day that an employee works, the LUA has incurred an expenditure and a liability. However, this reporting would not be practical or meaningful. The exception to this payroll reporting is the year-end salary accrual discussed below.

Under the modified accrual basis of accounting, a LUA may incur expenditures without disbursing cash at the same time (e.g., teacher salaries earned during the year are considered expenditures at June 30 even though not paid until July and August in the next fiscal year). Note that these salaries and related benefits are considered due (see above GASBI 6 discussion) although the actual payments will not be made until July and August of the subsequent year.
Conversely, disbursements may be made which are not considered expenditures. For example, when the payroll checks are issued after the close of the fiscal year (i.e., in July and August for the prior year's teachers' payroll), the Salaries and Benefits Payable (0422) account is debited (i.e., decreased) and the Cash account (0101) is credited. No expenditure is recorded for this transaction in the current fiscal year (i.e., the year the payroll was paid) since the expenditure was reported in the year the salary was earned. At the end of the fiscal year, the amount owed to teachers is accrued in Salaries and Benefits Payable (0422) as a credit and the appropriate expenditure accounts are debited. Various accounting software packages accomplish the above using different methods but the resultant postings are the recording of the salary and benefit accruals in the period the salary is earned.

TYPICAL EXPENDITURE ACCRUALS

Most LUAs record expenditure accruals (e.g., normally monthly invoices) on a monthly basis and others, though not recommended, record transactions on a cash basis during the year and make the modified accrual entries only at year-end. The types of expenditure accruals will vary from LUA to LUA. To record an expenditure accrual, the expenditure control account and expenditure subsidiary account are debited and an appropriate liability account (e.g., accounts payable) is credited. Generally, expenditures are recognized when the fund liability has been incurred (See GASBI 6 discussion above). Expenditures typically accrued, with the corresponding balance sheet account affected include:

Account Description	Corresponding Balance Sheet Account
Accounts payable	0421
Construction contracts payable	0433
Salaries and benefits payable	0422

Each of the above expenditures would be charged to the Expenditure/Expenses Control account (0602) and the applicable subsidiary accounts at the time of recording the accrual.

ENCUMBRANCES

Significant encumbrances outstanding at year end should be disclosed in the notes to the financial statements as commitments. According to the GASB 2015-2016 Codification of Governmental Accounting and Financial Reporting Standards, 1800.184, "Encumbered amounts for which resources have already been restricted, committed, or assigned should not result in a separate display of encumbered amounts within those classifications." If encumbered amounts have not been previously restricted, committed or assigned, the amounts should be included in restricted or assigned fund balance.

ILLUSTRATIVE JOURNAL ENTRIES

Some typical accrual transactions follow, with illustrated journal entries. For example, an LUA issues a purchase order to a computer repair shop for an estimated cost of $280 for service on a computer in the principal's office:

Description	Account No.	DR	CR
Encumbrances control	0603	$280	
Fund balance – Assigned	(0780- 0790)		$280

Explanation - in this entry, the purchase order is entered into the encumbrance file at the subsidiary detail level and the accounting software debits the Encumbrances control account (0603) and credits Fund balance – Committed (0780) or Assigned account (0790). Chapter I-8 discusses the recording of encumbrances in more detail.

An invoice is received from the computer repair shop totaling $284.

Description	Account No.	DR	CR
Fund balance - Committed Or Assigned	(0780 or 0790)	$280	
Encumbrances control	0603		$280
Expenditures/expenses control	0602	$284	
Accounts payable	0421		$284

Explanation - when the transaction is measurable (i.e., the invoice is received) and incurred (i.e., the repair service has been performed), an expenditure is incurred.

When an expenditure is incurred, any encumbrance relating to this expenditure must be cancelled.

Note that when canceling the encumbrance (the first entry above); the original entry (i.e., the entry encumbering the purchase order) is reversed. The canceling entry is for $280, the original amount, rather than the $284, the amount of the invoice. However, the second entry is recorded for $284, the actual cost to the LUA. In both of these entries, the subsidiary account, 0000-2400-0430 would be posted. If for some reason the purchase order was not encumbered, no encumbrance entries need be made since they would serve no purpose, as the invoice already is received.

The invoice for the computer repair is paid:

Description	Account No.	DR	CR
Accounts payable	0421	$284	
Cash in bank	0101		$284

Explanation - this transaction does not affect the expenditure account (i.e., it was recorded previously) since a liability is reduced and an asset is reduced.
The second entry above records the approved invoice as an account payable and the third entry reduces the payable account as the invoice is paid. However, in practice,

some LUAs unfortunately do not follow this procedure. Invoices are approved in groups, either by the school board or the LUA's management and often are recorded as a direct expenditure when the cash is paid, without the intervening entry to record the expenditure and accounts payable accounts. This procedure is deficient when the preparation of an interim financial statement (e.g., monthly, quarterly) occurs between the time of invoice approval and the preparation of the check since the expenditure and accounts payable are understated. In addition, an actual expenditure is reported erroneously as an encumbrance on the operating statement (possibly for an amount different than the expenditure) and the liability (e.g., accounts payable) is omitted from the balance sheet.

In another example, an LUA purchases a three-year insurance policy for general liability coverage and wishes to charge the current accounting period for only the current portion of the insurance costs. In governmental fund types, the allocation of prepaid costs over the periods benefited, rather than when the liability is incurred, is allowed, but not required. This transaction requires two entries. When the insurance policy is purchased at a cost of $18,000, the following entry is made.

Description	Account No.	DR	CR
Prepaid expenditures/expenses	0181	$18,000	
Accounts payable	0421		$18,000

Explanation - in this entry, no expenditure is incurred, rather one asset (i.e., cash when the invoice is paid) is traded for another asset (e.g., prepaid expenditures).
When a portion (e.g., one-third) of the insurance policy expires, usually at year-end, the following entry is made:

Description	Account No.	DR	CR
Expenditures/expenses control	0602	$6,000	
Prepaid expenditures/expenses	0181		$6,000

Explanation - in this entry, the appropriate expenditure subsidiary account would be debited (e.g., 0000-2500-520). The asset account, Prepaid expenditures/expenses is adjusted to its actual value at year-end ($18,000 - $6,000 = $12,000) with the difference ($6,000) being charged to the expenditure/expenses control account.

In most LUAs, salaries and benefits are recorded on the cash basis during the year. However, as discussed above, at year-end GAAP requires the accrual of any salaries and benefits that have been earned but not paid. The entry to record this accrual follows:

Description	Account No.	DR	CR

Expenditures/expenses control	0602	$927,091	
Salaries and Benefits Payable	0422		$927,091

Explanation - the various salary and benefits expenditure subsidiary accounts also would be debited for their appropriate portion of the salaries and benefits posted to the Expenditures/expense control account. This type of accrual is most common for the July and August payments of teachers' salaries and benefits relating to the prior fiscal year. If the LUA does not accrue these salaries and benefits, there is a violation of GAAP and usually the independent auditor (i.e., the Georgia Department of Audits) will modify its auditor's opinion for not conforming to GAAP. Once an LUA accrues teachers' salaries and benefits at year-end, it must consistently accrue these costs from year to year. If this salary and benefit expenditure is accrued at year-end, the LUA also must accrue the appropriate Quality Basic Education (QBE) grant program aid. See Chapter I - 9 for a discussion of this accrual.

Additional information regarding accruals and the LUA's portion (i.e., the expenditure) of employee benefits (e.g., matching social security or vacation) is discussed in detail in Chapters I-11. The recording of inventory expenditures is discussed in Chapter I-12 and III-4.

JOURNALS

As indicated in Chapter I-4, the general journal could be used to record all financial transactions, including expenditures and disbursements. However, in most LUAs certain transactions occur with greater frequency, creating a need for a more efficient mechanism.

Cash disbursements and the recognition of expenditures are two such transactions. For these purposes, a cash disbursements journal and an expenditure journal could be used.

LEDGERS

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 certain general ledger 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 account, Appropriations and other financing sources control (Account 0601), Expenditures/ Expenses control (Account 0602) and Encumbrances control (Account 0603). Often the accounting software includes expenditure subsidiary accounts to record the details of the estimated expenditures and actual expenditures incurred. These accounts are recorded in a subsidiary ledger. 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 expenditure columns provides year-to-date amounts and the budget balance is readily available after any outstanding encumbrances are deducted.
When using expenditure and encumbrance subsidiary ledgers, for every entry made to the general ledger control accounts 0601, 0602, and 0603, an additional entry must be made in the appropriate column in the expenditure subsidiary ledger. A number of years ago, some small LUAs, or LUAs with a detailed computerized system, may include each individual expenditure account as part of the general ledger. In these instances, the general ledger would not utilize the three control accounts. However, 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 expenditure report may be taken directly from the subsidiary ledger accounts.
- The subsidiary accounts provide a control for balancing the general ledger.

SUMMARY

1. Expenditures are decreases in assets or increases in liabilities that ultimately result in decreased fund balance (i.e., after closing the books).

2. Expenditures may be incurred without disbursing cash.

3. Typical expenditure accruals include accounts payable, contracts payable, and salaries and wages payable.

4. Compensated absences may not be reported as “an expenditure” at the fund reporting level until due.

5. Debt service expenditures may be reported before they are due as long as they are due within one month of year end.

Chapter 1 – 11 Payroll and Benefit Accounting

INTRODUCTION

In most local units of administration (LUAs), employee salaries and benefits constitute the single largest cost. Therefore proper control of the payroll function should be established and maintained. Payroll administration can be defined as the initiation, coordination, and administration of all the operations and tasks relating to and necessary for the efficient and accurate operation of the payroll function. This would include, but not be limited to, placing the employee on the payroll, timekeeping, verifying and validating the payroll, making and recording the necessary deductions to an employee's pay, issuing the paycheck in a timely manner and the recording and accounting for all of these transactions. A quality payroll system should provide the basis for:

- Accurate work and time reporting;
- Accurate and timely issuance of payroll checks;
- Distribution of salary costs to the appropriate Quality Basic Education Act (QBE) program and
- Accurate and timely tax and benefit reporting.

General payroll and benefit accounting has changed over the years. Income deferral options and various additional payroll deductions are the primary changes. Finally as accounting systems have become more sophisticated, the distribution of salaries and wages to multiple accounts has become prevalent, particularly as it relates to QBE and the assignment of teaching professionals. It is rare for an LUA to have one teacher assigned to one classroom at one location. With the flexibility LUAs now have to enhance the educational experience of their students, more LUAs are expanding their use of human resources. For example, you may have a certified employee that is assigned as an Academic Coach that targets students in middle and high school. The accounting for that employee could span several QBE programmatic codes and multiple school codes. The split-funding of employees' salaries can be a cumbersome accounting exercise without an automated system to account for the activity using the appropriate account codes.
The purpose of this chapter is to review the payroll process and determine which basic accounting entries are required to record the payroll. Please note that many times, the accounting of payroll is much more complex.

TIMEKEEPING

In many LUAs, the time sheet is the basis for the payroll. Generally each employee is responsible for maintaining an accurate account of hours worked on a time sheet. The time sheet provides the payroll department with the number of hours worked and also aids with the distribution of payroll costs to appropriate cost centers (i.e., the various expenditure accounts). Time sheets will vary in format but usually include the following information:

- Employee name and number
- Pay period
- Dates worked
- Number of hours worked
- Account distribution (what subject taught, location, etc.)
- Signatures of employee and supervisor

Most school locations utilize a substitute tracking system in which a substitute signs in and the employee that the substitute is replacing is tracked as well. This allows the LUA to match leave records of employees with substitute's schedules.

PAYROLL JOURNAL

Often, a special journal for payroll is used to record all of the information pertaining to salaries and wages and payroll deductions for each employee. The data included on the payroll journal originates either from period employee time sheets or from the personnel department (usually at the beginning of the fiscal year) for salaried employees (i.e., an employee such as a teacher who receives an annual salary prorated equally over the fiscal year). Information usually included in a payroll journal is as follows:

- Name of employee (i.e., the payee).

- QBE expenditure classifications(s) for the adjusted gross payroll.

- Gross amount of payroll.

- Adjustments to gross (e.g., additions such as stipends or deductions for leave without pay).

- Adjusted gross payroll (i.e., gross payroll less adjustments to gross).

- Social Security tax computed on adjusted gross payroll up to a maximum dollar amount that is adjusted upward periodically. See Internal Revenue Service Publication 15 for the annual social security wage limits.

- Medicare tax computed on adjusted gross payroll.

- Federal income tax computed on adjusted gross payroll less any tax-deferred amounts and tax-exempt deductions.

- State of Georgia income tax computed on adjusted gross payroll usually less any tax deferred amounts and tax-exempt deductions.

- Tax-deferred amounts for the employee. This amount usually is deducted from adjusted gross payroll prior to the computation of state and federal income tax, but usually is subject to FICA and Medicare.

- Georgia Teachers Retirement System (i.e., the amount of employee contributions to retirement plans).

- State Health Benefit Plan (i.e., the amount of employee's share of employee insurance premiums).

- Miscellaneous deductions (e.g., credit union dues, charitable contributions, cafeteria plan, tax liens, child support).

- Total deductions from adjusted gross payroll.

- Net payroll (i.e., the adjusted gross payroll less total deductions).

- Check number of employee payroll check.

A sample payroll journal follows. Some of its more important aspects are explained below.

Exhibit I-11-1
Sample Payroll Journal

```
   REPORT ID:  PAYR-PAY10C                          PAYROLL FINAL REGISTER FOR PAY      11/30/16                                  PAGE:      1
  PERIOD END:  11/30/2016                                                                                   REPORT DATE: 12/06/2016  07:58

LOCATION  0001 - Location 000001

EMP # CL CHECK NAME              REG HRS  OT HRS    GROSS   ANNUITY  FEDERAL    OASDI      HI     STATE    RETIRE     AEIC   NET PAY

89381 08 AG7E, SH7RICE                             5607.04   500.00   469.26   322.63    75.45    236.21   336.43            1193.60
CHECK#    5000DD  GHI Y      YTD                  61311.26  5500.00  5129.44  3527.03   824.88   2578.45  3678.77           12871.97
  277.96 /09   51.60 /12   73.80 /14   12.28 /15   39.67 /16 1900.00 /18  118.15 /22
 3057.56 /09  567.60 /12  797.50 /14  135.08 /15  443.33 /1620900.00 /18 1299.65 /22


87942 09 LI8E8, JU8E8                              2778.29    50.00   172.16   161.40    37.75    106.53   166.70            1765.42
CHECK#    5018DD  GHI Y      YTD                  27949.39   550.00  1626.78  1613.81   377.44   1024.82  1676.98           17583.13
  105.33 /08   42.80 /12   26.88 /14   57.28 /15   86.04 /22
 1158.63 /08  470.80 /12  290.48 /14  630.08 /15  946.44 /22


88279 12 BU8CH, CH8RLESETTA                        1056.59                      57.40    13.42               4.00             831.28
CHECK#    5002DD  GHI Y      YTD  312.25          12884.94                     709.69   165.99              32.00           10321.87
  130.74 /08   19.75 /22
 1438.14 /08  217.25 /22


89950 12 BU9BY, LO9AN                               976.65                      39.45     9.23     12.23    10.00             565.34
CHECK#    5003DD  GHI Y      YTD  166.75           8298.63             45.96   324.57    75.90     99.19    60.00            4629.41
  340.40 /08
 3063.60 /08
```

Gross Payroll

The gross payroll of an employee is determined by contractual agreement (i.e., for those employees retained under contract) or by time sheets (i.e., for those employees paid on a period basis such as hourly or weekly). The gross salary for employees under contract is derived by dividing the contract amount by the number of pay periods within the contract. Hourly employees' gross payroll is computed by multiplying the hourly rate by the number of hours worked.

However calculated, gross payroll should be entered in the payroll register with an appropriate QBE program classification. For employees whose duties are related directly to more than one cost center, a proration of that salary is necessary. When the base salary is prorated, the distribution usually is based upon the estimated amount of time used in performing each duty.

There are instances where an employee's normal gross payroll is reduced. An employee may be granted leave without pay. These reductions are entered in the adjustment column on the payroll journal and the reason for the reduction is indicated. The amount in the adjusted gross payroll column is subtracted from the gross payroll resulting in the adjusted gross payroll.

Payroll Deductions

Payroll deductions may be either required or voluntary on behalf of the employee. Federal and state income taxes are required deductions while voluntary deductions might include such items as insurance premiums or deferred compensation.

When an employee is hired, an Internal Revenue Service (IRS) form W-4, Employee's Withholding Allowance Certificate, must be completed by the employee. This form provides the information needed to compute the federal income tax deduction and includes the number of personal exemptions the employee is claiming. Very specific instructions accompany the form. This information is used by the LUA to compute the payroll deduction for federal income tax. A similar form is provided by the State of Georgia (G-4).

The tax law allows some payroll deductions to be deducted and the costs paid from gross payroll using pre-tax dollars. In other words, the taxable amount for federal income tax is reduced by the amount of payroll deductions. These deductions might include medical and dental insurance premiums and dependent care expenses.

Written authorization always should be obtained from the employee for voluntary deductions or for changes in deductions to prevent any misunderstanding at a later date.

Net Payroll

The net amount of payroll due each employee is determined by subtracting total deductions from the adjusted gross pay. This amount is entered in the net pay column. Often employees have an option to be paid electronically or by check. If an employee is paid by check, the number should be entered in the payroll register for reference.

SUMMARIZING THE PAYROLL JOURNAL

After all entries for a single payroll period are recorded in the payroll journal, the adjusted gross column should be summarized by QBE expenditure classification. The accounting system has the capability of summarizing salaries by QBE expenditure classification and location. Any deductions to be matched by the LUA also should be summarized consistent with the QBE expenditure classification (e.g., by the salary expenditure classification). Any deductions which are not matched only need to be totaled.

RECORDING THE PAYROLL

After the payroll journal is summarized, the total data must be posted to the general ledger. Most LUAs post the data directly from the payroll journal to the general ledger and the subsidiary expenditure ledger. The computerized journal entry to record the payroll is as follows:

Description	Account No.	DR	CR
Expenditure control	0602	$24,648	
Social Security Taxes Payable	0477		$ 1,866
Federal Income Tax Payable	0471		$ 4,897
Georgia Income Tax Payable	0472		$ 1,275
Teacher Retirement Payable	0473		$ 786
Other Payroll Withholdings Payable	0479		$ 3,500
Cash in Bank	0101		$12,324

Explanation - Entries equaling the adjusted gross payroll will be charged to each specific QBE expenditure classification. Payroll deductions are reported as liabilities until paid by the LUA.

The information required for the expenditure ledger comes from the payroll register summary, as do the payroll deductions and withholdings. Individual payroll deductions and withholdings usually are accounted for with separate balance sheet liability accounts.

As indicated above, the posting of the various accounts occurs automatically using the computerized accounting payroll system. However, the system usually can generate a report which provides how the adjusted gross salary was distributed as well as the distribution of the payroll deductions and the amount of cash disbursed. A sample payroll distribution report is shown below:

Exhibit I-11-2
Sample Payroll Distribution

REPORT ID: PAY20EMP-PAY PAYROLL GROSS PAY DISTRIBUTION FOR 11/30/16 PAGE 1
REPORT DATE: 12/06/2016

LOC	EMP	NAME	AMOUNT	ACCOUNT
0101	89204	AC9ER, MO9AMMED	1,000.00	17 100 0 1011 1000 11000 0195 1 000000
0195	87290	BU7NO, CH7RLYN	4,069.24	17 100 0 1011 1000 11000 0195 1 000000
0195	89725	DO6IER, DA6E	2,138.12	17 100 0 1011 1000 11000 0195 1 000000
0195	89214	FO7TAINE, LI7DSEY	1,544.69	17 100 0 1011 1000 11000 0195 1 000000
0195	87736	GI5MAN, GO5DEN	1,867.84	17 100 0 1011 1000 11000 0195 1 000000
0195	88007	HA9WARD, WY9TT	3,201.51	17 100 0 1011 1000 11000 0195 1 000000
0195	87567	MI3LARD, MU3I	1,549.39	17 100 0 1011 1000 11000 0195 1 000000
0195	88607	MO3EY, WE3DOLYN	2,971.90	17 100 0 1011 1000 11000 0195 1 000000
0195	87985	NG5, LE5POLDO	4,316.99	17 100 0 1011 1000 11000 0195 1 000000
0195	87987	PA4RIS, MI4AELA	4,104.57	17 100 0 1011 1000 11000 0195 1 000000
0195	88029	SP5ER, FE5DINAND	2,032.87	17 100 0 1011 1000 11000 0195 1 000000
0195	88029	SP5ER, FE5DINAND	74.60	17 100 0 1011 1000 11000 0195 1 000000
0195	88588	WH3TTEN, SH3RELL	4,717.30	17 100 0 1011 1000 11000 0195 1 000000
		*** TOTAL BY OBJECT	33,589.02 *	

LUA's Share of Employee Benefits

FICA and Medicare are the most common benefits that must be matched by LUA's. The LUA's share of FICA and/or Medicare should be charged to the QBE expenditure classification associated with the salary to which it applies, using the 200 object classification. A sample journal entry to record the LUA's share of social security follows:

Description	Account No.	DR	CR
Expenditure control	0602	$1,866	
Social Security Taxes payable	0477		$ 1,866

Explanation - the appropriate expenditure subsidiary account also would be charged. As indicated in Appendix C, the Georgia Department of Education (GaDOE) only requires the reporting of a single object classification, 200. However, LUA's may wish to categorize this object by type of benefit (e.g., FICA, Medicare, insurance, retirement).

Other benefits of employees also may be matched by the LUA. The same general procedure for recording the matching benefits is used. The inclusion in the payroll journal summary of any benefits that are to be paid by the LUA, regardless of the basis on which they are computed, serves as a reminder that a general journal entry is required for the LUA's matching portion. The liabilities for the deductions withheld from employees' paychecks must be remitted to the appropriate agencies by the LUA (i.e., the employer) on a timely basis. If they are all paid at the same time, the general journal entry to liquidate the liabilities is as follows:

Description	Account No.	DR	CR

Social Security Taxes Payable	0477	$1,866	
Cash in bank	0101		$1,866

EMPLOYEE EARNINGS RECORD

An employee earnings record is required to report income for state and federal income tax purposes and other purposes. Generally the record includes personal data for the employee and includes the details of each payroll period for the specific employee. A sample employee earnings record follows:

Exhibit I-11-3
Sample Employees Earnings Record

```
   REPORT ID:  HISTPRT                           SMITH CITY BOARD OF EDUCATION
 REPORT DATE:  12/06/2016              PAYROLL EARNINGS HISTORY DETAIL  -  BY EMPLOYEE NAME                               PAGE    2

* ACTIVE *                             *  LOC- 100          CLASS- 1          INSTR-I            TYPE-F            GHI-Y
EMP #-87366               SS# ***-**-7366  *  SEX-F        ETHNIC- 2          MARITAL STAT-M     PAY SCH.#-12      PAYCYCLE-1
AB3EU, MO3TY                           *  BIRTH- 9/01/1964  HIRE- 8/05/2013   REHIRE-            TERM-             REASON-
3680 MAIN STREET                       *  CREDIT UNION:                       PENS- TRS          PEN AMT/%-    .0600
                                       *  FED# EXEMPT  1    WITHHOLD CD-  0   AMT / %        .00 MAR. STAT M       CHECK/DD? DD
SMITH, GA 33333                        *  ST ALLOW M-1 D-00 WITHHOLD CD-  0   AMT / %        .00 PERS STAT B       CUR PAY PD 14
PHONE # 999-555-2672   INCLUDE ON CPI?-Y  *  STATE  71003.05   LOCAL   2636.00   OTHER          .00 SEC 125  Y        AEIC
RACE CODES:                 HISPANIC?-N  *  ANN1 DED 01/CO 00                 FEDERAL-Y          STATE-Y           FICA/MED-Y
   WHITE                               *  ANN2 DED 02/CO 00 ANN3 DED 00/CO 00 ANN4 DED 00/CO 00  ANN5 DED 00/CO 00
------------------------------------------------------------------------------------------------------------------------------------
               ACCOUNT                 PAY CODE         RATE           REG-HR          OVT-HR          REG-GR          OVT-GR
17-100-0-2041-1000-11000-01001-000000   S                                                              5916.92
17-100-0-2043-1000-11000-01001-000000   S                                                               219.67
17-100-0-2041-1000-11000-01001-000000   Z
------------------------------------------------------------------------------------------------------------------------------------
                                   ** EARNINGS HISTORY PERIOD COVERED - 01/01/2016 THRU 12/31/2016 **
 CHK DATE   STATUS  TRN DATE                              TOT GROSS     HI-GR  OASDI-GR                                 NET  BANK  CHECK
LTYP   ACCOUNT                         PTYP REAS  PER DATE     GROSS   FICA-GR   PENS-GR    GHI-GR     GHI %
01/29/2016  I / C                  FICA/MED Y                6438.66   5988.92   5988.92                             4243.78  BK01 244568
  S  161000204110001100001001000000     10       1/29/2016   5821.49   5414.88   5821.49               1.0000
  S  161000204310001100001001000000     11       1/29/2016    219.67    204.33    219.67
  B  161000110010001990001001000000     43       1/29/2016    397.50    369.71
   362.47 /82   371.31 /85    86.84 /86   449.74 /87   609.22 /03   274.76 /04   449.74 /09    40.54 /16
 Employer deductions:
   862.08 /82   371.31 /85    86.84 /86   945.00 /GH
------------------------------------------------------------------------------------------------------------------------------------
```

The employee earnings record usually is arranged to correspond to the format of the payroll journal. Usually, the individual earnings record provides spaces for recording all of the information needed to calculate the gross payroll for the employee. Usually totals are computed at the end of each calendar quarter, at the end of the calendar year and at the end of the fiscal year. Calendar quarter and year-end totals are required for reporting taxable gross payroll, tax withholdings and/or FICA/Medicare information to the federal government and the State of Georgia. Fiscal year totals are required in connection with the annual audit to prove the accuracy of the amounts paid as compared with salary contracts as applicable.

Normally the employee's earnings record is posted automatically in a computer payroll system.

SUMMARY

1. In some LUAs, the timesheet may be the basis for determining the amount of the payroll (i.e., the source document).

2. In most LUAs a special journal is used to record the payroll (e.g., the payroll journal).

3. The adjusted gross payroll is the amount charged to the QBE expenditure accounts on the operating statement.

4. Payroll deductions are reported as liabilities on the balance sheet until paid.

5. When an employee is hired, IRS Form W-4, Employee's Withholding Allowance Certificate must be completed by the employee and it indicates the number of allowances (i.e., exemptions) the employee is claiming. In addition, the State of Georgia requires Form G-4, State of Georgia Employee’s Withholding Allowance Certificate.

6. Most computer payroll systems provide the capability of LUAs to charge an employee's salary to more than one expenditure account. With QBE classification, this feature is essential.

7. Some of the employees' payroll deductions must be matched by contributions from the LUA (e.g., FICA and Medicare).

8. An employee's earnings records provide a payroll for each employee indicating the gross payroll, payroll deductions withheld and net payroll. This record is used to prepare the required federal Form W-2, Wage and Tax Statement.

Chapter 1 – 12 Inventory Accounting for Consumable Supplies

INTRODUCTION

For accounting purposes, Local Units of Administration's (LUA) inventory may consist of supplies (e.g., office supplies, school supplies, lumber, paper goods and food) on hand not yet distributed to schools and users. That is, supplies are considered inventory if not distributed and therefore, not in use.

There are two allowable methods to account for inventories under generally accepted accounting principles (GAAP): the purchases method and the consumption method. Governmental type funds may use either method at the fund reporting level but must use the consumption method at the government-wide reporting level. Because of the GAAP requirement to report using the consumption method at the government-wide level, it is recommended, although not required, that LUAs report inventory at the consumption method at the governmental fund level as well. Proprietary type funds must use the consumption method at both reporting levels. This chapter discusses these inventory methods, and the valuing of inventories.

PURCHASES METHOD

When a LUA uses the purchases method, it charges all inventory acquisitions as expenditures when purchased. In addition, it must report any material amount of inventory on hand at the end of the fiscal year on the governmental fund balance sheet. For example, if an LUA purchases supplies during the year totaling $50,000, the general journal entry is to record the purchase when using the purchases method is:

Description	Account No.	DR	CR
Expenditures*	0602	$50,000	
Accounts Payable	0421		$50,000

* Coded by detailed QBE account number, if applicable.

The above entry assumes the LUA did not encumber the purchase order issued for the inventory purchased. If the LUA had encumbered the purchase order, they would cancel the encumbrance.

See Chapter I-8 for guidance in accounting for encumbrances.

The purchases method is unique in that although the LUA records the inventory purchases as an expenditure on the operating statement, GAAP requires a LUA to also report the ending inventory on the balance sheet if it is considered material. As an example, assume there are $25,000 of supplies on hand at the end of the year (i.e. of the original $50,000 purchases per above) based on a physical inventory using an acceptable valuation method, the general journal entry to record the inventory on the balance sheet is:

Description	Account No.	DR	CR
Inventories	0171	$25,000	
Fund Balance – Nonspendable	0751		$25,000

For inventory balances that are required to be updated each month with a physical inventory count, such as the purchased food and donated commodities in the school lunchrooms, the inventory asset balance is updated with a month end journal entry. This is necessary for the monthly reporting to the GaDOE Nutrition Services in accordance with Federal regulations.

Using the example above, if the inventory balance at the end of the next month totals $20,000, the following entry to record the ending balance is necessary:

Description	Account No.	DR	CR
Inventories	0171	$5,000	
Fund Balance - Nonspendable	0751		$5,000

To summarize, the LUA records inventory purchases as expenditures on the operating statement when made. Then any material amount of inventories on hand at year end are recorded as an asset and a component of fund balance (i.e., added back to fund balance) since the original purchase is deducted from fund balance (i.e., the amount of unused inventory is added back to fund balance).

CONSUMPTION METHOD

When an LUA uses the consumption method, it charges all inventory acquisitions to the inventory asset account in the general ledger at the time of purchase as follows:

Description	Account No.	DR	CR
Inventories	0171	$16,000	
Accounts Payable	0421		$16,000

In the government fund types at the fund reporting level, the LUA subsequently reduces the inventory account and charges the expenditure accounts charged when goods are requisitioned and used as follows:

Description	Account No.	DR	CR
Expenditures*	0602	$1,200	
Inventories	0171		$1,200

* Coded by detailed QBE account number

Inventory charges to expenditures (i.e., the inventory used) should be made at least monthly. This method of accounting for inventory assumes that acquisitions are put in "storage" until they are used.

In general, the school districts follow the purchasing method and adjust for the effects of the consumption method before the close of the fiscal year end, or as an adjustment to the financial statements prepared and presented for CAFR and/or audit purposes. Conversion from the purchase method to the consumption method requires the expenditure account to be credited (reduced) for the amount of the change in inventory during the period.

For example, assume the inventory for purchased food increased from $15,000 at July 1 to $25,000 at July 30. The inventory increased by $10,000. The purchase of this inventory increased the expenditures using the purchasing method. However, because the inventory has not yet been consumed, the expenditures would not be recorded during the month of July using the consumption method. The entry to adjust from the purchase method to the consumption method is as follows:

Description	Account No.	DR	CR
Fund Balance - Nonspendable	0751	$10,000	
Purchased Food Expenditures	630.00		$10,000

Some consider the consumption method to be superior to the purchases method because it allows for better controls over inventory (i.e., by maintaining an asset account that reports the value of the inventory). In addition, this method simplifies charging expenditures to the appropriate Quality Basic Education (QBE) program expenditure account in the governmental fund types (i.e., the allocation of inventory items would be charged to the QBE programs when the LUA requisitioned the consumable supplies inventory, rather than when it purchased the inventory).

Proprietary fund types would record the same journal entries at both reporting levels and in the governmental fund types at the government-wide reporting level, but would debit an expense account rather than an expenditure account.

PHYSICAL QUANTITIES OF INVENTORY

The determination of physical inventory quantities usually is accomplished by using either a periodic inventory system or a perpetual inventory system.

Periodic Inventory System

The use of this system requires periodic physical counts of inventory items. Generally, the use of this system in a LUA is different from that used in the commercial sector. In the commercial sector, inventories purchased are charged to a "purchases" account and withdrawals from inventory are not recorded. At year-end, a physical inventory is conducted and the inventory asset account is adjusted to the actual value through the "purchases" account.

However, in governmental fund types, LUAs do not use the "purchases" account; therefore, modifications are required when using the periodic inventory system. When the LUA uses the “purchases” inventory method, it follows more closely to the traditional periodic inventory system. Purchases of inventory are charged to expenditures at the fund reporting level when purchased (i.e., the inventory asset account is not affected) and withdrawals are not reported. At month-end or year-end when a periodic inventory is taken, expenditures are not changed (i.e., what the LUA purchases is what they charge to the expenditure account).
However, the LUA must report any material amount of inventory value on the balance sheet as explained previously.

When the LUA uses the consumption inventory method, it charges the inventory to the inventory asset account and deducts withdrawals. Therefore, at month-end or year-end when a periodic inventory is taken, theoretically, the value of this inventory should agree with that carried on the accounting records. However, adjustments to the inventory asset account (i.e., usually through the applicable expenditure accounts) usually are necessary to correct errors that have resulted from inventory shrinkage due to theft, errors and obsolescence.

Perpetual Inventory System

When using this system, the LUA maintains a continuous record of items they entered and issued from inventory. The balance in the inventory balance sheet account at any specific time reveals the inventory that should be on hand. The use of this system would be more consistent with the use of the consumption inventory method. At year-end, an inventory count would be required to verify the inventories maintained through the perpetual inventory system and the LUA would need to adjust any differences through the applicable expenditure accounts.

VALUATION OF INVENTORY

A problem arises when a LUA must determine the value of inventory on hand at year-end. When a LUA uses the purchases method, it must value any balance on hand at year-end to record the general journal entry to establish the Inventory and the Fund Balance - Nonspendable accounts. When using the consumption method, the value charged to expenditures (i.e., the amount used) must be determined. Under either inventory method, LUAs may have purchased inventories at different times during the year and at different unit prices. Thus, computing the value is not necessarily a straight extension of quantity multiplied by a certain cost.

If the LUA can identify specifically the actual items existing in the inventory at year-end and their actual cost, the inventory value is a simple extension of the quantity multiplied by the identified cost. This valuing method is known as the specific identification method. However, in most LUAs, the use of this method is not practical because of many purchases of many inventory items at various costs during the year. However, there are several other acceptable methods in use to assign values to inventory balances and inventory used. The three most common methods are:

- First in - first out (FIFO)
- Last in - first out (LIFO)
- Average inventory cost methods

These methods generally represent a flow of cost and not an actual flow of goods. That is, the oldest goods purchased might be the first goods actually used (i.e., inventories are rotated) although the cost used to charge out the inventories used might vary.

First in - First out Method

When valuing inventories under the FIFO method, the first inventories the LUA purchased are assumed to be the first goods the LUA used. Therefore, the ending inventory consists of the last goods purchased. The ending inventory value is the number of units multiplied by the unit prices of the most recent purchases, since the earlier purchases are assumed to have been used first.

For example, assume an LUA uses the consumption method and begins the fiscal year with 320 units of inventory at a cost of $5.00 per unit for a total of $1,600. During the year, the LUA makes the following purchases:

July 20	300 units @ $5.25
December 12	200 units @ $5.30
February 20	500 units @ $6.00

During the year, the LUA issues the following units:

July 17	100 units
September 11	260 units
December 2	200 units
June 21	400 units

Using the FIFO method, the ending inventory is valued at $1,960 calculated as follows:

Expenditures Date		Units	Unit Cost	Inventory Amount	Inventory
July	1	320	$5.00	$1,600	
	17	(100)	5.00	(500)	$500
	20	300	5.25	1,575	
September	11	(220)	5.00	(1,100)	1,100
	11	(40)	5.25	(210)	210
December	2	(200)	5.25	(1,050)	1,050
	12	200	5.30	1,060	
February	20	500	6.00	3,000	
June	21	(60)	5.25	(315)	315
	21	(200)	5.30	(1,060)	1,060
	21	(140)	6.00	(840)	840
Ending Inventory		360	6.00	$ 2,160	$5,075

In the above example, the LUA issued 960 units out of inventory of 1,320 units (i.e., the beginning inventory of 320 units and the 1,000 units purchased), leaving 360 on hand that are valued at $6.00 each (i.e., the February 20 purchase) resulting in an ending inventory value of $2,160.

To summarize:

	Units	Value	
Beginning inventory	320	$1,600	
Purchases	1,000	5,635	
Total available inventory	1,320	7,235	
Less ending inventory	360	$2,160	(160 @ $6)
Inventory used	960	$5,075	

Last in - First out Method

For valuing inventories, LIFO means that the last goods purchased are assumed to be the first goods used. Therefore, the ending inventory consists of the first goods purchased. LIFO requires the value assigned to the inventory remaining at year-end to be the value of the first purchases and the charges to expenditures for goods used are the values of the last purchases. Using the same facts as the above example, the valuation of the ending inventory using the LIFO method is $910 calculated as follows:

Date		Units	Cost	Amount	Total Expenditures From Inventory
July	1	320	$5.00	$1,600	
July	17	(100)	5.00	(500)	$500
July	20	300	5.25	1,575	
September	11	(260)	5.25	(1,365)	1,365
December	2	(40)	5.25	(210)	210
December	2	(160)	5.00	(800)	800
December	12	200	5.30	1,060	
February	20	500	6.00	3,000	
June	21	(400)	6.00	(2,400)	2,400
Ending Inventory		360		$1,960	$5,275

In the above example, the LUA used 100 of the 320 units beginning inventory @ July 1, 260 of the 300 purchased July 20, 40 of the 300 purchased in July, and 160 of the 320 purchased July 1 and 400 of inventory purchased in February; thus the ending inventory is valued as follows:

100 units @ $6.00 =	$ 600
200 units @ $5.30 =	1,060
60 units @ $5.00 =	300
	$1,960

To summarize:

	Units	Value
Beginning inventory	320	$1,600
Purchases	1,000	$5,635
Total available inventory	1,320	$7,235
Less ending inventory	360	$1,960 (See above)

Inventory used	960	$5,275

Average Inventory Cost Methods
A third type of method for valuing inventories is the average inventory cost method. This method assumes that both cost of inventory used and the ending inventory should be based on the average cost of the inventories available for use during the period. That is, the inventories are commingled and that no particular batch (i.e., either the first purchased or the last purchased) is used first.

This third type includes two specific valuation methods. The weighted average method costs inventory items based on average prices paid, weighted according to the quantity purchased at each price. This method generally is used with a periodic inventory system. The moving average method requires a computation of a new average after each purchase and requires the use of a perpetual system. Issues are priced at the latest average unit cost.

Generally, these methods require the use of a computer to accurately value inventories and cost issuances because of the many mathematical computations required.

SUMMARY

1. Two methods of reporting inventories as expenditures/expenses exist under GAAP, the purchases method and the consumption method.

2. When the LUA uses the purchases method, they charge all inventory acquisitions as expenditures when purchased rather than when used.
3. When the LUA uses the consumption method, they charge inventories as expenditures when used rather than when purchased.
4. Governmental fund types may use either the purchases method or the consumption method at the fund reporting level, and must use the consumption method at the government-wide reporting level.
5. Proprietary fund types must use the consumption method at both reporting levels.
6. When LUAs use the purchases method, they must report only material inventories on hand at the end of the year on the balance sheet at year-end.

7. The use of a periodic inventory system to determine inventory quantities requires periodic physical counts (e.g., annual inventory).

8. When using the perpetual inventory system, a continuous record is maintained of items entering into and issued from inventory.

9. The three most common methods used to value inventories include FIFO, LIFO and the weighted average cost.

10. The FIFO method of balancing inventories means that the first inventories purchased are assumed to be the first inventories used, therefore, the ending inventory consists of the last inventories purchased.

11. The LIFO method of balancing inventories means that the last goods purchased are assumed the first goods used, therefore, the ending inventory consists of the first goods purchased.

12. The average inventory cost method assumes that both the cost of inventory used and the ending inventory should be based on the average cost of the inventories available for use during the period.

Chapter 1 – 13 Interfund Activities

INTRODUCTION

The Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification) Section 1800.102 - 1800.107 provides guidance regarding the classifying and reporting of interfund transactions. As a rule, local units of administration (LUAs) should treat interfund transactions consistently in both the paying and receiving funds. In Georgia LUAs, interfund transactions are not too common since most LUAs maintain a minimum number of accounting funds.

As a result of the GASB issuing GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions (GASBS 33) and GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
(GASBS 34), the classifications of interfund activities (i.e., formerly classified as interfund transactions) have changed.

GAAP divides interfund activities into two main categories with various subcategories:

1. Reciprocal interfund activity
   a. Interfund loans
   b. Interfund services provided and used

2. Nonreciprocal interfund activity
   a. Interfund transfers
   b. Interfund reimbursements

These distinctions are important since the accounting and reporting for interfund activity vary depending on the above categorization. In addition, a LUA needs to make a distinction between interfund loans and interfund transfers. A LUA will repay a loan in some future period but a transfer is intended to be permanent and is treated similar to a revenue (in the receiving fund) and similar to an expenditure (in the paying fund).

RECIPROCAL AND NONRECIPROCAL INTERFUND ACTIVITIES

Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. An exchange transaction is one in which "each party receives and gives up essentially equal values." Nonreciprocal interfund (internal) activity is analogous to nonexchange transactions or other events. In a nonexchange transaction, a LUA gives (or receives) value without directly receiving (or giving) equal value in return.

INTERFUND LOANS

LUAs often temporarily reallocate resources by loaning monies between individual funds. These interfund loans are loans between individual funds, usually for working cash purposes. Generally, interfund loans are short-term in nature. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.

GAAP does require that if repayment of an interfund receivable is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

INTERFUND SERVICES PROVIDED OR USED

Most of the transactions for internal service funds are classified as interfund services. Before the GASB issued GASBS 34, GAAP classified these transactions as quasi-external interfund transactions. These interfund transactions are transactions between funds, which do not constitute transfers, but are appropriately accounted for as revenues, expenditures, or expenses as if they involved parties external to the LUA. Such transactions normally constitute charges for goods or services and are normally based on actual costs incurred. As an example, the general fund receives an invoice from the data processing internal service fund. The general fund records the transaction as an expenditure and the internal service fund records the transaction as revenue, as if it were a third party transaction (i.e., like a transaction with a regular vendor).

INTERFUND TRANSFERS

Interfund transfers are the flow of assets without equivalent flow of assets in return and without requirement for repayment.

OPERATING TRANSFERS

1. A transfer from a governmental fund type to a proprietary fund type that serves as a subsidy for the operations of the proprietary fund type.

2. Transfers from a proprietary fund type to a governmental fund type that serves as a resource for governmental fund operations.

3. Transfers can also occur within a category of funds. For example, the General Fund may transfer funds to a School Activity Fund.

Other Financing Sources

Interfund transfers constitute revenues, expenditures, and/or expenses to individual funds, but such amounts are not revenues, expenditures, and/or expenses to the reporting entity. Therefore, for governmental fund type operating statements at the fund reporting level, interfund transfers are classified as "other financing sources (uses)" as follows:

Excess of revenues over expenditures	$ 67,825

Other Financing Sources

Transfers in	**25,464**
Transfers out	**(18,858)**
Total other financing sources (uses)	6,606
Excess of revenues and other financing sources over expenditures and other financing uses	74,431
Fund balance, beginning of year	242,118
Fund balance, end of year	$316,549

Transfers in Proprietary Funds

LUAs report transfers in proprietary funds at the fund reporting level in a separate subsection before net income on the operating statement as follows:

Net income before transfers	$ 21,110
Transfers in	28,007
Transfers out	(31,872)
Net transfers	(3,865)
Net income	17,245
Net position, beginning of year	$207,557
Net position, end of year	$224,802

As indicated above, it is recommended that LUAs report transfers at gross transfers in and transfers out, rather than netting the transfers. Transfers in and transfers out have the same effect on LUA's fund balances/net position as revenues and expenditures. These transfers are netted on the prepared financial statements when the transfers are between funds that are consolidated into one Major Opinion Unit on the prepared financial statements presented for CAFR or Audit purposes.

INTERFUND REIMBURSEMENTS

Reimbursements are interfund transactions that constitute reimbursement of a fund for expenditures or expenses initially made from it that are properly applicable to another fund.

They are recorded as:

- Expenditures or expenses of the reimbursing fund, and
- Reductions of the expenditure or expense originally charged in the fund that is reimbursed.

A transaction would be reported as a reimbursement when:

- An accounting error has been made (e.g., an expenditure was charged to an incorrect fund)
- When a single fund, usually the general fund, pays an invoice or payroll for other funds (i.e., as a convenience), and then charges back the expenditure/expense to the appropriate individual fund where the cost should be reported.

The caption “reimbursements” never should appear as an account caption on an operating statement.

SUMMARY

1. LUAs must repay interfund loans.

2. Transfers are interfund transactions that are permanent reallocations of resources and the LUA will not repay them.

3. Reciprocal interfund activity is most commonly found within internal service fund transactions.

4. Reimbursements are never visible on the operating statements as they are offset against the expenses/expenditures on the operating statements.

Chapter 1 – 14 General Fund

INTRODUCTION

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

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

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

NUMBER OF FUNDS

Only One General Fund

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

BUDGETARY ISSUES

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

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

ACCOUNTING

Fund Reporting Level

Basis of Accounting and Measurement Focus

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

Fund Balance

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

- *Nonspendable fund balance.* Amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. Examples include inventories, prepaid amounts, long-term receivables, or the principal of a permanent fund;

- *Restricted fund balance.* Amounts that are constrained by external parties (creditors, grantors, laws/regulations of other governments), or by constitutional provision, or enabling legislation for a specific purpose. Examples include amounts that can be spent only for specific purposes pursuant to a state law, grant agreement or donor agreement; and the resources that will be used to liquidate encumbrances from a restricted source, such as a grant.

- *Committed fund balance.* Amounts that are constrained for specific purposes imposed by formal action of the LUA's highest level of decision making authority, such as amounts set aside for new playground equipment;

- *Assigned fund balance.* Amounts that are constrained by the government's intent to be used for a specific purpose, where intent is expressed by: (1) the governing body itself or (2) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. An example could be an amount set aside by management to fund a projected budgetary deficit in a subsequent year's budget; and

- *Unassigned fund balance.* The residual classification for LUA's General Fund. Note that the General Fund is the only fund that can report a positive unassigned fund balance.

Government-wide Reporting Level

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

Temporary and Fiscal Year End Deficits

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

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

ILLUSTRATIVE JOURNAL ENTRIES' AT THE FUND REPORTING LEVEL

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

Transaction - a LUA levies $1,595,000 of property taxes during the current fiscal year to provide resources for the current year's budget. Payment of the taxes is due before calendar year-end.

Description	Account No.	DR	CR
Taxes receivable	0121	$1,595,000	
Ad Valorem Taxes	0481		$1,595,000

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

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

Description	Account No.	DR	CR
Cash in bank	0101	$1,585,000	
Taxes receivable	0121		$1,585,000

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

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

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

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

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

Description	Account No.	DR	CR
Investments	0111	$1,500,000	
Cash in bank	0101		$1,500,000

Explanation: This transaction is a simple balance sheet transaction.

SUMMARY

1. General Fund is to account for and report all financial resources except those required to be accounted for and reported in another fund.

2. The General Fund is where the recurring operating costs of the school are recorded. Care should be taken in budgeting according to the resources expected to be collected.

3. At the fund reporting level, LUAs account for the General fund using the modified accrual basis of accounting and current financial resources measurement focus.

4. The five components of fund balance include: nonspendable, restricted, committed, assigned, and unassigned.

5. At the government-wide financial statement reporting level, the General Fund is reported as Governmental Activities. The government-wide statements use the accrual basis of accounting and economic resources measurement focus.
6. Sometimes, the general fund will report a temporary deficit. This is common during the beginning of the school year, because property tax revenue is not generated until property taxes are levied and due. To meet the cash needs prior to the receipt of property taxes, an LUA can issue a tax anticipation note. This temporary loan is required to be repaid by December 31st of each calendar year.

Chapter 1 – 15 Capital Projects Funds

INTRODUCTION

Local Units of Administration (LUAs) often acquire or construct major capital facilities. Such facilities assist the LUA in providing education to its students (e.g., construction of a high school). In this instance, a financial reporting vehicle often is needed to demonstrate compliance with legal and contractual provisions and to compile certain cost data. The capital projects fund type provides such a mechanism and is used, according to the Governmental Accounting Standards Board's 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 *Codification*), Section 1300.106, “to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital asset.” Capital projects funds exclude capital acquisition or construction of capital assets for proprietary or fiduciary funds. Capital assets financed by general obligation bond proceeds should be accounted for in a capital projects fund.

Capital projects funds should be established when legally mandated. Georgia LUAs are required to use a capital projects fund when they enter into a new school building project or major renovation to a school building. They also could be used when capital acquisition or construction is financed, in whole or in part through intergovernmental revenues or major private donations. In addition, capital projects funds can be useful when capital acquisition or construction is financed over several accounting periods.

When an LUA issues general obligation debt to finance capital construction, it should demonstrate that the proceeds have been used in accordance with the related debt agreement and voter-approved bond issue. Therefore, LUAs in the past ordinarily established separate capital projects funds for each bond issue. Likewise, when capital construction was not financed by debt, LUAs often established separate funds for each project or closely related group of projects to provide additional controls over expenditures. However, with the information systems now available, many LUAs no longer need to establish separate funds for individual bonds issues or projects. Instead, these LUAs now use sub-funds within a single capital projects fund to maintain the integrity of the data on individual projects and bond issues. Insofar as this practice can be used to eliminate unnecessary funds, it conforms to the "minimum number of funds" accounting principles and is encouraged. However, LUAs should evaluate carefully the needs of users of their financial statements for information on individual bond issues and projects before adopting such an approach.

Capital projects funds report capital outlays as expenditures rather than as assets. Accordingly, construction in progress (i.e., the accumulated cost of a construction project not completed) never appears in a capital projects fund. Instead, construction in progress is reported in the governmental activities column on the Statement of Net Position for the government-wide financial statements. See Chapters I - 17 (Capital

Assets) and II - 2 (Financial Statements) for detailed information on the Capital Assets and the basic financial statements.

Assets remaining in a capital projects fund after the completion of a project normally are transferred to the debt service fund as an operating transfer out if debt related to the project is still outstanding. If not, an operating transfer out typically is made to the fund that provided the resources for the project. Deficits related to completed projects are eliminated most often by operating transfers to the capital projects fund from the general fund.

BUDGETARY ISSUES

Many LUAs establish capital improvement programs to plan for their capital needs and the means of financing them over a number of years. Often such LUAs review the portion of the capital plan related to the coming fiscal year when preparing the annual budget and incorporate all or part of it as a "capital budget" component of the broader annual appropriated budget (see Chapter IV – 3 for a discussion of capital improvement programs). Other LUAs, however, do not provide for capital projects in their annual appropriated budgets. Instead, such LUAs adopt project-length budgets for their capital projects and rely on mechanisms such as bond indentures to ensure proper control over expenditures (Chapter IV – 2 discusses project-length budgets). This project-length focus is in keeping with the natural life cycle of capital projects. No matter which method is chosen, LUAs need to ensure that budgetary compliance is demonstrated in their financial reports.

Presentation of budgetary information for capital projects funds is not a required component of external financial statements according to GASB Statement 34. Budget comparisons are required for the general fund and each major special revenue fund with a legally adopted budget. However, the Department of Education requires budgeting capital projects funds. Budgets for capital projects funds vary depending on whether or not the funding is through local revenue (ad valorem), GSFIC funding, or SPLOST funding. The budgeting will depend on the resources, the voter-approved or state approved projects, and the time frame allotted for the projects.

ACCOUNTING ISSUES

The capital projects fund type uses the modified accrual basis of accounting and the flow of current financial resources measurement focus. Therefore, accounting for capital projects funds is essentially similar to the accounting used by other governmental funds. Nevertheless, questions still arise regarding the classification of financial resources, temporary deficits, premiums and discounts, and interest capitalization.

Classification of Financial Resources

Financial resources used for capital acquisition and construction are classified based on their source. Operating transfers from other funds, as well as the proceeds of most bond issuances, are reported as "other financing sources" and are shown in a subsection of the statement of revenues, expenditures and changes in fund balances, following the excess (deficiency) of revenues over (under) expenditures. Interest on investments, intergovernmental grants and private donations, on the other hand, are reported as revenues.

Temporary Deficits

Sometimes capital projects funds report a temporary deficit, if, for instance, an LUA uses short-term borrowing to finance the early stages of construction. For example, an LUA decides to finance a three-year school building project with general obligation bonds that will be issued in the second year of the project. To begin the project, the LUA issues short-term bond anticipation notes (BANs). If the BANs do not meet the criteria set forth in the 2015-2016 *Codification*, Section B50.102 for inclusion in the governmental activities column of the government-wide financial statements, they are reported as a liability of the capital projects fund. Because the debt is reported in the fund, any expenditures incurred during the first year would create a deficit since there are no revenues or other financing sources reported in the fund. This deficit is temporary because it will be eliminated when the bond proceeds budgeted for the project are received in the second year. Concern over such deficits ought to be tempered by consideration of the measurement focus and basis of accounting applicable to the capital projects fund category. Unlike "retained earnings" in the commercial model, the unassigned fund balance of governmental funds is designed to reflect only net expendable, available financial resources. A deficit in a capital projects fund, therefore, demonstrates only that uses of expendable available financial resources have exceeded sources. A deficit does not necessarily indicate that the LUA is facing financial difficulties.

Premiums and Discounts

Another accounting issue for capital projects funds is the proper treatment of premiums or discounts on bond issuances. As noted earlier, capital projects funds use the flow of current financial resources measurement focus. Amortization is not appropriate under this measurement focus because the amounts so recognized would not represent an increase or decrease in expendable available financial resources. Therefore, bonds issued are reported as Other Financing Sources – Bond Proceeds on the operating statement for the fund. Care should be taken to ensure that the amount reported as "proceeds" is computed correctly. Sometimes issuance costs are withheld from bond proceeds as an additional discount or reduction of premium. In such instances, only the amount representing an adjustment of the face value of the bonds to their present value should be subtracted or added to determine the amount of the proceeds, which are then accounted for as an Other Financing Source. Any amounts withheld for issuance costs should be included in the calculation of proceeds and then reported separately as an expenditure under the debt service classification on the statement of revenues, expenditures and changes in fund balances. See Chapter II -3 for information regarding adjustments related to bond premiums, discounts, and issuance costs necessary for the preparation of the government-wide financial statements.

Interest Capitalization

According to the 2015-2016 Codification section 1400.123, interest expense should be capitalized for the following types of assets: assets constructed or otherwise produced for a government's own use, assets intended for sale or lease that are constructed, investments accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of resources to acquire qualifying assets for its operations, and assets donated or granted to other entities.

ILLUSTRATIVE JOURNAL ENTRIES

The following discussion and journal entries illustrate the financial transactions required for the establishment and the operation of a capital projects fund during the first year of the project.

Transaction - an interfund receivable of $300,000 is established in the capital projects fund for the general fund's portion of the project's cost.

Description	Account No.	DR	CR
Interfund accounts receivable	0132	$300,000	
Other financing sources -- operating transfers from other funds	5200		$300,000

Explanation - An offsetting journal entry would be reported in the general fund.

Transaction - the LUA sells general obligation bonds in the amount of $4 million to cover the majority of their share of the cost of the building project.

Description	Account No.	DR	CR
Cash in bank	0101	$4,000,000	
Other financing sources-sale of bonds	5100		$4,000,000

Transaction - the LUA determines that it can invest $3,839,000 of the cash in the capital projects fund and still meet its cash needs for the immediate future.

Description	Account No.	DR	CR
Investments	0111	$3,439,000	
Cash in bank	0101		$3,439,000

Transaction - the capital projects fund received $200,000 as partial payment from the general fund for its portion of project costs.

Description	Account No.	DR	CR
Cash in bank	0101	$200,000	
Interfund accounts receivable	0132		$200,000

Transaction - the LUA records $5,161,000 of encumbrances for purchase orders issued and contracts approved.

Description	Account No.	DR	CR
Encumbrances	(function/object)	$5,161,000	

Fund balance –
Assigned for Encumbrances 0753
$5,161,000

Explanation – The LUA accounting software should automatically post these amounts to the Encumbrances Control (0603) account.

Transaction - the LUA agrees to a change-order request from the contractor that will raise by $15,000 the contract amount related to the project.

Description	Account No.	DR	CR
Encumbrances	(function/object)	$15,000	
Fund Balance Assigned for Encumbrances	0753		$15,000

Transaction - the LUA receives progress billings of $2,979,000. These amounts have been encumbered. The LUA also receives invoices for goods and services totaling $255,000. However, the related purchase orders used to establish the encumbrance amounted to $253,000. Of the $2,979,000 of progress billings, $149,000 is to be withheld, in accordance with the provisions of the contracts, until the projects are completed satisfactorily.

Description	Account No.	DR	CR
Fund balance – Assigned for Encumbrances	0753	$3,232,000	
Encumbrances	(function/object)		$3,232,000

(Note: amount removed from encumbrances is $2,979,000 plus original encumbrance for goods and services $253,000.)

Description	Account No.	DR	CR
Expenditures	Various Exp.	$3,234,000	
Construction Contracts payable	0433		$2,830,000
Accounts payable	0421		$255,000
Construction Contracts Retainage Payable	0432		$149,000

(Note: expenditure totals progress billing of $2,979,000 plus the actual invoice of $255,000.)

Transaction - the LUA files for reimbursement from the GSFIC for the amount of the expenditures incurred (including retainage) and matching requirements have been met.

Description	Account No.	DR	CR
Intergovernmental Accounts Receivable - State	0141	$3,234,000	
State Capital Outlay Grants	3600		$3,234,000

Transaction - the capital projects fund redeems investments that originally cost the LUA $2,004,000. The redemption price of $2,149,000 includes $145,000 of interest.

Description	Account No.	DR	CR
Cash in bank	0101	$2,149,000	
Investments	0111		$2,004,000
Earnings on investments or deposits	1500		$145,000

Transaction - the LUA pays $2,830,000 due on contracts payable.

Description	Account No.	DR	CR
Construction Contracts payable	0433	$2,830,000	
Cash in bank	0101		$2,830,000

Transaction - the LUA accrues interest of $64,000 on its capital projects fund investments at year end.

Description	Account No.	DR	CR
Interest receivable	0114	$64,000	
Investment Income	1500	$64,000	

Explanation - Since the amount is considered available at year-end, it is recognized as revenue as of June 30.

Summary

1. Capital projects funds are used as a financial reporting vehicle often to demonstrate compliance with legal and contractual provisions and to compile certain cost data.

2. Capital projects funds exclude capital acquisition or construction of capital assets for proprietary or fiduciary funds.

3. Presentation of budgetary information for capital projects funds is not a required component of external financial statements according to GASB Statement 34. Budget comparisons are required for the general fund and each major special revenue fund with a legally adopted budget. However, the Department of Education requires budgeting capital projects funds.

4. Financial resources used for capital acquisition and construction are classified based on their source. Operating transfers from other funds, as well as the proceeds of most bond issuances, are reported as "other financing sources."

5. Sometimes capital projects funds report a temporary deficit, if, for instance, an LUA uses short-term borrowing to finance the early stages of construction. This deficit is temporary because it will be eliminated when the bond proceeds budgeted for the project are received in the second year.

6. Bonds issued in a Capital Projects Fund are reported as Other Financing Sources – Bond Proceeds on the operating statement for the fund.

7. Interest expense should be capitalized for the following types of assets: assets constructed or otherwise produced for a government's own use, assets intended for sale or lease that are constructed, and investments accounted for by the equity method provided that the investee's activities include the use of resources to acquire qualifying assets for its operations, and assets donated or granted to other entities.

Chapter 1 – 16 Debt Service Funds

INTRODUCTION

Georgia Local Units of Administration (LUAs) use debt service funds to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The Governmental Accounting Standards Board's 2015-2016 Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification), Section 1300.107, states, "Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds." In Georgia, LUAs are required to use debt service funds to account for the retirement of general obligation bonds and to record the interest costs associated with these bonds.

NUMBER OF FUNDS

LUAs should establish separate debt service funds for each bond issue. However, if the LUA levies a single amount of property tax for repayment of several general obligation bonds, they may use a single debt service fund to retire all these bonds. This use is appropriate since property tax revenues are not distinguishable by separate bond issue. LUAs are required to maintain a separate debt service fund to repay general obligation debt retired from Special Purpose Local Option Sales Taxes (SPLOST).

SPECIAL PURPOSE LOCAL OPTION SALES TAXES

All SPLOST revenue shall be deposited in accordance with the SPLOST referendum and/or bond covenants. If the LUA sells revenue bonds guaranteed by SPLOST revenues, the LUAs must use these revenues to retire the revenue debt. In these instances, the LUA shall transfer the SPLOST from the capital projects fund to the debt service fund in accordance with the bond covenants. If approved in the referendum, LUAs may use SPLOST to retire existing general obligation debt (i.e., debt issued before the SPLOST referendum). In these instances, the LUA should record the SPLOST initially in a capital projects fund and then transfer the proceeds to a debt service fund.

Per Article VIII, Section VI, Paragraph IV of the Georgia Constitution, if a SPLOST tax is imposed to pay off specific general obligation bond debt, the property tax revenue previously levied to pay for the said debt shall be reduced based on the amount of SPLOST proceeds that will be used. A district cannot continue levying the bond millage for debt that will no longer be paid with that revenue base because of SPLOST.

However, a district can still issue a bond millage to collect property tax revenue to pay off general obligation debt that is not being repaid from SPLOST revenues. There are occasions in which a district will issue SPLOST with the intent to pay off general obligation debt but the SPLOST proceeds decrease and are not sufficient to pay the debt. In those cases, bond millages can be levied to pay off debt, as long as the SPLOST funds are not being earned for the same purpose.

In addition, SPLOST revenues, authorized for capital outlay projects for educational purposes, shall not be used to repay bonds issued with the intent of being repaid with debt service property tax revenues unless:

- The school board's resolution authorizing the SPLOST specifically included, as one of its purposes, repayment of previously incurred general obligation debt with respect to capital outlay projects of the school system.

- The school board authorizes, through proper resolution, that the LUA may use any residual balance remaining in any debt service fund, after all bond principal and interest associated with that specific debt service fund have been retired, to retire any outstanding general obligation bond debt.

ACCOUNTING ISSUES

At the fund reporting level, LUAs account for debt service funds on the modified accrual basis of accounting using the current financial resources measurement focus. Chapter I - 7 explains these concepts. Several accounting issues are associated with debt service funds. These issues include expenditure recognition and advance debt refundings.

Expenditure Recognition

One exception to recording expenditure accruals at the fund reporting level relates to unmatured principal and interest associated with long-term general obligation debt. LUAs must record debt service principal and interest expenditures when the payments are due. The "when due" exception to expenditure recognition was established to "match" debt service expenditures with resources accumulated to repay the debt. This approach prevents an understatement or overstatement of debt service fund's fund balance.

As an option, when resources are provided to the debt service fund before year end, for debt service payments due early in the next year, the LUA may recognize an expenditure, in the current year for this debt service principal and interest (i.e., before it is due). The phrase "due early in the next year" is limited to one month, or the month of July following year-end. GAAP permits this treatment to avoid an overstatement of fund balance in the debt service fund at June 30.

Advance Debt Refundings

In addition to normal repayment, debt may be extinguished through an advance refunding. An advance refunding takes place when monies are provided (at least in part by a new debt issuance) to retire previously issued debt as it matures or at the call date.

The 2015-2016 Codification D20.105 – D20.106 provides that debt may be considered extinguished, and both debt and related assets may be removed from the balance sheet, when an advance refunding results in a legal or an in-substance defeasance. According to 2015-2016 Codification D20.105, an advance refunding results in a legal defeasance when "debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid." A legal defeasance is rare in the LUA environment and generally would occur only when an amount sufficient to pay both principal and interest at the time of deposit is placed in an irrevocable trust with an independent escrow agent.

The 2015-2016 Codification D20.106 also specifies criteria for an in-substance defeasance. An in-substance defeasance occurs when the "debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote."

For an asset to qualify as essentially risk free, it should be either a direct obligation of the U.S. Government, an obligation guaranteed by U.S. Government, or securities backed by U.S. Government obligations.

Fund Reporting Level

At the fund reporting level, when a LUA reports an advance refunding that results in the defeasance of debt, the 2015-2016 Codification, Section D20.109, provides specific guidance. The face amount of the refunding debt (i.e., new debt) should be reported as an "other financing source -- proceeds of refunding bonds" in the fund receiving the proceeds.

The classification of payments to the escrow agent is dependent on the resources used. LUAs should classify payments to the escrow agent from resources provided by the refunding issue as an "other financing use -- payment to refunded bond escrow agent." Payments to the escrow agent from other resources (e.g., transfers, debt service property taxes) should be reported as debt service expenditures.

Government-wide Reporting Level

As indicated above, there often is a difference between the carrying amount of redeemed/defeased debt and its reacquisition price. The 2015-2016 Codification D20.111 indicates this difference should be reported as a deferred outflow of resources or deferred inflow of resources and recognized as a component of interest expense. At the government wide reporting level, LUAs defer and amortize this amount over the shorter of:

1) The original amortization period remaining from the prior refundings, or
2) The life of the latest refunding debt.

In the meantime, the unamortized difference between the carrying amount of redeemed or defeased debt and its reacquisition price should be reported as a direct reduction of (or addition to) the amount of refunding debt reported on the statement of position, much like a bond premium or discount.

ILLUSTRATIVE JOURNAL ENTRIES AT THE FUND REPORTING LEVEL

The following discussion and journal entries illustrate the more common debt service fund transactions under the modified accrual basis of accounting.

Transaction - an LUA levies $1,595,000 of property taxes during the current year to provide resources for debt service expenditures. Payment of the taxes is due before year-end.

Description	Account No.	DR	CR
Taxes receivable	0121	$1,595,000	
Deferred Inflow-Unavailable Revenue	0481		$1,595,000

Explanation - There are two options for a LUA to use to record property taxes. In this option, the LUA does not recognize any of the taxes they levied as revenue since they are not estimating the amount that will become available (i.e., they are assuming that none of the receivable is available at this time, therefore, they do not recognize any revenue.

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

Description	Account No.	DR	CR
Cash in bank	0101	$1,585,000	
Taxes receivable	0121		$1,585,000

Description	Account No.	DR	CR
Deferred inflow of resources	0481	$1,585,000	
Ad Valorem Taxes	1110		$1,585,000

Explanation: Since the LUA did not recognize revenue in the first transaction, each time taxes are collected, it removes a like amount from unavailable revenue (deferred inflow of resources) and recognizes it as revenue since the collected taxes are now available.

Transaction (the second option) - In the same property tax transaction as above, the LUA estimates that $1,590,000 will be available sometime during the current fiscal year.

Description	Account No.	DR	CR
Taxes receivable	0121	$1,595,000	
Ad valorem taxes	1110		$1,590,000
Deferred inflow of resources/ unavailable revenue	0481		$5,000

Explanation: With this option, the LUA assumes that it will receive $1,590,000 in the available period and it records the revenue in a like amount. It reports the balance as deferred inflow of resources.

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

Description	Account No.	DR	CR
Cash in bank	0101	$1,585,000	
Taxes receivable	0121		$1,585,000

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

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

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

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

Transaction – QZAB Bonds were sold and the annual payments on the debt are actually payments to an investment account in the school district's name. The investment is held until the bond debt matures.

Description	Account No.	DR	CR
Investments	0111	$2,000,000	
Cash	0101		$2,000,000

Explanation: The QZAB payment is transferred to an investment account and held in the school district's name.

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

Description	Account No.	DR	CR
Investments	0111	$1,500,000	
Cash in bank	0101		$1,500,000

Explanation: This transaction is a simple balance sheet transaction.

Transaction - the LUA determines during the year that a $4,000,000 advance refunding of general obligation bonds (refunded bonds) can be achieved with a $4,315,000 payment into an escrow account. Resources for the advance refunding are obtained through the sale of $4,365,000 in general obligation bonds (refunding bonds) and the use of $15,000 in debt service funds resources. Issuance costs associated with the refunding bonds amount to $65,000 and there are no bond premiums or discounts.

Description	Account No.	DR	CR
Cash in bank	0101	$4,300,000	
Dues and fees	5100-810	$65,000	
Other financing sources - Sale of bonds	5100		$4,365,000

Explanation: The LUA reports the bonds at their face value and reports the bond issuance costs as an expenditure.

Transaction - the LUA remits $4,315,000 to the refunded bond escrow agent from refunding bond proceeds ($4,300,000) and debt service fund resources ($15,000).

Description	Account No.	DR	CR
Dues and fees	5100-810	$15,000	
Other Financing Use – Payment to Bond Escrow Agent	5100-831	$4,300,000	
Cash in bank	0101		$4,315,000

Explanation - On the operating statement, the principal portion would be reported as an other financing use and the $15,000 is reported as an expenditure.

Transaction - the LUA remits to its fiscal agent annual bond principal payments of $2,030,000 and semiannual interest payments of $1,478,000. Of the $3,508,000 remitted, $3,500,000 ($2,025,000 principal and $1,475,000 interest) was paid to bondholders by the fiscal agent.

Description	Account No.	DR	CR
Redemption of bond principal	5100-831	$2,030,000	
Interest	5100-830	$1,478,000	
Cash in bank	0101		$3,508,000

Explanation: Since the fiscal agent redeems this bond principal and interest immediately upon receipt, the LUA treats the transaction as an expenditure. If the fiscal agent was not retiring the debt immediately, the LUA would record this payment as "cash with fiscal agent." Then ultimately, when the fiscal agent paid the principal and interest, the LUA would report the expenditure and reduce the cash with fiscal agent account.

Transaction - at year-end, $30,000 of interest revenue is accrued on outstanding investments.

Description	Account No.	DR	CR
Interest receivable	0114	$30,000	
Investment Income	1500		$30,000

Explanation: The LUA may accrue the interest at the fund reporting level if considered available.

SUMMARY

1. Georgia Local Units of Administration (LUAs) use debt service funds to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

2. LUAs should establish separate debt service funds for each bond issue. However, if the LUA levies a single amount of property tax for repayment of several general obligation bonds, they may use a single debt service fund to retire all these bonds.

3. All SPLOST revenue shall be reported in either the capital projects fund or the debt service fund as indicated by the SPLOST referendum and/or bond covenants.

4. At the fund reporting level, LUAs account for debt service funds on the modified accrual basis of accounting using the current financial resources measurement focus.

5. LUAs must record debt service principal and interest expenditures when the payments are due. The "when due" exception to expenditure recognition was established to "match" debt service expenditures with resources accumulated to repay the debt.

6. An advance refunding takes place when monies are provided (at least in part by a new debt issuance) to retire previously issued debt as it matures or at the call date.

7. At the fund reporting level, when a LUA reports an advance refunding that results in the defeasance of debt, the face amount of the refunding debt (i.e., new debt) should be reported as an "other financing source -- proceeds of refunding bonds" in the fund receiving the proceeds.

8. Payments to the escrow agent from other resources (e.g., transfers, debt service property taxes) should be reported as debt service expenditures.

Chapter 1 – 17 Capital Assets

INTRODUCTION

This chapter will cover accounting for capital assets. Capital assets have a useful life of greater than one reporting period and exceed dollar thresholds locally adopted by a LUA. *GASB Statement 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* provides guidance for accounting for capital assets in both governmental and proprietary funds.

Also discussed in this chapter are Intangible and Right to Use Assets. Intangible Assets are those assets that lack a physical substance, are non-financial in nature and have an initial useful life extending beyond a single reporting period. The 2021 Codification, Section 1400.124 states, that intangible assets are classified as capital assets (except those explicitly excluded, such investments and assets resulting from lease transactions). Right to Use assets are acquired through a lease agreement. GASB Codification L20.102 defines a lease as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction." Likewise, GASB Codification S80.103 defines a Subscription Based Information Technology Arrangements (SBITAs) as "a contract that conveys control of the right to use another party's (a SBITA's vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction." Relevant, authoritative guidance for capital assets should be applied to these assets.

ACCOUNTING ISSUES

The GASB provides specific guidance regarding various issues in accounting for general capital assets.

The capital asset system that the LUA uses will serve as the database for reporting their capital assets in the governmental fund activities column on the government-wide statement of net position. The LUA should add the capital assets it purchases from governmental fund types to its capital asset system.

Capital Asset Categories

Land – land purchased or otherwise acquired by the LUA.

Land Improvements – features added to land to increase its value or meet the needs of the LUA. Land Improvements include the cost of permanent attachments to land such as sidewalks, trees, drives, tunnels, sewers, etc.

Buildings- acquisition cost of permanent structures and permanent improvements thereto owned or held by an LUA. This account includes costs incurred in the acquisition of buildings (e.g., broker's fees).

Machinery and Equipment - Tangible property of a more or less permanent nature, other than land or buildings and improvements thereon (e.g., machinery, tools, trucks, and furnishings). This account includes costs incurred in the acquisition of machinery and equipment (e.g., transportation costs).

Right to Use – Asset - Lessee's right to use the underlying asset (a building, parking lot, truck, tools, etc.) which was created by the contractual agreement between the lessee and the lessor. This agreement conveys the right to use the asset (land, land improvement, building, or machinery and Equipment) to the lessee for a specific time period and under certain provisions. Applicable to Entity-wide Funds for Capital Assets (Funds 800, 801 & 859). Effective FY 2021

Right to Use – Subscription Based Information Technology Arrangement (SBITA) – Lessee's right to use software, infrastructure, or platform services, as well as cloud-based software and cloud-based video conferencing which was created by the contractual agreement between the lessee and lessor. This agreement conveys the right to use the technology to the lessee for a specific time period and under certain provisions. Effective FY23.

Construction in Progress - The cost of construction work for projects not yet completed.

Infrastructure - An asset, network, or subsystem that has a useful life that is significantly longer than those of other capital assets. These assets may include water/sewer systems, roads, bridges, tunnels and other similar assets. Technology cabling between schools. Ex. fiber optics installed between the schools for technology connectivity, if the district owns the fiber and it is not a lease.

Works of Art and Historical Collections - Individual items or collections of items that are of artistic or cultural importance.

Intangible Assets - an asset that possesses all of the following characteristics:

- It lacks physical substance – in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a computer).
- It is nonfinancial in nature – that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.
  Exceptions to Intangible Asset categories – Assets acquired or created primarily for the purpose of directly obtaining profit or income (these should be treated as

investments) and Assets resulting from lease transactions, and goodwill created through combination of a government or other entity.

Valuation of Capital Assets

The 2021 *Codification of Governmental Accounting and Financial Reporting Standards Part I* Sections 1400.102 and 1400.103 indicate that all purchased capital assets should be recorded at historical cost (i.e., original cost). The cost of a capital asset includes not only its purchase price or construction costs, but also any other reasonable and necessary costs incurred to place the asset in its intended location and use. Such costs could include the following:

- Freight and transportation charges
- Site preparation costs
- Professional fees

Section 1400.102 states “Interest cost incurred before the end of a construction period should not be capitalized as part of the asset's historical cost.”

If a LUA is establishing capital asset records for the first time, the LUA may value the purchased capital assets at estimated historical cost if the original cost is not available. Original cost is defined as the cost of capital assets in accordance with costs prevailing at the date the LUA first constructed or originally installed the capital asset.

LUAs should record donated or contributed capital assets at their acquisition value plus ancillary charges if applicable. Acquisition value is defined in the GASB Codification 1400.702-4 as “the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.” GASB 34 paragraph 18 defines ancillary costs to include “costs that are directly attributable to asset acquisition such as freight and transportation charges, site preparation costs, and professional fees. “Section IV, Chapter 7 provides specifics regarding valuing and costing capital assets.

Intangible Assets are recognized (capitalized) only if the asset is identifiable. According to Codification Section 1400.125, an asset is considered identifiable when it is:

- Separate, or is capable of being separated or divided from the LUA and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability.
- The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Acquisitions of Capital Assets

LUA’s may acquire capital assets by purchase, construction, lease agreement, installment purchase contract, or through donation. Generally, general capital assets acquired by purchase or construction are valued in the capital asset records in the amount of the related governmental fund expenditure. At the fund level, the construction, or capital outlay, is an expenditure of current resources. At the district level, the expenditure is reclassified to a capital asset, as the asset is meant to benefit more than one reporting period. The capital asset is then expensed over the periods that are expected to benefit from the resource, through depreciation.

Subsequently, the LUA should add this capital asset to its capital asset system. The journal entry to record a capital asset acquisition (e.g., machinery and equipment) in the general fund at a cost of $19,000 is:

Description	Account No.	DR	CR
Expenditures - machinery and equipment (function)	730.xx	$19,000	
Accounts payable	421		$19,000

Note - the LUA must add this asset to its capital asset system; however, a journal entry is not required since the LUA does not report capital assets in the General Ledger.
If an LUA receives a donated capital asset, the LUA will simply add the donated asset to its capital asset system since the donation does not affect current financial resources.

Trade-Ins

GASBS 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraphs 276 states, “An exchange of a productive asset not held for sale in the ordinary course of operations for a similar productive asset or an equivalent interest in the same or similar productive asset” should be based on the fair value of the assets involved.

For example, at the fund reporting level, an LUA’s general fund purchases a capital asset (e.g., a truck) for $19,000 (i.e., cost $21,000 less trade-in of $2,000 for a capital asset. The additional $2,000 recorded as an expenditure resulting from the asset trade-in value would be a reconciling item in the budget to actual schedule included in the audited financial statement as it would not involve use of current financial resources.

General Fund:

Description	Account No.	DR	CR
Machinery and equipment	730.xx	$21,000	
Cash in bank	0101		$19,000
Sale or compensation for Loss of assets	5300		$2,000

At the government-wide financial reporting level, the LUA would follow GASB No. 62, paragraphs 272-279 to report trade-ins. The guidance refers to exchange of nonmonetary assets and requires fair value of the asset involved. The section “Disposition of Capital Assets” presented later in this chapter explains how to report these transactions at the government-wide reporting level.

Construction in Progress

When an LUA is constructing a capital asset in a capital projects fund and it is not complete at June 30, the LUA reports the current year costs in its capital asset system as additions to “construction in progress.” The value of the construction-in-progress account on the government-wide statements is the total amount of expenditures incurred during the fiscal years during which the project is under construction. If an LUA has a building project completed in the current year, the LUA reclassifies the capital asset from the “construction in progress” account into the “buildings” account.

The 2021 Codification Section 1400.120 indicates interest cost under the economic resources measurement focus should be recognized as an expense in the period in which the cost is incurred.   Codification Section 1400.121 indicates interest cost incurred during the construction project for financial statements prepared using the current financial resources measurement focus should be recognized as an expenditure at the time of occurrence.

Leases

LUAs routinely use capital assets in governmental fund activities under lease agreements with third parties covering one or more years. Right to use leases are addressed in GASB Codification Sections L20 and S80. Accounting guidance in Section L20 It defines a lease as “a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.” Likewise, Section S80 defines a SBITA as “a contract that conveys control of the right to use another party’s (a SBITA’s vendor’s) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.” Control of the underlying asset requires meeting two criteria, “the right to obtain the present service capacity from use of the underlying asset as specified in the contract” and “the right to determine the nature and manner of use of the underlying asset as specified in the contract.”

Short-term leases have a lease term of twelve months or less with no option to extend the lease beyond twelve months and therefore, would not be recorded using lease accounting. The lease term is determined by “the period of time the lessee has a noncancelable right to use an underlying asset”. Lessees should recognize short-term leases as an expense. Lessors should recognize lease payments as revenue.

Nonexchange transactions, such as leases for $1 per year, are excluded since the asset would actually be leased on the open market for significantly more. Therefore, there must be an exchange of equal or close to equal value. Leases cancellable by both parties without permission from the other party or penalty, or there is an arrangement that is not legally binding by a signed lease agreement.

If the asset will transfer ownership at the end of the lease term, it is considered a finance purchase. GASB 51 clarifies treatment for software purchased under these terms.

Additional Exceptions for Right to Use Assets are:

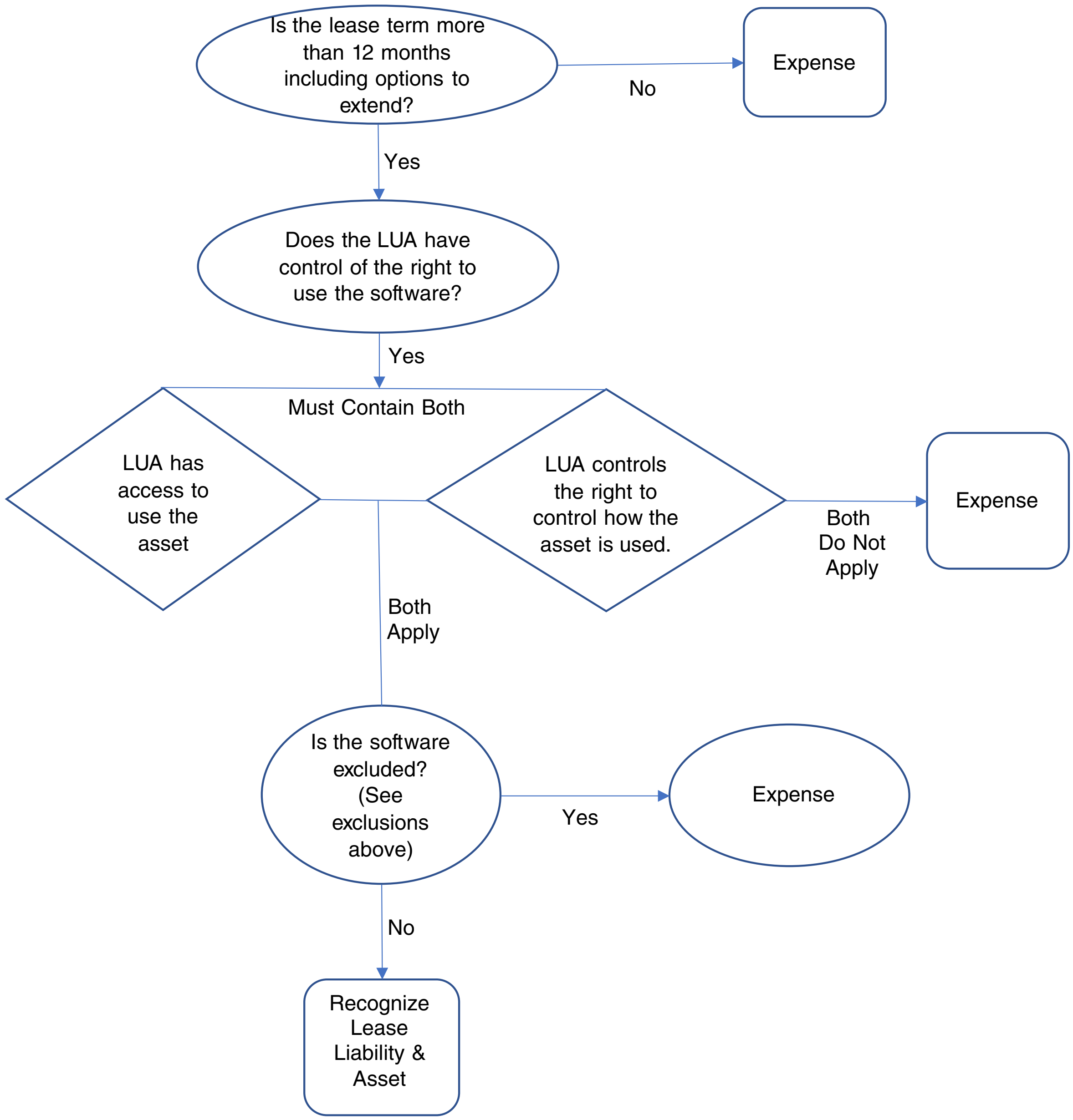
- Perpetual licenses with no set term, year-to-year, and auto-renewing
- Short-term contract with a term of 12 months or less, including renewal periods.
- Contracts with another governmental entity providing rights to use their IT software.
- Public-Private or Public-Public partnership. See GASB 94, paragraph 5.
- IT support and/or maintenance services, training, and warranty costs. (These should be expensed when incurred.)

For those agreements that qualify as a capital lease, the lessee should recognize a lease liability and an intangible right-to-use lease asset. The lease liability is the present value of payments expected to be made under the lease..

The lease asset should equal the amount of the initial lease liability, lease payments made to the lessor at or before the commencement of the lease term less any lease incentives, and the initial direct costs that are ancillary charges necessary to place the asset into service .

For leases paid in funds using the current financial resources measurement focus, an expenditure and other financing source should be reported in the period the lease is initially recognized. Lease payments should be accounted for consistently with the method used for debt service payments guidance for leased assets.

Right to Use Lease Capitalization Decision Tree



Internally Generated Intangible Assets

Intangible assets are considered internally generated if they are created or produced by the LUA or an entity the LUA contracted with, or acquired from a third party but require more than "minimal effort to begin to achieve the expected level of service capacity". According to the Codification 1400.127, three circumstances must exist in order for outlays related to an internally generated intangible asset to begin to be reported as a capital asset:

- The government's specific *objective* for the project and the *service capacity* in which the asset is expected to be used upon the project's completion has been determined.
- The *feasibility* of completing the project so that it can be used in that capacity has been demonstrated.
- The government's *intention* to complete or to continue the development of the asset has been demonstrated.

Outlays incurred prior to meeting the above criteria should be expensed as incurred.

For internally generated computer software, the foregoing criteria should be considered to be met only when the activities in the preliminary project are completed, and management authorizes and commits to funding the software project.

Internally Generated Computer Software

Codification 1400.128-1400.129 states computer software should be considered internally generated if it is developed in-house or by a third-party contractor on behalf of the LUA. Commercially available software that is purchased or licensed by the LUA and modified using more than minimal incremental effort before being put into operation should be considered internally generated.

The activities involved in developing and installing internally generated software can be grouped into the following stages:

a. *Preliminary Project Stage* – Activities here include conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.
b. *Application Development Stage* – Activities in this stage include the design of the chosen path, including software configuration and interfaces, coding, installation to hardware, and testing, including the parallel processing phase.
c. *Post-Implementation/Operation Stage* – Activities in this stage include application training and software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the software operational, or in condition for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage.

Outlays associated with activities in the preliminary project stage should be expensed as incurred.

Outlays related to activities in the application development stage should be capitalized, if all requirements qualifying the expenses for recognition as an internally generated intangible asset are met. Capitalization of these outlays should cease when the software is substantially complete and operational.

Outlays associated with activities in the post-implementation stage should be expensed as incurred.

Outlays associated with an internally generated modification of software should be capitalized if any three of the following are met:

a. An increase in the functionality (performance of tasks previously incapable of performing)
b. An increase in the efficiency (level of service without the ability to perform additional tasks)
c. An extension of the estimated useful life

Outlays not meeting any of the above outcomes should be considered maintenance, and expensed as incurred.

Illustration of Capitalization of Intangible Assets

Assumptions

In July 2020, the Somewhere School District identified the need for new enterprise management information software. A task force was identified with personnel from several of the departments in the financial services, student services, technology support, and human resource divisions. From July through October 2010, the task force performed numerous tasks relating to the project including the following:

- Determined the performance requirements with operators and users.
- Determined the system requirements including an assessment of existing hardware.
- Assessed the feasibility of developing internally generated software or seeking an outside provider.
- Issued a request for proposals to outside vendors and reviewed these proposals.

Based on the recommendation of the task force the board of education awarded a contract in the amount of $15 million to RoadReady Software Corporation to acquire a perpetual license to use its integrated enterprise software. As a part of the contract, RoadReady agreed to modify, install, and implement the conversion. Three district employees were dedicated to the project. The district included $16 million in the 2021 general fund budget to cover the cost of the project.

Installation occurred from January 2021 through July 2021. Modifications, data conversion, and testing of the software were completed in October 2021, at which time the software was considered substantially complete and operational.

The district determined that the aggregate outlays of the software project were $17.15 million, composed of the following:

- Outlays associated with task force activities from July through October 2021: $1.5 million
- Outlays for RoadReady software and installation: $14.6 million
- Outlays for three employees dedicated to the installation and testing: $.5 million.
- Outlays for training district operators and users: $.55 million
-

Financial Reporting

The activities of the task force ($1.5 million) should be considered preliminary project stage activities, expensed on the entity-wide statement of activities, and as an expenditure in the general fund statement of revenues, expenditures, and changes in fund balances.

The acquisition of the license to use RoadReady software and the installation and testing should be considered application development stage activities. $15.1 million should be capitalized in the entity-wide statement of net assets, evidenced by the completion of the preliminary project stage and the appropriation of $17.15 million in the general fund budget.

The training activities ($.55 million) occurring in 2023 should be considered post-implementation/operation stage activities and expensed as incurred in the entity-wide statement of activities and as an expenditure in its general fund statement of revenues, expenditures, and changes in fund balances.

Capitalization Policy

Capital Asset Threshold. Typically, two criteria are used to determine the LUAs capitalization policy: the cost of the asset and its estimated useful life. Determining the dollar threshold level for capital assets is a very important element in an LUA's capital asset system.

There is a direct relationship between the number of assets and the dollar threshold. Typically, the largest percentage of total dollar value can be attributed to land, buildings, and vehicles that are not affected by the lower capitalization threshold. It is better to control the big dollar items than to spend time and effort in attempting to track low-cost equipment.

LUAs should consider two threshold levels:

- GAAP reporting
- Control purposes.

Because GASBS 34 requires LUAs to depreciate their capital assets and recognize gains and losses on their disposition of capital assets, an LUA should consider a higher threshold for GAAP reporting. The national Government Finance Officers Association recommends that governments use a $5,000 threshold for GAAP reporting. This level would substantially reduce the number of assets that the LUA would have to account for in financial statement reporting. It is common for a LUA to have different thresholds for different categories of capital assets. Buildings may be capitalized at $100,000 and land will always be capitalized, regardless of cost.

The GASB 2021-1 Implementation Guide clarified that governmental entities should capitalize bulk purchases that are individually below the capitalization threshold but significant in the aggregate. Examples of bulk purchases that may not meet the individual threshold for capitalizing but are significant to the capital asset balance include computers, classroom furniture, and library books. Whether or not the bulk purchase is significant should be determined by considering the overall capital asset balance. Each LUA should update their capital asset policy to indicate that bulk purchases of small value items that individually do not meet the capitalization threshold will be considered and capitalized if determined to be significant. The LUA will also establish an estimated useful life based on the specific items purchased that is reasonable and is consistent with the LUA's plan to purchase replacements.

Each LEA should consider the cost/benefit relationship to establishing capitalization thresholds. When determining what dollar amount of assets should be capitalized and maintained, the LEA should set a level of capitalization that will enable the district to reflect at least 80 percent of its total assets as capitalized on the financial statements.

Once a capitalization threshold is established, the LEA should further consider inventory procedures necessary to track small, pilferable, "walkable" items. Examples of such items that may not individually meet a capitalization threshold are iPads, laptops, furniture, and library books. While these items generally do not meet a capitalization threshold individually, the cost of maintaining technology, furniture, and library collections for all users in a school system, including employees and students, is generally significant to the financial statements. GASB Implementation Guide 2021-1 recommends capitalizing aggregately significant, similar assets purchased in a single group. These groups of assets should also have approximately the same useful lives. For example, an LEA may adopt a General Fund budget of $20M for one fiscal year. Of that $20M, any purchases exceeding 1% of budgeted expenditures, or $200,000, is considered significant for financial reporting purposes. GaDOE recommends LEAs determine a level of significance for such circumstances.

The primary advantage of a higher threshold for capitalization is a decrease in the burden on the accounting office for tracking, recording, and depreciating the assets on an annual basis. However, even if a capitalization threshold is set high, small value items such as technology devices should be inventoried and tracked per the LEA's local policy. See Inventoried Assets Section below.

Another consideration of a higher capitalization threshold is the effect on the Net Position reported by the LEA on the District-wide Statement of Net Position. Capitalized

assets are not expended in the year of purchase but are expended over the estimated useful life of the asset by means of depreciation expense. If an asset is fully expensed in the year the asset is acquired, that entire expense will reduce the Unrestricted Net Position of the district. If the asset is capitalized, the cost of the asset increases the Net Investment of Capital Assets, and the Unrestricted Net Position is reduced only by the amount of the current year depreciation cost.
The primary advantage of a lower threshold for capitalization is the assets will be tracked in one inventory system regardless of funding source (i.e., state, local, or federal), and the cost of the assets will be allocated among the fiscal years that benefit from the use of the asset. Additionally, setting the same capitalization threshold for all assets reduces the burden of two sets of criteria when complying with the Uniform Administrative Regulations, 2 CFR §200.439 – Equipment and other capital expenditures. 2 CFR §200.1 Definitions defines equipment as tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or $5,000.

Effective October 1, 2024, Uniform Grant Guidance will change the definition of items to be considered as equipment. 2 CFR §200.313 (e) and 2 CFR §200.439 thresholds for items purchased with Federal Funds will be increased to $10,000.

The GaDOE Financial Review Division recommends setting a capitalizable threshold of not more than $10,000 for equipment, vehicles, and technology related purchases that have an estimated useful life of more than one year. If, based on the size of the LEA and the resources available, the LEA sets a capitalizable threshold greater than $10,000, the LEA should ensure that procedures are in place to tag, track, and monitor small value items such as iPads, laptops, other mobile devices, furniture and library books.

Inventoried Inconsequential Assets

Setting the capital assets threshold at $5,000 for equipment does not preclude providing accountability for lower-cost inconsequential items such as laptops, portable electronic devices (such as tablets), printers, furniture, and library books.. The nature of these items makes them more susceptible to theft. Therefore, when setting a capital asset policy, it is recommended that even if these items are not aggregately or individually significant, an inventory be maintained to track these items. These inventoried items will not be depreciated. However, they will be subject to periodic inventory.
Depreciating Capital Assets
In the governmental funds, LUAs do not depreciate their capital assets as these funds use a “current financial resources” measurement focus. This non-recognition of depreciation is a result of the current financial resources measurement focus applied to governmental funds (i.e., governmental fund types are intended to account for and report the sources and uses of current financial resources). At the government-wide

reporting level, the GASB requires LUAs to depreciate all capital assets. In order to depreciate capital assets, the LUA needs to consider the following items:

- The capital asset cost
- The depreciation method
- The estimated useful life
- A residual value (i.e., a salvage value)

Section I, Chapter 1-17 provides a discussion on valuing capital assets.

Depreciation Methods. LUAs may use any established depreciation method, however, only the straight-line method is recommended.

Estimated Useful Lives. In determining estimated useful life, an LUA should consider an asset's:

- Present condition
- The intended use of the asset
- Construction type
- The maintenance policy used.
- How long the LUA expects the capital asset to meet service and technology demands.

LUAs should base their useful lives upon lease terms, their own experience and plans for the assets. Although comparisons with other LUAs may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between LUAs.

Schedules of useful lives recommended by professional organizations may be a helpful starting point. However, schedules of depreciable lives established by federal, or state tax regulations are generally not intended to represent useful lives, particularly those that include accelerated lives.

Once the LUA estimates its depreciable asset's useful life, it is necessary for LUAs to review these estimates in later years. Since depreciation is a method of allocating an asset's cost over its useful life, a periodic review of this useful life is necessary for depreciation to reflect that allocation. The LUA should apply any change in useful life prospectively in accordance with paragraph 83 of GASB 62. As many factors may affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. For example, an LUA may not replace equipment according to property management policies if the school board does not make appropriations for the replacement costs available. Planned preventative maintenance may not be performed, resulting in a reduction in the useful life of an asset. The use of the asset may have changed, or the asset may have been damaged or impaired by weather or other circumstances.

A Right to Use asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying asset. The amortization of the Right to Use asset should be reported as an outflow of resources (amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

Residual Values. Since most LUAs use their capital assets for long periods, the use of residual values is limited. For example, an LUA might only use a residual value when the LUA estimates the residual value to be at least 15% of the original cost. LUAs report residual values most commonly with their buildings.

The calculation for straight-line depreciation is as follows.

(Purchase Price of the Asset – Residual Value) ÷ Estimated Useful Life =
Annual Depreciation Expense

Classifying Depreciation Expense (Codification 2200.132) - At the government-wide financial reporting level, LUAs should charge depreciation as a direct expense of its functions on the statement of activities. In other words, an LUA needs to classify its capital assets by reporting function that uses the asset.

The GASB indicates that if a capital asset is used by a few functions, the depreciation expense should be allocated appropriately. If an LUA reports a capital asset that essentially serves all functions, it need not allocate the depreciation expense to each function, rather it may be reported as a separate line item on the statement of activities as "unallocated". If the LUA utilizes the GADOE portal's spreadsheets for its external financial reporting, depreciation is allocated to each function through formulas (based on the LUA's reporting of the depreciation expense by function) in these spreadsheets. In determining whether to charge depreciation as a direct expense of an LUA's functions, the LUA needs to distinguish between a "shared" capital asset and one that "essentially serves all functions." The difference is generally in the number of functions that share the asset. As the number of functions increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets that serve many, or "essentially all," functions is not required to be included in the direct expenses of those many functions. A shared capital asset is generally used by only a few functions, and its use can be specifically identified to those functions. Usage of a shared asset is generally such that an objective measurement can be made for the assignment of costs—based on square footage for a building or mileage for a vehicle, for example.

Generally, LUAs should allocate the depreciation expense on school buildings to the appropriate functions since the majority of the expense relates to instructional functions.

Amortization of Intangible Assets

The useful life of an intangible asset should not exceed the period that its service capacity is limited by contractual or legal provisions (Codification 1400.135)

If there are no legal, contractual, regulatory, technological, or other factors limiting the useful life, an intangible asset should be considered to have an indefinite useful life (Codification 1400.136). Intangible assets with an indefinite useful life should *not* be amortized. Should changes in factors and conditions render an intangible asset's useful life as no longer being indefinite, the asset should be tested for impairment as a change in the expected duration of use has occurred. The carrying value of the asset, if any, should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset. A common indicator of impairment for internally generated intangible assets is development stoppage, such as computer software, due to a change in management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.
Changes in Carrying Values
A change in the carrying value of capital assets which results from a revaluation of the estimated historical cost occurring during the year should be adjusted within the LUA's capital asset system. At the fund reporting level, the operating statements should not include any results of this transaction since it is not classified as an "exchange transaction." In the notes to the financial statements, the changes in any asset values may be presented in the "changes in capital assets" disclosure as a separate column with a narrative explaining the nature and purpose of the change. Codification 2250.146 states a change in accounting estimate should be accounted for in the period of change and future periods if both are affected. This change should not result in restating prior period financial statements.
The change in accounting estimates treatment also applies to an increase in the capital asset threshold (e.g., increasing the amount from $5,000 to $10,000). The LUA would not remove or restate items previously capitalized under the lower threshold. The change would be reported prospectively by recognizing the increased threshold in the period of the change and future periods.

Dispositions of Capital Assets

The accounting for the disposition of general capital assets often is overlooked. Capital assets are disposed for the following reasons:

- To replace them with assets of similar function but with longer lives and greater value.
- The asset no longer may be needed and may be declared surplus.
- It may wear out or become obsolete.
- A governmental fund may sell or transfer the asset to a proprietary fund.
- Trade the asset to another government for a similar or dissimilar asset.

When an LUA disposes of assets, the LUA should remove the capital asset from its capital asset system. No reporting would be made at the governmental fund reporting level unless the asset is sold. If the capital asset was a normal disposal and the amount the LUA received was immaterial, they could simply report the proceeds as miscellaneous revenues. If the amounts are material, GASBS 34 requires LUAs to report the proceeds as an “other financing source” (Codification 2200.167). If the sale meets the following criteria for a special item, the LUA would report the proceeds as a special item on its governmental fund type operating statement:

- Unusual in nature
- Or infrequent in occurrence
- And within the control of management

For example, if an LUA sells land that they previously purchased for a government site, the LUA will classify the sale as a special item as it would be unusual and infrequent, but within the LUA management control.

At the government-wide financial reporting level, an LUA would follow GASB 62, paragraphs 272 – 281.

In general, accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved, which is the same basis as that used in monetary transactions. Therefore, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.

Fair value of a nonmonetary asset transferred to or from a government in a nonmonetary transaction should be determined by referring to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence. If one of the parties in a nonmonetary transaction could have elected to receive cash instead of the nonmonetary asset, the amount of cash that could have been received may be evidence of the fair value of the nonmonetary assets exchanged.

Fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. An exchange involving parties with essentially opposing interests is not considered a prerequisite to determining a fair value of a nonmonetary asset transferred; nor does an exchange ensure that a fair value for accounting purposes can be ascertained within reasonable limits. If neither the fair value of a nonmonetary asset transferred nor the fair value of a nonmonetary asset received in exchange is determinable within reasonable limits, the recorded amount of the nonmonetary asset transferred from the government may be the only available measure of the transaction.

Disposal of individual assets capitalized within a group of assets considered aggregately significant will take special treatment. These can be difficult to track, especially when there is uncertainty as to which group the individual asset was assigned to. LUAs are strongly encouraged to have a methodical and traceable system to track individual items capitalized within a group to appropriately dispose of the correct amount when the time arises.

There may be specific disposal requirements, based on the asset or certain grant restrictions. Ensure all disposals are documented as to the method of disposal.

Asset Transfers

Often, activities accounted for in proprietary fund types are discontinued or transferred to a governmental fund type (e.g., the general fund). In these instances, any capital assets transferred should be reported at gross (i.e., original cost) in the capital asset system since 2021 Codification Section 1400.102 requires capital assets to be valued at historical cost or estimated historical cost. At the governmental fund reporting level, no entry is necessary in the governmental fund type operating statement using the flow of current financial resources measurement focus. The lack of reporting is consistent with the receipt of donated capital assets, which LUAs normally do not report in a governmental fund type operating statement.

At the government-wide financial reporting level, the LUA would recognize the book value of the capital asset they received as a contribution on the statement of activities.

Impaired Assets

According to the 2021 Codification 1400.165, a capital asset impairment is a significant, unexpected decline in the service utility of a capital asset.

Annually, Georgia LUAs are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include:

- Evidence of physical damage,
- Enactment or approval of laws or regulations or other changes in environmental factors,
- Technological changes or evidence of obsolescence,
- Changes in the manner or duration of use of a capital asset, and
- Construction stoppage.

A capital asset generally should be considered impaired if both (a)the magnitude of the decline in service utility is significant (b) the decline in service utility is unexpected.

Impaired capital assets that will no longer be used by the school district should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the district should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost. (Codification 1400.172 - 1400.175).

If not otherwise apparent from the face of the financial statements, the description, amount, and financial statement classification of impairment losses should be disclosed in the notes to the financial statements and discussed in the management discussion and analysis. If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down.

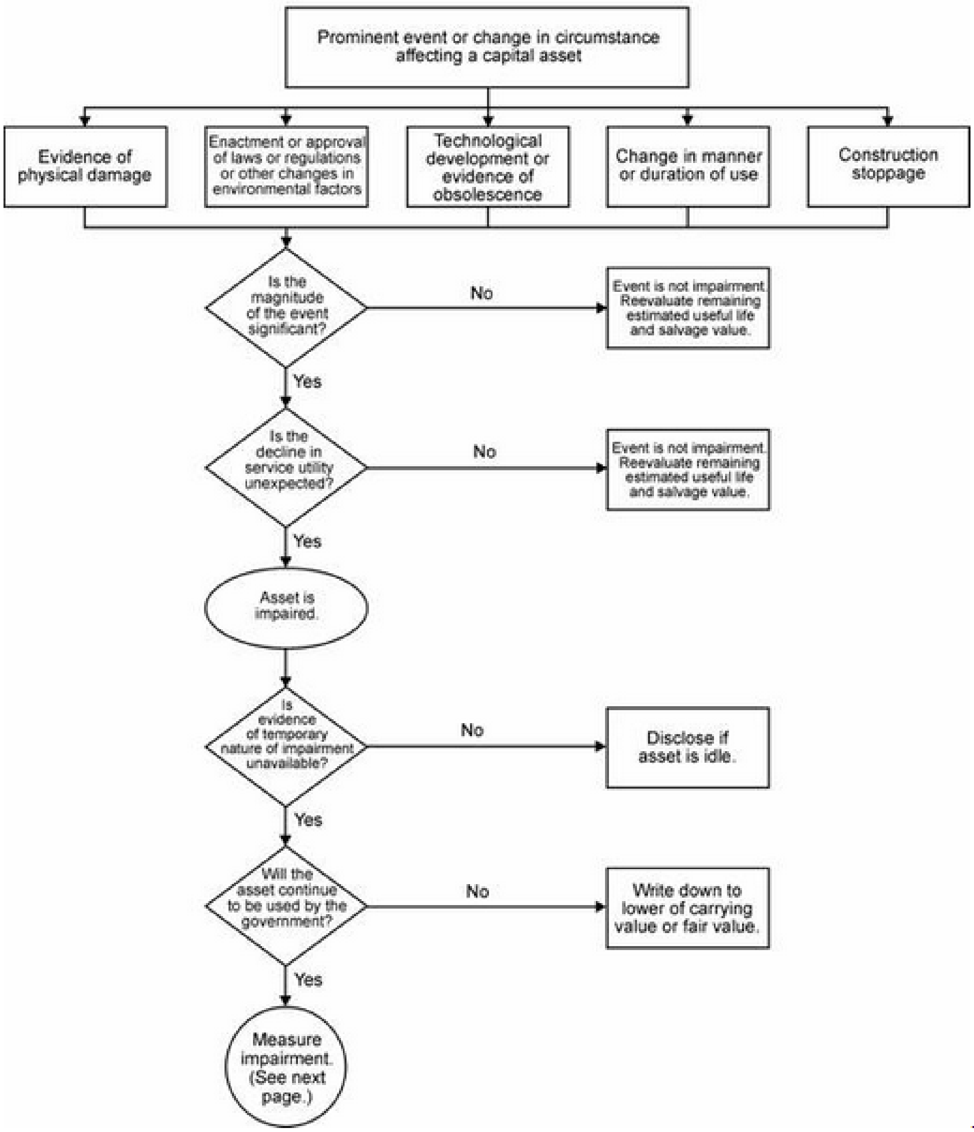
Impaired capital assets that are idle should be disclosed, regardless of whether the impairment is considered permanent or temporary.

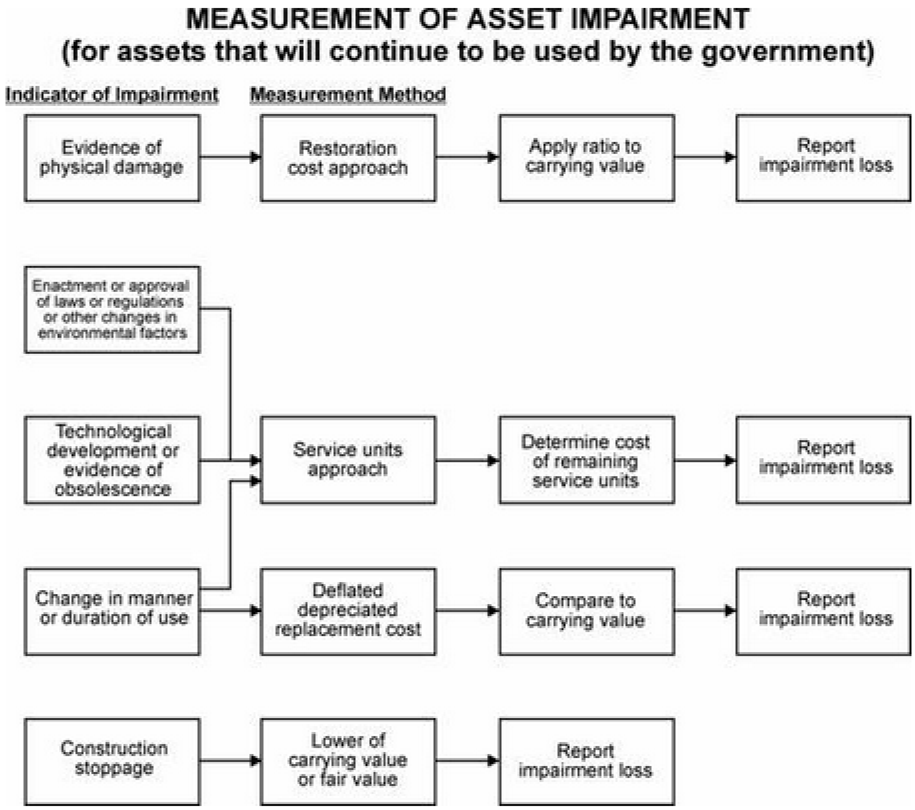
Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction, as an Other Financing Source for governmental fund financial statements. In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery.
Insurance recoveries should be disclosed if not apparent from the face of the financial statements. Insurance recoveries for circumstances other than impairment of capital assets should be reported in the same manner.

The following decision tree should be utilized to determine if an asset impairment exists:

Governmental Accounting Standards Board Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, Appendix D

ASSET IMPAIRMENT DECISION PROCESS





The following flowchart should assist the user in selecting a method of measuring an impairment: GASBS 42, Appendix E

Selection of Methods of Measuring Impairment	
Indicator of Impairment	**Method Generally Used in Measuring Impairment**
Evidence of physical damage	If the capital asset will continue to be used by the government (or will be upon restoration of the capital asset), use the restoration cost approach. If the capital asset will no longer be used by the government, use lower of carrying value or fair value.
Enactment or approval of laws or regulations or other changes in environmental factors	If the capital asset will continue to be used by the government, use service units approach. If the capital asset will no longer be used by the government, use lower of carrying value or fair value.
Technological development or evidence of obsolescence	If the capital asset will continue to be used by the government, use service units approach. If the capital asset will no longer be used by the government, use lower of carrying value or fair value.
Change in manner or duration of use	If the capital asset will continue to be used by the government, use deflated depreciated replacement cost or service units approach. If the capital asset will no longer be used by the government, use lower of carrying value or fair value.
Construction stoppage	Use lower of carrying value or fair value.

The Appendix to the Financial Management Handbook includes flowcharts for determining the valuation of impaired assets. Below are two illustrations of accounting for an impaired asset:

GASBS 42, Appendix C, Illustration 1

Assumptions

The ABC School District has identified extensive mold contamination at one of its elementary schools. Management considers this event to be unusual in nature but not infrequent in occurrence, as defined by APB Opinion 30, and does not consider the event to be within control of management. The elementary school was constructed in 1973 at a cost of $1.3 million, including $100,000 for acquisition of the building site. The school had an expected useful life of sixty years. During its life a few improvements were made: a small renovation costing $135,000 in 1988 and a classroom addition and air conditioning $1.1 million in 1993. These improvements did not extend the useful life of the building. In 2003, the district became aware of extensive mold contamination in the walls of the school, and closed the school due to concerns for the health of the students. The mold remediation involves removal and rebuilding of the interior walls and site drainage improvements costing $4 million. In accordance with the capitalization policies of the ABC School District, 40 percent of the remediation cost is allocable to demolition and mold removal, and 60% is allocable to rebuilding the walls of the school. The estimated replacement cost of the school is $6.2 million.

Evaluation of Impairment

The mold contamination is the evidence of the physical damage providing the indication of impairment. The magnitude of the event would be evaluated as significant. The ongoing costs of the school, especially depreciation and operating costs, would be viewed as significant in relation to the zero utility it was providing. The circumstance is not part of the normal life cycle of a school. Impairment loss using the restoration cost approach is determined as follows:

	Historical Cost	Estimated Useful Life	Accumulated Depreciation, 2003	Carrying Amount, 2003
Land	$100,000			
Building acquisition, 1973	$1,200,000	60	$600,000	$600,000
Renovation, 1988	$135,000	45	$45,000	$90,000
Classroom addition/air conditioning, 1993	$1,100,000	40	$275,000	$825,000
Total buildings	$2,435,000		$920,000	$1,515,000
Total mold remediation cost	$4,000,000			
Percentage rebuilding cost	60%			
Restoration Cost	$2,400,000			
Restoration cost (current dollars)	$2,400,000			
Replacement cost (current dollars)	$6,200,000			
Restoration cost ratio	38.7097%			
Carrying amount (historical cost)	$1,515,000			
Impairment loss	$ 586,452			

Reporting

The impairment loss and mold remediation expenses would be allocated to the applicable programs and be reported as program expenses in the statement of

activities. The following disclosure would be presented in the notes to the financial statements:
Program expenses include an impairment loss of $586,452 due to mold contamination at an elementary school and also include $1,600,000 in mold remediation costs as follows:

	Impairment Loss	**Mold Remediation**
Regular instruction	$322,550	$ 880,000
Special education instruction	87,967	240,000
Pupil support services	58,645	160,000
Instructional staff services	58,645	160,000
School administration services	58,645	160,000
	$586,452	$1,600,000

GASBS 42, Appendix C, Illustration 5: Change in Manner or Duration of Use – School Used for Storage

Assumptions

In 2003, XYZ School District closed an elementary school because enrollments in the district declined unexpectedly due to bankruptcy of the major employer in the area. The closed school has been converted to use as storage. Management does not consider this event to be unusual in nature or infrequent in occurrence, as defined by APB Opinion 30. This elementary school was constructed in 1991 at a cost of $10 million. The estimated useful life of the school is fifty years. XYZ School District has no evidence that enrollments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse of the same size is $4.2 million. A commercial construction index was at 100 and 150 in 1991 and 2003, respectively.

Evaluation of impairment

Impairment is indicated because the manner of use of the school has changed from educating students to storage. The situation passes the magnitude test because the ongoing costs of the school – depreciation, insurance, utilities, security – would likely be considered high in relation to the benefit it is providing – storage. The circumstance also passes the test of not being predicted because it seems likely that if management had known that they needed space for students for only twelve years, they would have selected a less expensive method of providing classrooms for those twelve years. Impairment loss using deflated depreciation replacement cost would be determined as follows:

Historical cost	$10,000,000

	Accumulated depreciation (12/50 years)	2,400,000
a	Carrying amount, 2003	$ 7,600,000
	Replacement cost of warehouse	$ 4,200,000
	Accumulated depreciation (12/50 years)	1,008,000
b	Depreciated replacement cost	$ 3,192,000
c	Commercial construction index, 1991	100
d	Commercial construction index, 2003	150
e	Deflation factor (*c* / *d)*	0.667
f	Deflated depreciated replacement cost (*b x e*)	$ 2,128,000
	Impairment loss (*a – f)*	$ 5,472,000

Reporting
The impairment loss of $5,472,000 would be allocated to the applicable programs and reported as program expenses in the statement of activities. The following disclosure would be presented in the notes to the financial statements.
Program expenses include an impairment loss of $5,472,000 due to the change in use of an elementary school from education to storage as follows:

	Impairment Loss
Regular instruction	$3,009,600
Special education instruction	820,800
Pupil support services	547,200
Instructional staff services	547,200
School administration services	547,200
	$5,472,000

SUMMARY

1. Categories of capital assets included land and land improvements, right to use land, right to use – leased land improvements, buildings, right to use – leased buildings and improvements, machinery and equipment, construction in progress, infrastructure, works of art and historical collections, and intangible assets.

2. All purchased capital assets should be recorded at historical cost (i.e., original cost). The cost of a capital asset includes not only its purchase price or construction costs, but also any other reasonable and necessary costs incurred to place the asset in its intended location and use.

3. Typically, two criteria are used to determine the LUAs capitalization policy: the cost of the asset and its estimated useful life. Once a capitalization threshold is established, the LEA should further consider inventory procedures necessary to track small, pilferable, "walkable" items.

4. At the government-wide reporting level, the GASB requires LUAs to depreciate

all capital assets. LUAs may use any rational and systematic method.

5. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Annually, Georgia LUAs are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred.

Chapter 1 – 18 Long Term Debt

INTRODUCTION

This chapter provides an overview of long-term liabilities. Long-term liabilities include, but are not limited to, unmatured principal on debt, leases, compensated absences, claims and judgments, pensions, and other postemployment benefits (OPEB). The 2021 Codification, Section 1500, states,

> "A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported as liabilities in governmental funds but should be reported in the governmental activities column of the government-wide statement of net position."

Long-term obligations do not require the use of current financial resources and, therefore, should NOT be reported in the governmental fund financial statements. Matured liabilities of governmental funds as well as any other liability expected to be liquidated with available, spendable financial resources should be included as a fund liability.

DEBT RECORDED IN GOVERNMENTAL FUNDS

Governmental funds use the current resource measurement focus; therefore, long-term liabilities are not reported on their statement of position, the governmental funds balance sheet. Rather, the inflows of resources from the debt issuance are a source of current financial resources and improve near-term liquidity. As such, the inflows of resources are reported on the statement of resource flows for the LUA, the statement of revenues, expenditures, and changes in fund balance as an "other financing source." Assume the following:

An LUA issues $122,945,000 in par value of general obligation bonds to fund capital projects. The bonds were sold at a premium of $28,040,822, and bond issuance costs were $368,835. The bonds interest rates range from 4% to 5% and are payable annually. The bonds mature over a 30 year period. The journal entry to record the debt issuance is as follows:

Date	Account Description	Debit	Credit
xx/xx	Cash (Asset)	$ 150,616,987	
	Expenditures (Bond Issuance Costs)	368,835	
	Other financing source – Debt Issuance		$ 122,945,000
	Other financing source – Original Issue Premium		28,040,822
	To record the Issuance of GO Bonds with premium		

As shown in the above example, original issue premiums must be shown separately from the face amount of the debt. Likewise, an original issue discount would be shown separately as an "other financing use." Bond issuance costs represent a true surrender of resources and as such should always be reported as an expenditure.

ACCOUNTING ISSUES

Several accounting issues associated with long-term liabilities have been identified. These issues are described below.

Bond Anticipation Notes

Short-term notes of various maturities issued in anticipation of future bond sales commonly are referred to as bond anticipation notes (BANs). BANs generally are issued because an LUA either is waiting for more favorable interest rates or has additional projects that also require financing which would warrant a bond issue. The 2021 Codification, Section B50.102, states,

> "For governmental funds, if all legal steps have been taken to refinance the bond anticipation notes and the intent is supported by an ability to consummate refinancing the short-term notes on a long-term basis in accordance with the criteria set forth in Section 2200, paragraphs .181-.190, they should be reported only as general long-term liabilities in the governmental activities column of the government-wide statement of net position. If the necessary legal steps and the ability to consummate refinancing criteria have not been met, then the bond anticipation notes should be reported as a liability in the governmental fund receiving proceeds as well as in the government-wide statement of net position. Tax and revenue anticipation notes should be reported as a liability in the governmental fund receiving proceeds."

Authoritative accounting pronouncements state, the "ability to consummate the refinancing" can be demonstrated in either of the following ways:

a. After the date of the governmental fund's balance sheet but before that balance sheet is issued, a long-term obligation has been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
b. Before the balance sheet is issued, the government has entered into a financing agreement that clearly permits the government to refinance the short-term obligation on a long-term basis on terms that are ready determinable.

To further illustrate this principle, assume the following:

An LUA issues $1,000,000 of BANs on May 15. The balance sheet date is June 30, 20XX, and the bonds are dated on July 16, before the balance sheet is issued. The following entry would be reflected in the LUA's balance sheet on June 30,20XX (disregarding bond issuance costs):

Date	Account Description	Debit	Credit
xx/xx	Cash (Asset)	$1,000,000	
	Other financing sources – Debt Issuance		$ 1,000,000
	To record the Issuance of GO Bonds.		

Using the same example above, if all legal steps are not taken, the entry to record the transaction on the June 30 balance sheet is as follows:

Date	Account Description	Debit	Credit
xx/xx	Cash (Asset)	$1,000,000	
	Bond Anticipation Note Payable (Liability)		$ 1,000,000
	To record the Issuance of BANs		

Tax and Revenue Anticipation Notes

Tax and revenue anticipation notes are debt instruments governments use to borrow in anticipation of property taxes or other revenue sources. Tax anticipation notes (TANs) and Revenue anticipation notes (RANs) should always be reported as fund liabilities on the governmental funds balance sheet and never reported as other financing sources on the statement of resource flows.

In Georgia, these short-term notes that mature in one year or less are generally referred to as temporary notes or temporary loans. The Georgia Constitution, Article IX, Section V, Paragraph V states,

“The governing authority of any county, municipality, or other political subdivision of this state may incur debt by obtaining temporary loans in each year to pay expenses. The aggregate amount of all such loans shall not exceed 75 percent of the total gross income from taxes collected in the last preceding year. Such loans shall be payable on or before December 31 of the calendar year in which such loan is made. No such loan may be obtained when there is a loan then unpaid obtained in any prior year. No such county, municipality, or other political subdivision of this state shall incur in any one calendar year an aggregate of such temporary loans or other contracts, notes, warrants, or obligations for current expenses in excess of the total anticipated revenue for such calendar year.”

Demand Bonds

Issues similar to those encountered with BANs are faced with demand bonds as well. Authoritative literature defines demand bonds as debt instruments that contain demand (i.e., "put") provisions that are exercisable within a one-year period beginning at the balance sheet date or statement of net position date. Specific classification guidance is set forth in the 2021 *Codification*, Section D30.108. It provides that bonds should be reported by governments as general long-term liabilities (and reported only in the government-wide statement of net position) or excluded from current liabilities of proprietary funds if all of the following conditions are met.

a. Before the financial statements are issued, the issuer has entered into an arm's-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation.

b. The take out agreement does not expire within one year from the date of the issuer's balance sheet or statement of net position.

c. The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year.

d. The lender or the prospective lender or investor is expected to be financially capable of honoring the take out agreement.

Demand bonds should be reported as fund liabilities (governmental funds) or as current liabilities (proprietary funds) when the preceding conditions are not met.

Arbitrage Rebate Liability

Arbitrage in government finance generally is defined as the process of investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities, which results in interest revenue exceeding interest cost. The Tax Reform Act of 1986 requires that these arbitrage interest earnings be remitted to the federal government.

Based upon the U.S. Treasury Department regulations, a government must rebate excess earnings once every five years or upon maturity of the bonds, whichever is earlier. The liability for arbitrage rebate is always reported in the government-wide statement of net position and as a governmental fund liability when the amounts become due and payable. When establishing the liability for the rebate, the LUA can either reduce current year interest revenues or recognize an expense/expenditure as is appropriate. Generally, exceptions to the arbitrage rebate requirements are found in the Code of Federal Regulations, Title 26, Chapter I, Subchapter A, Part I, Tax Exemption Requirements for State and Local Bonds, §1.148-2. These exceptions follow:

1. Small Issuer Exception (calendar year exception) $15 million per year for public school construction
2. Spending exceptions
   a. 6 month spending exception – If the gross proceeds will be spent in six months, not including amounts deposited into a Reserve Fund.
   b. 18 month spending exception – If 15% of the gross proceeds are spent in the first 6 months, 60% of the gross proceeds are spent within the first 12 months, and 100% of the gross proceeds are spent in 18 months, not including amounts deposited into a Reserve Fund.
   c. 24 month spending exception – If 10% of the gross proceeds are spent within 6 months, 45% in 12 months, 75% in 18 months, and 100% in 24 months.

The penalties for failure to remit required rebate amounts to the IRS could mean a loss of tax-exempt status for the issue. Services of a competent professional should be sought to assist with complying with these requirements.

Net Pension Liability

Employee and employer relationships are exchange-like transactions that often result in significant liabilities that need to be measured and reported in externally issued financial statements. For example, during years' of active service an employee provides services to their employer in exchange for salary and benefits. A significant portion of the benefits provided include post-employment benefits otherwise known as pensions. Pension accounting has evolved over the years to bring to the front of the government-wide statement of net position, and those funds that use the economic resource measurement focus, the net pension liability (NPL).

In a current GAAP environment, an employer is required to report a NPL for the difference between the present value of projected benefits for past service, otherwise known as the total pension liability (TPL), and restricted resources held in trust for the payment of benefits, otherwise known as plan net position (PNP). For example, if the employer’s total pension liability was $6,000,000 and related plan net position amounted to $4,000,000, the employer would report a net pension liability of $2,000,000.

Additionally, there are different types of pension plans. There are single-employer plans, agent-multiple employer plans and cost-sharing multiple employer plans. It is not uncommon for an LUA to participate in all three-types of plans. Regardless of the plan type; however, all LUAs report the NPL on the statements of net position (government-wide and fund level).

Proprietary and government-wide financial reporting use the economic resource measurement focus. Therefore, financial statements prepared using this measurement focus will recognize in their statement of net position the NPL. The statement of activities will report cost of the current period as pension expense, and the effect of changes in actuarial assumptions not yet recognized in pension expense will be shown as a deferred outflow or inflow of resources as will the effect of differences between actuarial assumptions and actual results not yet recognized in pension expense.

Conversely, governmental funds focus on near-term liquidity (that is, balances, inflows, and outflows of spendable resources). Governmental funds do not report a NPL because it does not involve the near-term outflow of spendable resources. Therefore, governmental funds will only report on their statement of financial position amounts due and payable at year end. Moreover, whereas financial statements prepared using the economic resource measurement focus recognize pension *expense*, the financial statements prepared using the current resource measurement focus will recognize pension *expenditures*. Pension expenditures represent contributions made during the period or due and payable at year end. Lastly, any contributions made by the LUA before year end, but subsequent to the measurement date of the NPL should be reported as a deferred outflow of resources.

Significance in Financial Reporting for Pensions

Previous accounting for pensions only reported a liability in the financial statements if the government’s contributions were less than the amount of the annual required contribution. Therefore, a school district only recorded a liability if the school district did not make a payment for the entire amount of actuarially required contributions for the year. That methodology did not fully account for the pension liability the school district had incurred based on pension plan provisions.

Using the new methodology, as required by authoritative accounting standards, school districts will report a liability for the amount of pension benefits that have yet to be financed as of a specific point in time, as well as report the actual pension expense that was incurred by the pension plan during the reporting period. Depending upon the size of the liability recorded, a LUA could see a deficit in their unrestricted net position.

Other Post-Employment Benefits (OPEB)

Accounting for other post-employment benefits closely follows that of accounting for pensions. The OPEB liability is determined through actuarial valuation with the exception of those employers with less than 100 employees which can use an alternative measurement method. Other postemployment benefits are those other than pensions paid after the period of employment and often include medical, dental, vision and other health-related benefits. They may also include life insurance, legal, disability, and other services.

A defined benefit OPEB is an OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms.

Significance in Financial Reporting for OPEBs

Previous accounting guidance required governments to report a liability for any unpaid annual required OPEB contributions. The net OPEB liability (OPEB obligation less OPEB assets set aside in a trust) was disclosed in the notes to the financial statements. In a current GAAP environment; however, the net OPEB liability, much like the NPL, is recorded on the statement of net position and in fund financial statements that use the economic resources measurement focus. LUA's are required to record their proportionate share of the net OPEB liability for cost-sharing, multiple employer plans in their externally issued financial statements.

Significance in Financial Reporting for Right to Use Leases

GASBs 87 and 96 were implemented to provide more information to financial statement users by requiring recognition of an asset and liability for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources. Similar to GASB 87, GASB 96 states the objective "is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs." LUA's are required to provide financial statement users with additional information in the notes related to the timing, significance, and purpose of the government's leasing arrangements.

A LUA should measure the lease liability at the present value of payments expected to be made during the lease term, less any incentives The present value should include fixed payments, variable payments, and payments for penalties. In subsequent financial periods, the government will calculate the amortization of the discount on the liability and report that amount as an outflow of resources (interest expense) for those periods. Any subscription payments should be allocated first to the accrued interest liability and then to the outstanding lease liability. The lessee will discount the liability payments using the implicit rate disclosed in the lease agreement, or if not readily determinable, the estimated incremental borrowing rate.

ILLUSTRATIVE JOURNAL ENTRIES

Chapter 15, Debt Service Funds, discusses entries for bond issuance and refunding.

The following discussion and journal entries illustrate issuance, accrual and retirement of general long-term liabilities reported in the governmental activities column in the government-wide statement of net position.

Transaction - the LUA enters into a lease arrangement (financed purchase) for the acquisition of computer equipment. The net present value of future minimum lease payments is $140,000.

Description	Account No.	DR	CR
Other Financing Source – Financed purchases	5500	$140,000	
Financed purchases payable	0531		$140,000
Machinery and Equipment	0241	$140,000	
Capital Expenditures	0734		$140,000

Explanation – In the year of lease inception, the governmental fund statements would include an entry to Capital Expenditures and Other Financing Source – Financed purchases. This entry would be reversed and posted to Machinery and Equipment and Financed purchases payable.

Transaction - during the year, the LUA incurs $854,000 of additional liability for compensated absences. The liability is not expected to be liquidated with "expendable available financial resources."

Description	Account No.	DR	CR
Functional classification	1000- 3300	$854,000	
Compensated absences payable	0551		$854,000

Explanation – To record the additional compensated absences activity, the addition must be expensed against the appropriate functions and a long-term liability created.

Transaction - the LUA issues $3,365,000 of refunding bonds to defease $3,000,000 of outstanding bonds.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$3,000,000	
Redemption of Principal $3,000,000	831		

Description	Account No.	DR	CR
Other Financing Sources – Debt issuance	0304	$3,365,000	
General obligation bonds payable	0511		$3,365,000

Explanation - The first entry removes the refunded debt (i.e., the old debt) from the Entity-Wide – Governmental Funds and the second entry records the liability for the refunding debt (i.e., the new debt).

Transaction - the LUA remits annual bond principal payments of $2,030,000 to fiscal agent.

Description	Account No.	DR	CR
General obligation bonds payable	0511	$2,030,000	
Redemption of Principal $2,030,000	831		

Explanation – Entry records the reduction of bonds payable.

Transaction - as part of the financed purchase arrangements, a payment of $15,000 is made.

Description	Account No.	DR	CR
Financed purchases payable	0531	$15,000	
Principal	831		$15,000

Explanation – Entry records reduction of financed purchases payable.

Transaction - during the year, the amount available in the debt service fund for the payment of bond principal increased by $1,374,000.

Description	Account No.	DR	CR

Unrestricted Net Position	0740	$1,374,000	
Restricted Net Position	0730		$1,374,000

Explanation - This entry would be made at year-end to reclassify amounts set aside for payment of bond principal.

See **Chapter II-3** for information regarding adjustments related to bond premiums, discounts, and issuance costs necessary for the preparation of the government-wide financial statements**.**

Illustration of Pension Expense Entries

The following entries are necessary to properly reflect the pension activity and liability during the measurement period on the LUA's government-wide financial statements. The entries are provided by the multiple-employer cost-sharing defined benefit pension plans, however, the entries for a single-employer defined benefit pension plan are similar to the examples below.

Example of Teachers' Retirement System Pension Entries:

	Teachers' Retirement System of Georgia (TRS)		
1.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,396,097.25	
	Credit - Net Position - Net Pension Liability 0717		1,396,097.25
	To record beginning deferred outflow of resources for FY 2015 (measurement period) contributions based on GASB 71		
2.	Debit - Net Position - Net Pension Liability 0717	16,511,807.00	
	Credit - Proportionate Share of Net Pension Liability 0592		12,435,080.00
	Debit - Deferred Outflow of Resources - Pension Plan 0317	258,405.00	
	Credit - Deferred Inflow of Resources - Pension Plan 0517		4,335,132.00
	To record beginning proportionate share of net pension liability		
3.	Debit Pension Expense - Instruction	846,577.12	
	Debit Pension Expense - Pupil Services	39,416.47	
	Debit Pension Expense - Improvement of Instr Svcs	23,454.41	
	Debit Pension Expense - Educational Media Svcs	22,362.93	
	Debit Pension Expense - Federal Grant Administration	0.00	
	Debit Pension Expense - General Administration	19,479.74	
	Debit Pension Expense - School Administration	80,317.73	
	Debit Pension Expense - Business Svcs	14,332.31	
	Debit Pension Expense - Maintenance & Operation of Plant	6,285.41	
	Debit Pension Expense - Student Transportation Svcs	3,811.06	
	Debit Pension Expense - Central Support Svcs	0.00	
	Debit Pension Expense - Other Support Svcs	3,058.25	
	Debit Pension Expense - Food Svcs	8,058.57	
	Debit - Deferred Outflow of Resources - Pension Plan 0317	292,294.00	
	Debit - Deferred Inflow of Resources - Pension Plan 0517	2,909,240.00	
	Credit - Proportionate Share of Net Pension Liability 0592		2,872,964.00
	Credit - Deferred Outflow of Resources - District Contributions 0315		1,395,724.00
	To record current year activity		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		

Entry #4a and 4b provide an example of accounting for the state support when first removing the fund level entry, then posting District-wide entry for State support as disclosed in Pension Packet.

4a.	Debit -3912 - On Behalf Payments - Teachers Retirement - General Administration	201.54	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs	310.25	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Maintenance and Operation of Plant	671.38	
	Debit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs	1,150.38	
	Debit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs	1,102.28	
	Credit Pension Expense - General Administration		201.54
	Credit Pension Expense - Business Svcs		310.25
	Credit Pension Expense - Maintenance and Operation of Plant		671.38
	Credit Pension Expense - Student Transportation Svcs		1,150.38
	Credit Pension Expense - Food Svcs		1,102.28
	To reverse 2016 On Behalf entry - Fund Statements		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
4b.	Debit Pension Expense - General Administration	107.23	
	Debit Pension Expense - Business Svcs	165.07	
	Debit Pension Expense - Maintenance & Operation of Plant	357.20	
	Debit Pension Expense - Student Transportation Svcs	612.05	
	Debit Pension Expense - Food Svcs	586.46	
	Credit -3912 - On Behalf Payments - Teachers Retirement - General Administration		107.23
	Credit -3912 - On Behalf Payments - Teachers Retirement - Business Svcs		165.07
	Credit -3912 - On Behalf Payments - Teachers Retirement - Maintenance & Operation of Plant		357.20
	Credit -3912- On Behalf Payments - Teachers Retirement - Student Transportation Svcs		612.05
	Credit -3912 - On Behalf Payments - Teachers Retirement - Operations of Non-Instructional Svcs, Food Svcs		586.46
	To record pension expense and revenue for State Support as provided in TRS Pension Packet		
	NOTE: Allocation based on % on behalf worksheet provided by DOE		
	Entry can be combined with 4a for only one entry to post		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
5.	Debit Pension Expense - Instruction	46,589.13	
	Debit Pension Expense - Pupil Services	2,169.18	
	Debit Pension Expense - Improvement of Instr Svcs	1,290.75	
	Debit Pension Expense - Educational Media Svcs	1,230.68	
	Debit Pension Expense - General Administration	1,072.02	
	Debit Pension Expense - School Administration	4,420.07	
	Debit Pension Expense - Business Svcs	788.74	
	Debit Pension Expense - Maintenance & Operation of Plant	345.90	
	Debit Pension Expense - Student Transportation Svcs	209.73	
	Debit Pension Expense - Other Support Svcs	168.30	
	Debit Pension Expense - Food Svcs	443.48	
	Credit - Deferred Outflow of Resources - Pension Plan 0317		58,728.00
	To record pension expense for paragraphs 54 and 55 deferred balances arising in prior measurement periods.		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		
6.	Debit - Deferred Outflow of Resources - District Contributions 0315	1,400,000.00	
	Credit Pension Expense - Instruction		1,110,625.06
	Credit Pension Expense - Pupil Services		51,710.50
	Credit Pension Expense - Improvement of Instr Svcs		30,769.86
	Credit Pension Expense - Educational Media Svcs		29,337.94
	Credit Pension Expense - General Administration		25,555.48
	Credit Pension Expense - School Administration		105,368.88
	Credit Pension Expense - Business Administration		18,802.56
	Credit Pension Expense - Maintenance and Operation of Plant		8,245.83
	Credit Pension Expense - Student Transportation Svcs		4,999.73
	Credit Pension Expense - Other Support Svcs		4,012.13
	Credit Pension Expense - Food Svcs		10,572.04
	To record deferred outflows of resources for contributions subsequent to measurement date (FY 2016)		
	NOTE: Allocation based on DOE provided worksheet (TRS and ERS Allocations for GASB 68 Pension Liability).		
	Separate worksheet (to be completed by school district) available to assist in the calculation/allocation of pension expense by function.		

Illustration of Right to Use Lease Liability Entry

An agreement between a software company and the school district was entered into on 6/30/23 for the use of computer software. The district will make payments of $28,500 per month on a 60 month non-cancellable lease at an incremental borrowing rate of 3.25%.

	Governmental Fund: Initial Journal Entry	Debit	Credit
0181	Prepaid Expenditures/Expenses	28,500.00	
2500-612	Support Services - Business - Computer Software		28,500.00
	To reclassify the initial payment for the SoftDocs SBITA - software not implemented until the end of January 2024		

	Governmental Fund: Journal Entry to Record SBITA (fiscal year 2024)	Debit	Credit
2500-756	Support Services - Business - SBITAs Asset Expense - Present Value	141,812.18	
5505	Other Financing Sources - Subscription Liability		141,812.18
	To record support services - business expenditure and related proceeds from new SBITA		

	Governmental Fund : Journal Entry to Recognize SBITA payment from fiscal year 2023	Debit	Credit
2500-612	Support Services - Business - Computer Software	28,500.00	
0181	Prepaid Expenditures/Expenses		28,500.00
	To recognize the initial payment for the SoftDocs SBITA as expense in the correct fiscal year - software not implemented until the end of January 2024		

	Entity-wide: Initial Journal Entry (fiscal year 2024)	Debit	Credit
5505	Other Financing Sources - Subscription Liability	141,812.18	
0454	Subscription Liability - Current		28,500.00
0535	Subscription Liability - Long Term		113,312.18
0287	Right To Use - Subscription Assets	157,485.58	
2500-300	Support Services - Business - Professional Technical Services		15,673.40
2500-756	Support Services - Business - SBITAs Asset Expense - Present Value		141,812.18
	To record intangible right-to-use asset and related liability from new SBITA		

Chapter 1 – 19 Enterprise Funds

INTRODUCTION

Certain general government services traditionally have been financed through user charges. These activities include water, sewer, electric and gas utilities; airports; hospitals; ports; parking facilities; mass transit districts; housing authorities and golf courses. In Local Units of Administration (LUAs) throughout the country, the use of enterprise funds is limited but often includes the child nutrition program, bookstore operations, athletic stadiums, community swimming pools, and after-school childcare programs. According to the Governmental Accounting Standards Board's 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards* (2015-2016 *Codification*), Section 1300.109, LUAs should use enterprise funds to account for operations in three instances:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.

- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

- The LUA's pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Optionally, GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments* (GASBS 34) also allows an LUA to classify an activity as an enterprise fund when they charge a fee for its services without regard to the above criteria. However, if the dollar amount of the activity's transactions are immaterial, the LUA may record the activity in the General Fund.

With the implementation of GASBS 34, it is recommended the school food service fund be classified as either a special revenue fund or an enterprise fund. If the program is classified as a special revenue fund, the Department of Audits and Accounts will present it as part of the General Fund in the external financial statements. Even so, the LUA should separately report it for financial reporting to GaDOE. The most common activity accounted for in enterprise funds in Georgia LUAs is the after school program. However, due to the immateriality of the after school program, most school districts report the activity in the General Fund Major Opinion Unit.

Because of the limited use of enterprise funds by Georgia LUAs, this chapter does not include all of the accrual accounting principles related to enterprise funds. The reader is encouraged to read Chapters I-6 and I-7 in conjunction with this chapter to gain an understanding of the nature of enterprise funds.

BUDGETARY ISSUES

Sound financial management in the government environment warrants some form of budgetary control for all enterprise funds. The Georgia Department of Education (GaDOE) requires a fixed dollar appropriated budget for enterprise funds.   Generally, this method of budgeting is used to comply with statutory requirements. The budgetary basis of enterprise funds may be the accrual basis (i.e., the GAAP basis for enterprise funds) or the modified accrual basis (i.e., a non-GAAP budgetary basis). While the accrual basis requires budgeting for depreciation, which some question as non-productive in a governmental environment; nevertheless, it might be easier for LUAs to use the accrual basis of budgeting to be consistent with the accrual basis of accounting required for enterprise fund reporting. (See Chapters I-6, I-7 and particularly, the section in chapter IV-2, entitled "What Budgetary Basis of Accounting Should LUAs Use?")

Conversely, some LUAs adopt budgets for enterprise funds on the same basis as they adopt budgets for the governmental funds. This method allows them to appropriate resources for capital outlay and debt service payments.

ACCOUNTING ISSUES

Enterprise funds are accounted for on an economic resources measurement focus and the accrual basis of accounting as discussed in Chapter I-7 in both the government-wide financial statements and the fund level financial statements. The accounting principles that reference enterprise funds are only applicable if the LUA reports their food service or after-school programs as enterprise funds.

Revenues

A primary revenue source for LUA enterprise funds are charges for goods and/or services to parties outside the LUA (e.g., fees from parents for their children in an after school program). LUAs recognize these revenues in the period in which they earn the revenues, if measurable. That is, as soon as a service is performed or a product is provided, a receivable and revenue should be reported. In practice, the reporting of this transaction usually is delayed until the actual billing is completed (i.e., when the receivable is measurable), usually monthly.
The normal day-to-day breakfast and lunch sales are recorded as revenues when the LUA receives the cash, which is usually collected at the same time the lunch is sold.

State and Federal Breakfast and Lunch Reimbursement – GASB Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions provides the guidance for revenue recognition relating to grants, including school lunch and free and reduced-price breakfast and lunch reimbursement. There are four revenue recognition eligibility criteria and the LUA must meet all of these criteria:

- *Required characteristics of recipients.* The recipient has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)

- *Time requirements.* Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used (sold, disbursed, or consumed) or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)

- *Reimbursements.* The provider offers resources on a reimbursement (“expenditure driven”) basis and the recipient has incurred allowable costs under the applicable program.

- *Contingencies.* The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred (e.g., the LUA has provided the meals.)

Once the LUA has provided the meals, generally they have met all eligibility requirements and can record the receivables and the revenues.

USDA Commodity Revenue Recognition - Most Georgia LUAs participate in the United States Department of Agriculture (USDA) commodities program. Generally, LUAs should recognize both revenue and expense when the LUA uses or consumes the commodities in their meal preparation. When the LUA receives the commodities, they should record the commodities inventory as an asset and credit unearned/unavailable revenue for a like amount. When the LUA uses the commodities, they should record an expense and reduce the inventory. LUAs should value commodities at those values the USDA provides. See Chapter I-12, Inventory Accounting for Consumable Supplies, for explanation of different methods of determining inventory expenditures and value of ending inventory.

At the time the expense is recognized, an equal amount should be recognized as revenue by debiting unearned revenue and crediting revenue for the same amount.

Expenses

LUAs recognize enterprise fund expenses in the period in which they incur the expenses. For services rendered, the expense is reported when the service has been performed and the amount of the liability can be estimated. Practically, this type of transaction usually is recorded upon receipt of a vendor invoice. LUAs recognize inventories of consumable materials and supplies as expenses when they consume them in providing the service. For example, purchased food is reported as an expense in the food service enterprise fund when the meals are prepared. Usually, the cost of supplies and materials used is reported as an expense when the inventory is withdrawn from the inventory stock (i.e., the central stores).

When the LUA purchases food inventory for resale, such as in the school food service enterprise fund, the LUA reports this purchase as an asset. Subsequently when the inventory is sold, the cost of the inventory is reported as an expense and removed from the inventory account.

ILLUSTRATIVE JOURNAL ENTRIES

The following journal entries and discussion, where applicable, illustrate the financial transactions required for the establishment and the operation of an LUA school supplies store enterprise fund to sell books and supplies to high school students.

An athletic activity fund provides $35,000 of working capital to this enterprise fund. Of this amount, $20,000 must be repaid in equal annual installments over a five-year period (i.e., $4,000 per year) and the remaining $15,000 is considered a transfer of financial resources, which never will be repaid.

Description	Account No.	DR	CR
Cash in bank	0101	$35,000	
Advance from other funds - athletic activity fund	0403		$20,000
Operating Transfer–In	5200		$15,000

Explanation - The LUA reports the amount to be repaid as an advance payable with the balance reported as revenue (i.e., as an operating transfer) since the school store activity fund need not repay it.

Capital assets (e.g., shelving, cash registers), previously used for this activity, in which the LUA accounted for in the athletic activity fund are transferred to this enterprise fund. The capital assets transferred have an original cost of $31,000 and a book value at time of transfer of $19,000.

Description	Account No.	DR	CR
Machinery and equipment	0241	$31,000	
Accumulated depreciation - machinery and equipment	0242		$12,000
Revenue – capital contributions	6100		$19,000

Explanation - The capital assets should be capitalized and recorded as revenue at the original cost less an amount equivalent to the depreciation that would have been recorded had the capital asset been recorded initially in the enterprise fund. Since depreciation is recorded at the government-wide financial reporting level, this information should be readily available.

The value of the capital assets is treated as capital contributions (i.e., a revenue account) from the athletic activity fund since this equipment was purchased originally from athletic fund resources. However, no entry should be made in the athletic fund for this equipment transfer because the capital assets were written off as expenditures in governmental funds when purchased.

Cash sales totaling $3,000 are received and deposited.

Description	Account No.	DR	CR
Cash in bank	0101	$ 3,000	
Other local revenues	1995		$ 3,000

Explanation – To record cash receipts for cash sales.

Departments within the school are billed $4,000 for purchased supplies.

Description	Account No.	DR	CR
Interfund - Accounts receivable	0132	$ 4,000	

Other local revenues	1995		$ 4,000

Explanation – To record billings for supplies rendered.

Investments costing $5,000 are sold for $5,500.

Description	Account No.	DR	CR
Cash in bank	0101	$ 5,500	
Investments	0111		$ 5,000
Earnings on investments or deposits	1500		$ 500

Explanation – To record the sale of investment and the related interest revenue earned. In most enterprise funds, interest revenue is classified as nonoperating revenue.

Interest earned on investments, but not yet received at year-end, totaled $700.

Description	Account No.	DR	CR
Interest receivable	0114	$ 700	
Earnings on investments or deposits	1500		$ 700

Explanation – LUAs should record accrued interest on investments as it is earned.

Supplies to be resold costing $10,000 are purchased on account and delivered.

Description	Account No.	DR	CR
Inventory for resale	0172	$ 10,000	
Accounts payable	0421		$ 10,000

A three-year fidelity bond in the amount of $3,000 is purchased with cash.

Description	Account No.	DR	CR
Prepaid expenditures/expenses	0181	$ 3,000	

Cash in bank	0101		$ 3,000

Explanation – To record purchase of three-year fidelity bond.

Various services are provided by outside vendors and invoices are received totaling $12,000.

Description	Account No.	DR	CR
Expenses	Various accounts	$ 12,000	
Accounts payable	0421		$ 12,000

Explanation - To record operating expenses.

20 percent of the advance due to the athletic activity fund is classified as current.

Description	Account No.	DR	CR
Advance from other funds - athletic activity fund	0403	$4,000	
Interfund loans payable - athletic activity fund	0401		$4,000

Explanation - To reclassify current portion of long-term loan from athletic activity fund. Since this amount ($20,000 @ 20% = $4,000) is now a current liability, it must be reclassified from an advance payable (i.e., a long-term payable) to an interfund payable (i.e., a current payable).

Excess cash is invested in short-term investments in the amount of $18,000.

Description	Account No.	DR	CR
Investments	0111	$ 18,000	
Cash in bank	0101		$ 18,000

Explanation - To record purchase of short-term investments.

A payment in the amount of $1,000 is made pursuant to an operating lease for a copy machine. This amount has not been recorded in accounts payable.

Description	Account No.	DR	CR
Rental of equipment and vehicles	0442	$ 2,000	

Cash in bank	0101		$ 2,000

Explanation – To record payment on operating lease. Operating leases are reported similar to other operating expenses.

Supplies valued at $1,200 are withdrawn from the supplies for resale inventory and used for internal purposes.

Description	Account No.	DR	CR
Expense - supplies	0610	$ 1,200	
Inventory for resale	0172		$ 1,200

Explanation – To record inventory for resale withdrawn and sold.

Depreciation expense on equipment for the year totaled $8,000.

Description	Account No.	DR	CR
Depreciation	0744	$ 8,000	
Accumulated depreciation – machinery and equipment	0242		$ 8,000

Explanation – To record depreciation expense.

One-third of the fidelity bond expires and is charged to current operations.

Description	Account No.	DR	CR
Expense - insurance	0520		$ 1,000
Prepaid expenses	0181		$ 1,000

Explanation – To adjust prepaid expenses at year end.

SUMMARY

1. Georgia LUAs do not commonly use enterprise funds.

2. In Georgia, the most common use of enterprise funds is the after school care program, although due to immateriality, the after school program is generally presented in the General Fund Major Opinion Unit.

3. LUAs recognize revenues in an enterprise fund when earned, if measurable.

4. LUAs recognize expenses when incurred and measurable.

5. Using the accrual basis of accounting, LUAs record inventory purchased for resale as an asset until sold. When sold, it is charged as an expense.

Chapter 1 – 20 Internal Service Funds

INTRODUCTION

The financing of goods or services provided by one department or agency to other departments or schools within the same Local Unit of Administration (LUA) or to other LUAs on a cost reimbursement basis should be included within the internal service fund classification.

Generally Accepted Accounting Principles (GAAP) does not mandate the use of internal service funds. However, in recent years, there has been an increasing use of this fund by LUAs. This use is precipitated by various factors including the following:

- Accounting for the total cost of each activity;
- Greater ease in costing and pricing services (e.g., central warehouse inventories);
- Accumulation of resources for capital asset replacement;
- Transfer of some governmental fund type overhead costs to the internal service fund for redistribution to the benefiting programs; and
- Isolating interfund services so that governmental fund types do not display the revenues and expenditures twice within the same generic fund type (i.e., usually the general fund)--once by the department or school that furnishes the service and once by the department or school that receives the service.

Some LUAs incur interdepartmental charges for the costs of certain goods or services. However, LUAs often use the general fund to account for these activities. One primary consideration in determining the proper fund classification for these transactions should be whether the charge to the user departments or schools is the total cost, including the cost of the capital assets used in providing the goods or services (i.e., depreciation). If the total cost of the capital assets is to be passed on to the user, the internal service fund should be used since depreciation expense may be included in the user charge. If, however, the cost for the use of the capital assets is not going to be recovered through user charges, the internal service fund in most cases should not be used, as this activity can be accounted for better in the general fund, thereby avoiding the creation of an additional fund. If a LUA uses the internal service fund and does not recover depreciation from the fund users, the unrestricted net position account usually will accumulate a deficit. That is, depreciation must be reported as an expense and there would be no offsetting revenue. Maintaining a deficit is not consistent with the objectives of an internal service fund. Revenues should equal expenses over the life of an internal service fund.

Services to Include

Currently, LUAs include a wide variety of activities within the internal service fund classification. The types of activities that may be classified as internal service funds are almost infinite. Services accounted for in internal service funds usually are tangible, and it should be possible to determine the extent to which they benefit individual departments or schools of the LUA. Some of the more common activities include central garages and motor pools, duplicating and printing services, data processing services, purchasing, central stores (warehouse), communications, and risk management activities.

Number of Funds

Separate internal service funds usually should be used to account for each type of service. Such segregation is essential to: (1) accumulate the costs of providing a service; and (2) assure that the resources generated by one service are not utilized improperly for another.

However, administrative services such as communications, office supplies, purchasing services, and printing and duplicating often are included in a single administrative internal service fund. Still, the accounting system and fund structure must allow for the determination of the total cost of providing each specific service. For example, if the communications function and the data processing function are included in the same internal service fund, the accounting system must have the capability to distinguish the costs of each of these applications in order to appropriately price each specific service. If the LUA's accounting system does not have this capability, then a separate fund should be established for each of these services. Generally, it is suggested that a separate fund be maintained for each identifiable activity.

Alternatively, a LUA would use sub-funds for each specific activity; however, for external financial reporting, a single internal service fund is established by the school board. With this alternative, external financial reporting is simplified because no combining statements are required and the LUA maintains only one legal internal service fund, yet costing and pricing can occur for each separate activity (e.g., print shop, data processing services) through the use of sub-funds for internal accounting reporting.

BUDGETARY ISSUES

As Chapter IV-2 indicates, the school board must adopt budgets for all of their internal service funds. However, the budgetary basis used for internal service funds is at the discretion of the LUA. In many instances, the budget is adopted on the modified accrual basis (i.e., a non-GAAP basis for an internal service fund) rather than the accrual basis (i.e., the GAAP basis for internal service funds). This type of budget allows a LUA to better control such costs as equipment purchases and debt service payments. In addition, some feel that budgeting for depreciation, which is required when the budget basis is the accrual basis of accounting, is a non-productive activity.

The internal service fund's revenue budget should be based upon the anticipated user's expenditure budgets. These amounts should equal unless services also are provided to other LUAs. The internal service fund's expense budget should be based upon estimated revenues. However, because most internal service funds are financed on a cost reimbursement basis, the anticipated total cost could be budgeted, and then a cost allocation scheme could be developed to finance the costs from the user departments or schools.

Since a LUA is required legally to adopt an annual budget for its internal service funds, budgetary data for these funds should be reported. Preferably, it should be incorporated within the generic fund type subsection of the financial report.

COSTING

Cost analysis may be defined simply as the process of defining a service and establishing the cost of providing that service. The relationship of costing and pricing is important since the objective of internal service funds is to recover total cost through user charges. Total cost should be defined as all costs incurred to provide the service.

In internal service funds, the costing of services is enhanced because a separate fund (usually for a non-homogeneous service) is established which provides a vehicle to account for direct costs and less cost analysis is required outside of the accounting system. Here, the focus of costing is on the present--determining the cost of providing a service to departments within other funds.

The first step in cost analysis is defining the service. With internal service funds, this task usually is clear because some type of output usually is produced (e.g., printed pages, a repaired bus, consumable inventory). By definition, each internal service fund is established to provide a particular service or services. However, as previously noted, when a LUA includes various types of services within a single fund (i.e., printing and data processing), defining each individual service to be costed becomes more difficult.

Here again, the selection of a unit of service delivery is important. This task varies widely based upon the type of internal service fund. Some internal service funds may use a single unit of measure (e.g., a unit of time for data processing) whereas central stores operation could maintain hundreds of units of measure (e.g., one unit for each different individual inventory item).

In general, it is desirable to have a unit of service focus on outputs. With internal service funds, the output unit of service may be appropriate depending upon the type of services provided. For example, a printing and duplicating fund may use the number of pages printed or duplicated as the unit of measure. However, in a vehicle maintenance fund where repair parts and labor are both used, a single output unit of measure may not be appropriate.

With internal service funds, all costs charged to the fund are considered direct costs of the services provided. If only one service is provided, all direct costs are readily available for analysis and pricing. However, when more than one unit of service is generated in a single fund, some of the costs will be considered direct and some indirect. For example, an individual may be assigned as the director of all internal service fund activities within a single internal service fund (usually only in the very large LUAs). In these instances, all direct costs related to the director (e.g., salary, employee benefits) are considered indirect costs to each individual internal service fund activities and must be allocated through the service unit.

PRICING SERVICES
Normally, costing is considered a factual matter but pricing is a management, policy and political issue. Since the objective of internal service funds is to recover total cost (including any related indirect costs), a common pricing system divides the total cost of operations by the number of units of service resulting in a "per unit" cost.

A primary issue in pricing that should be considered is, should depreciation expense be included in the price of the services provided? If the initial capital assets were purchased from another fund and contributed to the internal service fund, depreciation expense need not be charged for cash flow purposes (i.e., to maintain an even cash flow) since depreciation expense does not require cash outflow. Under this pricing system, when the time comes to replace the equipment, cash would not be available for this purpose. The unrestricted net position would be in a deficit position by the amount of depreciation expense unless subsidies are provided by another fund.

FINANCIAL REPORTING

GASB Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis-State and Local Governments (GASBS 34), provides guidance for reporting internal service funds. LUAs report internal service fund data at both the fund financial reporting level and at the government-wide financial reporting level.

Fund Financial Reporting Level - There are three required financial statements at this reporting level that include internal service fund data:

- A statement of net position
- A statement of revenues, expenses and changes in net position
- A statement of cash flows

LUAs also include enterprise funds on these statements. The LUA presents the major enterprise funds with all non-major enterprise funds included in a single column. All internal service funds are presented to the right of the enterprise funds, in a single column.

The “major funds” concept does not apply to internal service funds. Combining statements for each type of internal service fund may be presented in the internal service fund subsection of the financial statements.

Government-wide Financial Reporting Level - The reporting of internal service funds at this financial reporting level is somewhat complex. When a LUA presents the statement of net position, it must include the internal service fund data in either the governmental activities column or the business-type activities column. The factor that determines where internal service fund data is presented is the identification of the primary customer of each internal service fund. The primary customer is determined by the amount of revenue the internal service fund earns from each of the customers (i.e., each fund type). Generally, the primary customer of internal service funds is governmental funds. In this instance, the LUA should present the internal service fund data in the governmental activities column.

If the enterprise funds (e.g., the school food service fund) were the primary customers, the LUA would include the internal service fund data in the business-type activities column. GASBS 34 requires that internal service fund operating data be eliminated to remove the doubling-up effect of internal service fund activity on the statement of activities. If the internal service fund reports no gain or loss in the reporting year (i.e., revenues equal expenses), this data is simply eliminated and not reported in the statement of activities since the user funds already are reporting their costs for the internal service fund services.

However, in practice, most LUAs report either a profit or a loss in each reporting year. Therefore, before the LUA eliminates the internal service fund operating data, it must adjust the profit or loss to zero (i.e. to a break-even basis). The Governmental Accounting Standards Board (GASB) calls this adjustment the “look back.”

If the internal service fund reports a profit, this means that this fund charged the user funds more than the actual costs. Therefore, the LUA must reduce the various expenses of the user funds, which results in a decrease in the internal service fund revenues. Normally, the functional expenses would be reduced in proportion to the amount of the internal service fund reported as revenues. As a result, the internal service fund will report “breakeven” and the LUA can eliminate this fund’s data.

If the internal service fund reports a loss, this means that the internal service fund did not charge its users enough to cover its costs. Therefore, the LUA must increase the various expenses of the user funds, which results in an increase in the internal service fund revenue. After this adjustment, the internal service fund will “breakeven” and the LUA can eliminate this fund’s data from this statement.

ACCOUNTING ISSUES

Like all other proprietary fund types, internal service funds are accounted for on an economic resources measurement focus using the accrual basis of accounting at both the fund level and the government-wide level of financial reporting. Chapter I-7 explains these concepts.

Revenues

The majority of sources of internal service fund revenues are charges for goods and/or services to other individual funds within the LUA or other LUAs. LUAs should recognize these revenues in the period in which they earn them. That is, as soon as a service is performed or a product is provided, a receivable and revenue should be reported. In practice, the reporting of this transaction usually is delayed until the actual billing is completed (i.e., when the receivable is measurable), usually monthly.

Normally, a deferred inflow of financial resources would not be reflected in an internal service fund since the receivables would not be reported until the service is provided (i.e., the revenue recognition criterion is met). However, if any user fund has been paying a fixed monthly charge to the internal service fund with an adjustment made at year-end to reflect the actual charges, it is possible that the user fund could be overpaid and the reporting of a deferred inflow of financial resources would be appropriate in the internal service fund.

Expenses

LUAs recognize internal service fund expenses in the period in which they incur them. For services rendered to the internal service fund, the expense is reported when the service has been performed and the amount of the liability can be estimated. Practically, LUAs usually report this type of transaction upon receipt of a vendor invoice. Inventories of consumable materials and supplies are recognized as expenses when they are consumed in providing the service. For example, repair parts are reported as an expense in a vehicle maintenance internal service fund when the parts actually are used in repairing the vehicle. Usually, the cost of supplies and materials used is reported as an expense when the inventory is withdrawn from the inventory stock (i.e., the central stores).

ILLUSTRATIVE JOURNAL ENTRIES

The following journal entries and discussion, where applicable, illustrate the financial transactions required for the establishment and the operation of an internal service fund at the fund reporting level during a year.

> Transaction - a new fleet management internal service fund is being established to account for the cost of operating a maintenance facility and providing vehicles used by other LUA departments for activities that formerly were included in the general fund. The general fund provides $85,000 of working capital to this internal service fund. Of this amount, $40,000 must be repaid in equal annual installments over a five-year period (i.e., $8,000 per year) and the remaining $45,000 is considered a contribution, which never will be repaid. The amount to

be repaid is reported as an advance payable with the balance reported as capital contributions (i.e., as revenue) since this will not be repaid.

Description	Account No.	DR	CR
Cash in bank	0101	$85,000	
Advance from other funds – general fund	0403		$40,000
Operating Transfer From Other Funds	5200		$45,000

Explanation - $40,000 is credited to the long-term interfund payable account "Advance from other funds" and the $45,000 balance is credited to "Operating Transfers From Other Funds" since it will not be repaid. An offsetting entry also would be made in the general fund.

Transaction - capital assets (e.g., vehicles, tools and a maintenance garage) previously used for this activity in the general fund are transferred to this internal service fund. The Capital assets transferred have an original cost of $4,253,000 (i.e., building $87,000 and vehicles and tools $4,166,000); however, the book value at time of transfer is $2,160,000 (i.e., building $83,000 and vehicles $2,077,000).

Description	Account No.	DR	CR
Buildings	0231	$87,000	
Machinery and equipment	0241	$4,166,000	
Accumulated depreciation – buildings	0232		$4,000
Accumulated depreciation - machinery and equipment	0242		$2,089,000
Capital contributions	6100		$2,160,000

Explanation – the capital assets should be capitalized and recorded at the original cost less the accumulated depreciation. The book value of the equipment is recorded as capital contributions from the general fund since this equipment was purchased originally from general fund resources. However, no entry should be made in the general fund for this equipment transfer.

Transaction - billings for services totaling $1,036,000 are sent to the general fund.

Description	Account No.	DR	CR
Interfund accounts receivable	0132	$1,036,000	
Other local revenues	1995		$1,036,000

Explanation - this transaction is simply a revenue charge on account.

Transaction - billings for services totaling $13,000 are sent to various other LUAs receiving services.

Description	Account No.	DR	CR
Intergovernmental accounts receivable	0141	$13,000	
Services provided other LUAs or governmental units	1950		$13,000

Explanation – this transaction is similar to the above transaction. However, an "intergovernmental receivable" account is affected.

Transaction - cash is received on account from the general fund in the amount of $1,036,000 and $9,000 from other LUAs.

Description	Account No.	DR	CR
Cash in bank	0101	$1,045,000	
Interfund accounts receivable	0132		$1,036,000
Intergovernmental accounts receivable	0141		$9,000

Explanation – this transaction simply records cash collected on account.

Transaction - treasury bills costing $31,000 are sold for $35,000.

Description	Account No.	DR	CR
Cash in bank	0101	$35,000	
Investments	0111		$31,000
Investment Income	1500		$4,000

Explanation – In most internal service funds, interest revenue is classified as nonoperating revenue on the statement of revenues, expenses and changes in net position.

Transaction - interest earned on investments, but not yet received at year-end, totaled $8,000.

Description	Account No.	DR	CR
Interest receivable	0114	$8,000	
Investment Income	1500		$8,000

Explanation – The interest is recorded as revenue since the LUA has earned it. The subsequent collection of this interest would reduce the interest receivable account.

Transaction - an LUA purchases school busses on account at a cost of $572,000 ($663,000 less $91,000 trade in allowance). The traded-in vehicles originally cost $452,000 and had a book value of $48,000.

Description	Account No.	DR	CR
Machinery and equipment	0241	$620,000	
Accumulated depreciation - machinery and equipment	0242	$404,000	
Accounts payable	0421		$572,000
Machinery and equipment	0241		$452,000

Explanation – Determining the proper amount at which the new vehicles should be capitalized is addressed in GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The basic underlying principle of this pronouncement is that nonmonetary transactions should be valued on the same basis as monetary transactions. When the transaction also results in the exchanges of monetary consideration, GASB 62 provides additional guidance. Although a gain from this type of transaction occurred (e.g., trade-in value of $91,000 [i.e., assumed to be the fair value] and a book value of $48,000 of the old busses or a gain of $43,000), the new assets are valued at book value of the traded-in asset plus the cash paid and the LUA does not recognize the gain.

Transaction - consumable supplies costing $1,530 are purchased on account and delivered.

Description	Account No.	DR	CR
Inventory for consumption	0171	$1,530	
Accounts payable	0421		$1,530

Explanation – since internal service funds use the consumption inventory method, they capitalize this purchase.

Transaction - a two-year insurance policy for $8,760 is purchased with cash.

Description	Account No.	DR	CR
Prepaid expenditures/expenses	0181	$8,760	
Cash in bank	0101		$8,760

Explanation – Since this policy covers two years, it is reported as a prepaid expense (an asset) and in future reporting periods, the asset is reduced as the term of the policy expires and the LUA will recognize the expense (see transaction below).

Transaction - a billing for $8,000 is received from the general fund for various administration services provided.

Description	Account No.	DR	CR
Expenses	(Various accounts)	$8,000	
Interfund accounts payable	0402		$8,000

Explanation – This transaction is simply recorded as an expense with an offsetting interfund payable.

Transaction - various services are provided by outside vendors and invoices are received totaling $8,100.

Description	Account No.	DR	CR
Expenses	(Various accounts)	$8,100	
Accounts payable	0421		$8,100

Explanation – This transaction is simply recorded as an expense with an offsetting payable.

Transaction - 20 percent of the advance due to the general fund is classified as current.

Description	Account No.	DR	CR
Advance from other funds – general fund	0403	$8,000	
Interfund loans payable – general fund	0401		$8,000

Explanation – since this amount ($40,000 @ 20% = $8,000 see above entry) is now a current liability, it should be reclassified from an advance payable to an interfund payable. A similar entry would be made in the general fund.

Transaction - excess cash is invested in short-term investments for $48,000.

Description	Account No.	DR	CR
Investments	0111	$48,000	
Cash in bank	0101		$48,000

Explanation – the purchase of investments affects only the statement of net position accounts.

Transaction - a payment for $2,000 is made pursuant to an operating lease for a copy machine. This amount has not been recorded in accounts payable.

Description	Account No.	DR	CR
Rental of equipment and vehicles (function)	442.xx	$2,000	
Cash in bank	0101		$2,000

Explanation - Operating leases are reported similar to other operating expenses.

Transaction – an adjustment is made against the general fund pooled cash for $3,000 for an expenditure paid from the fleet management internal service fund rather than the general fund, in error.

Description	Account No.	DR	CR

Cash in bank	0101	$3,000	
Expenses	xxx.xx		$3,000

Explanation – This transaction is reported as a reimbursement. The original expense account charged is credited to correct the error.

Transaction - operating supplies valued at $1,200 are withdrawn from the materials and supply inventory and used.

Description	Account No.	DR	CR
Supplies	(function) 610.xx	$1,200	
Inventory for consumption	0171		$1,200

Explanation – the expense account is affected when the LUA withdraws the inventory.

Transaction - pension cost payments for $4,700 are sent to the Georgia Teachers Retirement System.

Description	Account No.	DR	CR
Employee benefits	(function) 200.xx	$4,700	
Cash in bank	0101		$4,700

Explanation – The employer's share (i.e., the LUA's share) is recorded as an expense.

Transaction - depreciation expense for the year totaled $419,000 (i.e., building $4,000, vehicles and tools $415,000).

Description	Account No.	DR	CR
Depreciation Expense – buildings	(function) 742.xx	$4,000	
Depreciation Expense – equipment	744.xx	$415,000	
Accumulated depreciation – buildings	0232		$4,000
Accumulated depreciation - machinery and equipment	0242		$415,000

Explanation – the depreciation expense is charged with an offsetting entry to the applicable accumulated depreciation accounts.

Transaction - one-half of the insurance premium expires and is charged to current operations.

Description	Account No.	DR	CR
Insurance	(function) 520.xx	$4,380	
Prepaid expenditures/expenses	0181		$4,380

Explanation – the expense account is charged and the asset account is reduced for the expired portion of the insurance premium.

Transaction - the compensated absences payable (i.e., $5,000) is adjusted to current salary rates at year end.

Description	Account No.	DR	CR
Personal services	(function) xxxx.xx	$5,000	
Compensated absences payable	0423		$5,000

Explanation – Annually the LUA should adjust this liability to the total outstanding compensated absences payable amounts using the appropriate days owed employees calculated at current salary rates.

SUMMARY

1. The financing of goods or services provided by one department or agency to other departments or schools within the same Local Unit of Administration (LUA) or to other LUAs on a cost reimbursement basis should be included within the internal service fund classification.

2. For LUAs, some of the more common activities accounted for in internal service funds include central garages and motor pools, duplicating and printing services, data processing services, purchasing, central stores (warehouse), communications, and risk management activities.

3. Separate internal service funds usually should be used to account for each type of service. Such segregation is essential to: (1) accumulate the costs of providing a service; and (2) assure that the resources generated by one service are not utilized improperly for another.

4. Since the objective of internal service funds is to recover total cost (including any

related indirect costs), a common pricing system divides the total cost of operations by the number of units of service resulting in a "per unit" cost.

5. In audited financial statements, all internal service funds are presented to the right of the enterprise funds, in a single column.

6. When a LUA presents the statement of net position, it must include the internal service fund data in either the governmental activities column or the business-type activities column.

Chapter 1 – 21 Fiduciary Funds

INTRODUCTION

The fiduciary funds classification is used to account for assets held by a Local Unit of Administration (LUA) in a trustee or custodial capacity for others and are the only generic fund types included in the fiduciary fund types category pursuant to the 2017-2018 *Codification of Governmental Accounting and Financial Reporting Standards* (2017-2018 *Codification*). The fiduciary generic fund types are; investment trust funds, pension trust funds, private-purpose trust funds, and custodial funds.

NOTE: This chapter is updated to include the Governmental Accounting Standards Board (GASB) Statement Number 84 – Fiduciary Funds.

Investment Trust Fund

This fund is used to account for the external portion of a LUA's investment pool, and use of this fund type in a Georgia school district would be rare.

Pension Trust Funds

This fund classification is used primarily to account for the activities of an LUA's single employer public employee retirement system (PERS). In Georgia, very few LUAs maintain a single employer PERS. Since most LUAs contribute to the Georgia Teachers Retirement System, they do not have to use this fund type to report the contributions to the retirement plan. In either event, the contributions to a PERS should be reported in the fund type where the cost and/or employee deduction occurs.

Private-Purpose Trust Funds

This fund classification should be used when both the principal and revenues earned on that principal may be expended for individuals, private organizations, or other governments. The key is that expenses must be for those outside the government.

Custodial Funds

A custodial fund is used to account for assets belonging to private organizations, other governments, or individuals. Under 2017-2018 *Codification* Section 1300.114, agency funds are custodial in nature (i.e., assets equal liabilities). Therefore, since agency funds merely are clearing accounts, the activities reported here could be reported in any fund. If the assets are owned by other funds, the agency fund classification should NOT be used.

Effective July 1, 2019, the Governmental Accounting Standards Board implemented GASB Statement No 84, which updates the definition of agency funds to custodial funds. This FMGLUA chapter has been updated for GASB No 84, which defines custodial funds as funds used to report fiduciary activities that are not required to be reported in pension trust funds, investment trust funds, or private purpose trust funds.

To meet the definition of a custodial fund (effective July 1, 2019), the activity must meet **all** the following criteria (per GASB Statement No 84):

a. The assets associated with the activity are controlled by the government.
b. The assets associated with the activity are not derived either:
    1. Solely from the government's own-source revenues or
    2. From government-mandated nonexchange transactions or voluntary nonexchange transactions except for pass-through grants for which the government does not have administrative involvement or direct financial involvement.
c. The assets associated with the activity have **one or more** of the following characteristics:
    1. The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legal protected from the creditors of the government.
    2. The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. Additionally, the assets are not derived from the government's provision of goods or services to those individuals.
    3. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. Additionally, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

The distinction of whether the activity associated with the fund is controlled by the government provides additional clarification for local units of administration to determine if the activity, including school activity funds, should be classified as governmental or fiduciary in nature.

According to 2017-2018 Codification section D25.101, "an Internal Revenue Code (IRC) Section 457 deferred compensation plan that meets the criteria in Section 1300, "Fund Accounting," paragraphs .102c and .111, for a pension (and other employee benefit) trust fund should be reported in that fund type in the statements of fiduciary net position and changes in fiduciary net position."

Currently, the most common use of custodial funds for Georgia LUAs includes funds held for student organizations and payroll withholdings such as flexible benefit deductions. Separate custodial funds generally are used for individual custodial relationships. However, a single custodial fund may be used to account for several closely related amounts.

BUDGETARY ISSUES

Legally adopted budgets and formal budgetary integration are not required for trust funds. Trust fund spending may be controlled primarily through legal trust agreements and applicable state laws. However, if formal budgetary integration is considered necessary by the LUA to assure acceptable control over trust fund spending, this accounting convention should be used. For example, it may be necessary to adopt a budget for the administrative operation costs of a private-purpose trust fund. Since these funds are custodial in nature, formal budgetary integration is not necessary for them.

Basis of Accounting/Measurement Focus

Fiduciary funds are reported using the economic resources measurement focus and accrual basis of accounting.   Required financial statements for fiduciary funds are the statement of fiduciary net position and the statement of changes in fiduciary net position. The statements should include those fiduciary funds of the primary government, as well as the component units that are fiduciary in nature.

Pension Trust Funds

This section discusses briefly the accounting and financial reporting principles applicable to an LUA maintaining a pension trust fund. The 2017-2018 *Codification* Section P20.108 and P20.109 classifies public employee retirement systems (PERS) defined benefit plans as single-employer or multiple-employer. A single-employer PERS is one to which only one employer contributes. A multiple-employer PERS is one to which more than one employer contributes. If a Georgia LUA is maintaining a pension trust fund, it is a single-employer PERS. Some multiple-employer PERS are aggregations of single-employer PERS and have separate complete actuarial valuations for each participating government. These PERS are classified as agent PERS. Other multiple-employer PERS are essentially one large pension plan with cost-sharing arrangements and one actuarial valuation is performed for the PERS as a whole. These PERS are classified as cost-sharing PERS.

Custodial Funds

Effective with the implementation of GASB Statement No. 84 – Fiduciary Funds, custodial funds are also reported on the accrual basis of accounting to recognize assets, liabilities, revenues, and expenditures.

ILLUSTRATIVE JOURNAL ENTRIES

Private-Purpose Trust Fund

The following journal entries and discussion, where applicable, illustrate the financial transactions required for the establishment of a private-purpose trust fund during the year.

Transaction - contributions in the amount of $8,200 are received.

Description	Account No.	DR	CR
Cash in bank	0101	$8,200	
Contributions from private sources	1920		$8,200

Transaction - treasury bills costing $30,000 are sold for $32,000.

Description	Account No.	DR	CR
Cash in bank	0101	$32,000	
Investments	0111		$30,000
Investment Income	1500		$2,000

Transaction - interest earned on investments, but not yet received, totaled $4,000.

Description	Account No.	DR	CR
Interest receivable	0114	$4,000	
Investment Income	1500		$4,000

Transaction - various services are provided by outside vendors and invoices are received totaling $8,600.

Description	Account No.	DR	CR
Expenditures	Funct-Prog-Obj	$8,600	
Accounts payable	0421		$8,600

Transaction - excess cash is invested in short-term investments in the amount of $38,000.

Description	Account No.	DR	CR
Investments	0111	$38,000	

Cash in bank	0101		$38,000

Transaction - outstanding accounts payable in the amount of $8,100 is paid.

Description	Account No.	DR	CR
Accounts payable	0421	$8,100	
Cash in bank	0101		$8,100

Custodial Fund

The following journal entries and discussion, where applicable, illustrate the changes in the assets, liabilities, additions, deletions and changes in net position.

Transaction - received cash on behalf of the high school Beta Club

Description	Account No.	DR	CR
Cash in bank	0101	$1,000	
Donations	1220		$1,000

Transaction - expenditure on behalf of high school Beta Club

Description	Account No.	DR	CR
Expenditures	Funct-Prog-Obj	$1,000	
Cash in bank	0101		$1,000

SUMMARY

1. The fiduciary funds classification is used to account for assets held by a Local Unit of Administration (LUA) in a trustee or custodial capacity for others.

2. Investment trust fund is used to account for the external portion of a LUA's investment pool, and use of this fund type in a Georgia school district would be rare.

3. Pension trust fund classification is used primarily to account for the activities of an LUA's single employer public employee retirement system (PERS). In Georgia, very few LUAs maintain a single employer PERS.

4. This fund classification should be used when both the principal and revenues

earned on that principal may be expended for individuals, private organizations, or other governments. The key is that expenses must be for those outside the government.

5. A custodial fund is used to account for assets belonging to private organizations, other governments, or individuals.

6. Accrual basis of accounting is used for fiduciary funds. All fiduciary funds use the economic resources measurement focus.

Section II – Financial Reporting

Chapter II – 1 Interim Financial Reporting

INTRODUCTION

Interim financial statements may be defined as financial statements prepared at regular intervals of less than a year. The Governmental Accounting Standards Board's (GASB) 2015-16 *Codification of Governmental Accounting and Financial Reporting Standards* (2015 - 2016 *Codification*), Section 2900, indicates that Local Units of Administration (LUAs) should prepare appropriate interim financial statements to facilitate management control of financial operations, legislative oversight, and where necessary or desired, for external reporting purposes.

Interim reporting shares most, if not all, of the complexities of annual reporting. However, it has a few unique issues resulting from shorter financial reporting periods. We can categorize these problems as follows:

- Unusual or irregular events occurring within the time period.
- The use of accounting measurement methods for the interim report which could differ from those used in the annual report [generally accepted accounting principles (GAAP) versus non-GAAP budgets] (see Chapter II-2).
- Seasonal variations.

LUAs must consider each of the above problems carefully when preparing and utilizing interim financial statements.

PURPOSES AND USERS

The primary purpose of LUA interim financial reports is their relevance and usefulness for purposes of management control. Most interim financial reports are intended for internal use only. Management control can include planning future operations as well as evaluating current financial position and results of operations to date.

The principle focus of interim financial statements should be directed toward control over revenues and expenditures (i.e., operating statements) in the primary operating funds (i.e., the general fund and special revenue funds). Although the financial position of the funds at a given date (i.e., balance sheet information) is important, normally it is of lesser concern in the daily management of an LUA. For LUA administrators, interim financial reports should:

- Provide the information necessary to manage the financial affairs of the LUA.
- Serve to insure that estimated revenues are realized.
- Serve to ensure that actual expenditures do not exceed appropriations.

Interim budgetary reporting allows LUA management to determine whether adjustments appear necessary for certain budget items or whether transfers or additional appropriations should be sought.

A secondary purpose of interim financial reporting is to aid in the preparation of the subsequent year's budget, since the subsequent year's budget is likely to be prepared several months before the fiscal year begins. Also, to determine new revenue requirements for the following year, it is necessary to estimate the ending fund balances of each appropriate fund. Most approaches to interim reporting view the interim period as part of the annual period. Accordingly, each interim period should anticipate the annual results and convey as much information as possible regarding the estimated figures.

The primary internal users of interim reports are personnel with budgetary responsibilities.

For LUA school board members not involved in the day-to-day operations, interim financial statements should provide the information necessary to monitor the administration's effectiveness and compliance with budgetary, legal, and contractual provisions. Interim report distribution normally is limited to the administration and the school board.

However, for those larger LUAs that sell bonds in the public bond market, the securities industry often is interested in interim reports, particularly as these reports relate to government bond offerings.

TYPES OF INTERIM REPORTS

Although interim reporting needs of LUAs can differ, the primary type of interim financial report is an operating statement that compares estimated revenues with actual year-to-date revenues and budgeted expenditures with actual year-to-date expenditures. Many LUAs prepare all-inclusive budgetary operating statements which include revenues, expenditures, and changes in fund equity. Other LUAs present separate statements for revenues and for expenditures supplemented with narratives highlighting and explaining any major variances.

Balance sheets are not as important for management and compliance reporting during the interim periods for governmental-type funds since LUAs operate within annual operating cycles and interim balance sheet data are not usually pertinent. However, balance sheets for proprietary fund types should be presented since the accrual basis of accounting is used. Comparisons with prior years and calculations of selected ratios may be important, particularly for internal management purposes.

LUAs also may present a wide variety of specialized reports primarily for management's use. These reports might emphasize construction, personnel staffing, and receivables.

Often governments use graphics to display financial data, particularly to their school boards.

Interim financial reports also include predictive information. Many reports include projections of the year-end balance of estimated revenues and expenditures. Estimated monthly cash flow presentations are common. These types of interim reports provide data for management decisions based on these projections. Finally, it is important to compare actual results with projections to take action to offset any negative variances that might have occurred.

FORMATS OF INTERIM REPORTS

The formats of interim financial reports vary widely based on the report users' needs. Since the school boards have primary responsibility for setting policy, condensed interim financial statements should be presented for that purpose. In addition, monitoring compliance with legal and contractual provisions is essential for the school board.

For example, if the legal level of budgetary control is established at the activity or object level, the interim report might be presented with more detail (see Chapter IV-2 for a discussion of the legal level of budgetary control). The inclusion of narratives and graphics is more useful to the school boards than page after page of budgetary operating statements.

When LUAs produce financial reports using automation, a question arises: Should computer printouts be provided to the report users or should separate summary reports be prepared? Ideally, the computer-generated report should provide the necessary levels of information for each individual report user. That is, the school board normally would have a highly summarized report, while a budget manager would have an extremely detailed report. Experience has shown that providing voluminous computer printouts to school boards is just not effective.

Budget monitoring is one of the most important accounting activities that occurs during the year. However, the actual monitoring varies widely by each LUA. For example, the LUA's budget officer may have the primary responsibility for monitoring the budget and reporting any deficiencies or overages to the superintendent. In other LUAs, each individual budget manager (e.g., school principal, department director) might have the responsibility for monitoring his or her budget and might be responsible for any major deviations from the budget. Again, the report's detail will vary depending on the user.

Normally, individual budget managers have monitoring responsibility in larger LUAs. However, the LUA superintendent, chief financial officer, or the accountant maintains these responsibilities in smaller LUAs. In some LUAs, the accounting staff might be responsible for monitoring the financial activity.

FREQUENCY

How often should interim financial reports be prepared? Although interim financial reports normally are prepared monthly, in some instances they are prepared quarterly, semi-annually or some combination of these. **Official Code of Georgia Annotated (O.C.G.A.) Section 20-2-58 requires the local board of education to review the financial status of the school system at a regular meeting during each calendar month. The law further requires the financial status information to include, at a minimum, a statement of revenues, expenditures, and encumbrances. The update to O.C.G.A. §20-2-58 is effective for monthly reporting periods after July 1, 2021.**

Because the law also requires the local school system to prepare a budget that reflects all anticipated revenues from each source, the expectation is that the local board of education will approve a budget that includes all anticipated revenues and expenditures. The legal level at which the board approves the budget may vary depending on the funding source. For example, the board policy may state the General fund is approved at the function code level, and the special revenue funds (included federal and state operating grants) are approved at the aggregate fund level.

The monthly financial status template designed and utilized by the school system must include, at a minimum, the following:

- A comparison of the annual budget to the year-to-date revenues and expenditures.
- The total amount of open purchase orders for all funds at the same legal level of budgetary control for each fund.

Additionally, it is strongly encouraged that the school system also provides a detail listing of monthly revenues and expenditures, as well as an overview/summary/financial highlights of the monthly statements and the impact of the actual revenues and expenditures in accordance with the locally approved budget policy.

The following template example may be utilized by a school system to present the monthly financial status. While a school system does not have to utilize this exact template, any template presented to the local board of education must, at a minimum, include this information, per O.C.G.A. §20-2-58.

Monthly Statement of Revenues, Expenditures, and Encumbrances

(Detail provided in accordance with local board policy. Budget must include all anticipated revenues.)

Account	Budget	Year-To-Date	Percentage of Budget
Revenues			#DIV/0!
Expenditures			#DIV/0!
Encumbrances/Open Purchase Orders			

Most accounting systems have some type of budgetary control segment which will not allow actual expenditures to exceed budgets. An LUA might control expenditures by reviewing the account detail on a computer monitor, by reviewing a manual list of purchase orders or just by relying on the responsible individual budget manager. Therefore, if daily monitoring is essential, options other than interim reports must be developed.

Timeliness of the interim reports is essential to meet the objectives and uses of interim financial reporting. For example, if a specific line item has been over-expended by the end of the month and the interim report is not prepared for 30 days after the close of the fiscal period, this delay may allow the account to be further over-expended. Larger LUAs try to complete their interim financial statements within 10 to 15 days from the close of the fiscal period. The meeting cycle of the school board typically dictates the timing of interim report preparation.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GAAP as promulgated by the GASB are almost nonexistent for LUAs' interim financial reporting. The 2015 - 2016 *Codification* indicates that since managerial styles and perceived information needs vary widely, appropriate internal interim reporting is largely a matter of professional judgment. Therefore, no GASB pronouncements specifically discuss interim financial report requirements.

Users of financial reports must have a clear understanding of the accounting basis for these reports since the basic financial statements will be prepared on a GAAP basis which may differ substantially from those prepared during the interim.

In almost all instances, interim financial reports are not audited or reviewed by outside auditors. However, in some cases, such as when an LUA is going to issue bonds, an auditor's review of the interim financial statements might be appropriate. If applicable, this review would be completed by an independent auditor, not the Georgia Department of Audits. The *Statement on Auditing Standards 122, "Statements on Auditing Standards: Clarification and Recodification, AU-C 930"* provides guidance to auditors for their review. The standard review report should contain the following information:

a) A title that includes the word independent to clearly indicate that it is the report of an independent auditor.
b) An addressee as appropriate for the circumstances of the engagement.
c) An introductory paragraph that
    i. Identifies the entity whose interim financial information has been reviewed,
    ii. States that the interim financial information identified in the report was reviewed,
    iii. Identifies the interim financial information, and
    iv. Specifies the date or period covered by each financial statement comprising the interim financial information.
d) A section with the heading “Management’s Responsibility for the Financial Statements” that includes an explanation that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable reporting framework.
e) A section with the heading “Auditor’s Responsibility” that includes the following statements:
    i. The auditor’s responsibility is to conduct the review of interim financial information in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information.
    ii. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.
    iii. A review of interim financial information is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, no such opinion is expressed.
f) A concluding section with an appropriate heading that includes a statement about whether the auditor is aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable.
g) The manual or printed signature of the auditor’s firm.
h) The city and state where the auditor practices.
i) The date of the review report, which should be dated as of the date of completion of the review procedures.

Also, each page of the interim financial report should be labeled "unaudited."

BALANCE SHEETS

A balance sheet presents what an LUA owns (assets), owes (liabilities), its fund balances, along with any deferred inflows of resources or deferred outflows of resources. As was indicated earlier, since LUAs operate on an annual operating budgetary cycle, balance sheets are more important at year-end than during the interim reporting periods. Considering this, many LUAs do not prepare interim balance sheets for use by their school board or for internal management purposes. However, the required monthly financial status reports to the local board of education must include open purchase orders, which is essentially a fund balance committed for a specific purpose. Additionally, cash flow is important for the local board of education to review if there is a need for a school system to issue a Tax Anticipation Note prior to the collection of ad valorem taxes.

OPERATING STATEMENTS

Monitoring the realization of revenues and spending of budget appropriations and comparing them to the approved budget is an important task for LUAs. If revenues are not realized as projected, expenditures will have to be curtailed and programs reduced or eliminated unless excess fund balance is available to absorb the revenue deficiencies. Use caution when using fund balance to cover operating deficits. Once the fund balance is spent, it is no longer available to cover excess expenditures. A comparison of budget with year-to-date actual revenues and expenditures on a budgetary basis in the interim is a common presentation for most LUAs and is required as part of the monthly financial status report that must be presented to and approved by the local board of education effective July 1, 2021.

NARRATIVES

A narrative supplementing interim financial statement presentations improves the potential for a clear understanding of the data the LUA presents. The types of narratives presented will vary based upon the financial presentations. Usually, revenue and expenditure analyses are included together. The narrative typically includes detailed explanations of differences in major revenue sources or expenditure categories from the current year budget and the prior year actual amounts.

SUMMARY

1. Interim financial statements may be defined as financial statements prepared at regular intervals of less than a year.

2. The primary purpose of LUA interim financial reports is their relevance and usefulness for purposes of management control.

3. A secondary purpose of interim financial reporting is to aid in the preparation of the subsequent year's budget, since the subsequent year's budget is likely to be prepared several months before the fiscal year

begins.

4. The primary internal users of interim reports are personnel with budgetary responsibility.

5. The primary type of interim financial report is an operating statement that compares estimated revenues with actual year-to-date revenues and budgeted expenditures with actual year-to-date expenditures.

6. Local school systems are required, as of July 1, 2021, to provide the local board of education with a monthly financial status template that includes, at a minimum, a comparison of budget to actual year-to-date revenues and expenditures, the monthly revenues received and expenditures incurred, and the total amount of open purchase orders at the end of the monthly reporting period. The financial status template should be presented at the same level of detail that the annual budget is approved by the local board of education.

7. The formats of interim financial reports vary widely based on the report users' needs.

8. Most interim operating financial statements (particularly the budget-to-actual operating statement) should be prepared at least monthly.

9. GAAP as promulgated by the GASB are almost nonexistent for LUAs' interim financial reporting.

10. A narrative supplementing interim financial statement presentation improves the potential for a clear understanding of the data the LUA presents.

Chapter II – 2 External Financial Reporting

INTRODUCTION

Broadly defined, financial reporting is the process of communicating information concerning a Local Unit of Administration's (LUA) financial position and the results of its operations. Financial information often is disseminated through financial reports, which can be classified according to their content and the purposes for which LUAs issue them. LUAs may issue different types of financial reports according to the report's intended use (i.e., internal and external) or according to the report's timing (i.e., interim or annual).

This chapter details annual external financial reporting consistent with GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis State and Local Governments, as subsequently amended. GASB Statement No. 34, issued in June 1999, established new financial reporting requirements for state and local governments throughout the United States. The Governmental Accounting Standards Board (GASB) developed these new requirements to make annual reports more comprehensive and easier to understand and use. Subsequent GASB Statements have amended parts of GASB Statement No. 34. When applicable, the subsequently released GASB Statements are incorporated into this chapter.

GASBS Statement 34 was further modified by Concepts Statement No. 4, Elements of Financial Statements, issued in June 2007. In this Concepts Statement GASB defines the basic elements of financial position as assets, liabilities, deferred outflow of resources, deferred inflow of resources, and net position. In subsequent GASBS, 63 and 65, a standard format is presented to properly structure a statement of position (either a balance sheet or a statement of net position) using the new terms. Deferred outflows of resources should be reported in a separate section following assets, while deferred inflows of resources should be reported in a separate section following liabilities.

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.

GAAP require that the notes to the basic financial statements contain all disclosures necessary to prevent the financial statements from being misleading. Such a concept is qualitative and cannot be reduced to a simple checklist of required disclosures. However, the 2015-16 *Codification*, Section 2300, Notes to the Financial Statements, provides a list of note disclosures that specifically is tailored to LUA financial reporting.

This list provides a starting point for the financial statement preparer wishing to evaluate the adequacy of their notes to the basic financial statements.

The Governmental Accounting Standards Board's 2015-2015 *Codification of Governmental Accounting and Financial Reporting Standards* (*2015-2016 Codification*), Section 2200.101, provides that "every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR)..." Neither Georgia statutes nor the Georgia Department of Audits require LUAs to prepare CAFRs even though some have chosen to do so (e.g., Cobb County, City of Marietta). The CAFR generally contains three distinct sections: introductory, financial and statistical. These sections may be supplemented by certain specialized sections as the need arises such as the single audit section (see Section 22I).

SECTION 1: BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

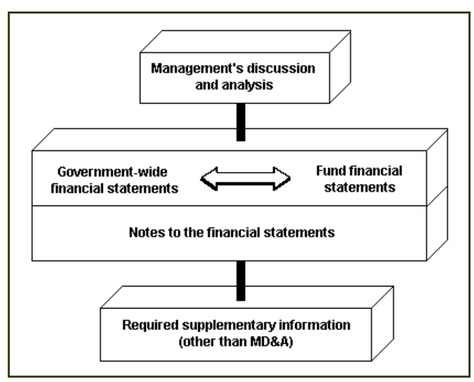
Financial statements necessary to the fair presentation of financial position and operating results, in conformity with generally accepted accounting principles (GAAP), are referred to as "basic" financial statements.

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 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 <u>currently known facts, decisions, or conditions</u>. 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 GASBS Statement 37 and 63 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 deferred outflows of resources
    (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
    (4) Total deferred inflows of resources

(5) Total net position, distinguishing among the net investment in capital assets; restricted amounts; and unrestricted amounts

    (6) Program revenues, by major source
    (7) General revenues, by major source
    (8) Total revenues
    (9) Program expenses, at a minimum by function
    (10) Total expenses
    (11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers

(12) Contributions
(13) Special and extraordinary items
(14) Transfers
(15) Change in net position
(16) Ending net position

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 position 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:[4]

   i) Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments.
   ii) How the current assessed condition compares with the condition level the government has established.
   iii) Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.

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

h. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (netposition) or results of operations (revenues, expenses, and other changes in netposition).

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

BASIC FINANCIAL STATEMENTS

The basic financial statements are the core of general-purpose external financial reporting for LUAs. Basic financial statements have three components:

Government-Wide Financial Statements

GAAP require that LUAs provide a government-wide statement of net position and a government-wide statement of activities that includes all of the LUA's governmental activities, business-type activities, and (nonfiduciary) component units (if any). These government-wide financial statements are to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

These government-wide financial statements help users:

- Assess the finances of the government in its entirety, including the year's operating results
- Determine whether the government's overall financial position improved or deteriorated
- Evaluate whether the government's current year revenues were sufficient to pay for current year services
- Understand the cost of providing services to its citizenry
- Notice how the government finances its programs – through user fees and other program revenues versus general tax revenues
- Understand the extent to which the government has invested in capital assets
- Make better comparisons between governments.

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 position 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 http://www.audits.ga.gov/EAD/SchoolDistrictResources.html and http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/Financial-Statements.aspx for templates used in preparing the school district's government-wide financial statements.

Government-Wide Statement of Net Position

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

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

- assets + deferred outflows of resources – liabilities - deferred inflows of resources = net position (net position approach)
- assets + deferred outflows of resources = liabilities + deferred inflows of resources + net position (balance sheet approach)

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

- Net investment in capital assets;
- Restricted net position; and
- Unrestricted net position.

Net Investment In Capital Assets*.* Because the government-wide statement of net position 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		(XXXX)
Adjustments for Deferred Outflows or Deferred Inflows Of Resources (attributable to unspent resources)	XXXX or (XXXX)	
Net investment in capital assets		$XXXX

However, there may be additional adjustments to the net position amount, "net investment in capital assets." The outstanding principal of capital-related debt, and the adjustments for deferred outflows of resources and deferred inflows of resources 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 adjustments, (e.g., bond premiums, bond discounts) they also are included in this calculation.

Restricted Net Position. Restrictions may be imposed on a portion of an LUA's net 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 and deferred inflows of resources related to those assets. An amount equal to these restricted assets, less any related liabilities and deferred inflows of resources, is reported as *restricted net* position.

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

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 Position. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Government-Wide Statement of Activities

The government-wide statement of activities is used to report changes in net (expense) revenue, or net cost, of its individual functions

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 does not define the term *functio*n. 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 overhead 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 position 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) is the law that prescribes the formula used by the State of Georgia to appropriate funding to LUAs each fiscal year. As Chapter II-7 indicates, the LUA earns the QBE based upon the amount of full time equivalent students in each QBE instructional 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 GaDOE Financial Review

Division 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. Significant transactions or other events within the control of management that are *either* unusual in nature or infrequent in occurrence are special items and should be reported separately 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 netposition. 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 require that the government-wide financial statements be accompanied by separate sets of financial statements for governmental funds, proprietary funds, and fiduciary funds. The financial statements for proprietary funds and fiduciary funds use the same measurement focus and basis of accounting used for government-wide financial reporting. The financial statements for governmental funds, on the other hand, are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, the governmental fund financial statements must present a summary reconciliation to explain differences between the data reported in the governmental funds and the data reported for the corresponding governmental activities in the government-wide financial statements.

Fund statements measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the performance——in the short term——of individual funds using the same measures that many LUAs use when financing their current operations.

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, 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 http://www.audits.ga.gov/EAD/SchoolDistrictResources.html 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.

Included Assets. Governmental funds focus on *current financial resource*s. 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 position either based on their relative order of liquidity or classified as *current* and *long-ter*m. Governmental funds focus exclusively on *current* financial resources (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances). 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 balanc*e. Fund balance can be divided into five components, with *unreserved* representing amounts considered available for new spending.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- **Nonspendable fund balance –** amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

- **Restricted fund balance –** amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

- **Committed fund balance –** amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future construction projects).

- **Assigned fund balance –** amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Education or by a designee to whom the Board of Education delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- **Unassigned fund balance –** includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

- **Committed Fund Balance** – The Board of Education is the District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

- **Assigned Fund Balance** – The Board of Education has authorized the Superintendent and the Director of Finance as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

The financial statements or the accompanying notes should provide "sufficient detail to disclose the purposes of the classifications of fund balance.

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 fun*d. 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 criterio*n. An individual governmental fund reports at least 10 percent of *any* of the following:
  - total governmental fund assets plus deferred outflows of resources
  - total governmental fund liabilities plus deferred inflows of resources
  - total governmental fund revenues
  - total governmental fund expenditures

- *Five percent criterio*n. 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 *nonspendable, restricted, committed, assigned, or unassigned* fund balance attributable to each fund type represented within that column.

LUAs also may take this same approach for classifying the nonspendable, restricted, committed, assigned or unassigned fund balance of their major funds, although the presentation of 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.

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 position. 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 *expense*s. 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 expenditure*s, 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 position 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 another 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 position (balance sheet);
- Statement of revenues, expenses, and changes in fund net position;
- Statement of cash flows.

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

Proprietary Fund Statement of Net Position

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

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

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

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 position, 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 position.

Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. The proprietary fund statement of revenues, expenses, and changes in fund net position 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 position , 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 equivalent*s. *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 *ne*t. 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 position. 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 Position (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 position (required for all fiduciary funds)
- Statement of changes in fiduciary net position (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 Position

The statement of fiduciary net position 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 Net Position.”

Format. The fiduciary fund statement of position must employ the net position 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 Position*.* 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; 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 Position

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 *deduction*s.

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

Notes to the Financial Statements

The data displayed on the face of the government-wide and fund financial statements must be accompanied by various disclosures to ensure that a complete picture is presented in the financial statements. This additional disclosure is presented in the form of a single set of notes placed immediately following the government-wide and fund financial statements. As described, the basic financial statements represent the minimum information that must be included within a financial report of a state or local government for an independent auditor to issue a “clean” audit opinion, assuring report users that the government has complied with GAAP.

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 2015 *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 GASB *Codification*, 2015 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 http://www.audits.ga.gov/EAD/SchoolDistrictResources.html for required note disclosures templates, under Audit Resources.

While 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 2015-16

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. The following is a suggested order of presentation:

- Summary of significant accounting policies (SSAP)
- Restatement notes (if applicable)
- Budgetary and legal compliance notes
- Detailed notes
- Other notes

GAAP are established under the presumption that the notes contain any material information needed to present fairly the financial statements. Therefore, as a 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A LUA's accounting policies are the specific accounting principles -- and methods of applying those principles -- judged by the LUA's management to be appropriate in the circumstances to present fairly the financial position and results of operations in conformity with GAAP. APB Opinion No. 22, Disclosure of Accounting Policies, requires financial statement preparers to include a description of all significant accounting policies as an integral part of the financial statements. For LUAs, the SSAP most often takes the form of a group of separate "sub notes" addressing a variety of topics. Because the SSAP is designed to provide the reader with information on the LUA's accounting policies rather than on specific transactions, dollar amounts normally are not presented in the SSAP. Generally when dollar amounts are presented in a note, the note is a detailed note.

APB Opinion No. 22, as applied to LUAs, requires that the SSAP disclose those accounting principles and methods that involve:

- Any selection of an accounting treatment when GAAP permit more than one approach (e.g., the method used to depreciate capital assets)
- Principles and practices peculiar to LUA accounting (e.g., modified accrual basis of accounting)
- Unusual or innovative applications of GAAP

LUA Description. Often, the SSAP begins with a brief description of the LUA. This description will reference the school board and indicate the geographic area for which it provides educational services. In reports prepared by the Georgia Department of Audits and

Accounts, the LUA Description and Reporting Entity are presented as the first section in the
Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

Reporting Entity. Occasionally, a LUA's reporting entity may include a separate legal entity (i.e., certain charter schools) as component units. To ensure that financial statement users understand what entities are included, the 2015-16 *Codification*, Section 2100, provides note disclosure requirements related to the reporting entity. Normally, this note should be presented as the first sub note in the SSAP. If not presented in the SSAP, this disclosure should be formatted as the first note. This approach allows the reader to gain an understanding of the reporting entity before reading the other notes to the financial statements. In audits published by the Georgia Department of Audits and Accounts, the LUA Description and Reporting Entity are presented as the first section in the Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

All LUAs are required to present an "entity note" regardless of whether any component units are included within the reporting entity. The disclosure should include:

- A description of the component units included within the financial reporting entity;
- A description of the relationship between the component units and the primary government;
- A discussion of the criteria for including component units within the financial reporting entity;
- A discussion of how component units are reported (i.e., blended versus discrete presentation); and
- Information on how to obtain the separately issued financial statements of component units.

Although these criteria normally are taken directly from the 2015-16 *Codification*, Sections 2100.108 -.112, each component unit should be described rather than just referenced.

An example of a component unit in which disclosure is required is when a local charter school exists as a component unit of an LUA.

Basis of Presentation. This sub-note of SSAP, describes the basic financial statements of a LUA and includes information on the government-wide and fund financial statements. Because fund accounting is unique to governments, a brief explanation of this accounting convention is appropriate.

Government-wide and Fund Financial Statements. The government-wide financial statements do not, in fact, incorporate all funds and component units of a LUA. Specifically, GAAP direct the exclusion of fiduciary funds from the government-wide presentations. Therefore, to avoid any potential confusion regarding the scope of the government-wide presentations, the SSAP should disclose the omission of fiduciary funds. It also should be clear that the assets, liabilities and equity of the internal service funds are combined within the governmental activities column in the government-wide statement of net position. This disclosure often describes the two required government-wide financial statements. Also, the definition of the three types of program revenues is appropriate here.

Finally, this note should disclose the fact that all of a LUA’s funds are included at the fund financial reporting level and that discretely presented component units are excluded. All of a LUA's individual funds are classified by the three fund categories, governmental, proprietary and fiduciary. A brief description of these categories is appropriate. Chapter I-6 discusses LUA fund accounting. In addition, GASBS 38 requires descriptions of the activities accounted for in each major fund, internal service fund type and the fiduciary fund types (e.g., school clubs).

Measurement Focus/Basis of Accounting. Because governmental accounting requires the use of two different measurement focuses and the use of both accrual and modified accrual basis of accounting depending upon the financial reporting level, the SSAP should include a description of the measurement focus that applies to each fund type followed by an explanation of the basis of accounting used.

Chapter I-7 describes the measurement focus and the bases of accounting that LUAs use.

Reconciliation of Government-Wide and Fund Financial Statements. 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 position. Also required is the reconciliation of the net changes in fund balances from the governmental fund operating statement to the changes in net position on the government-wide statement of activity. The reconciliations may be presented on the face of the governmental fund financial statements or in accompanying schedules. A government may choose to present more detailed information on the various elements of this reconciliation in the notes to the basic financial statements. LUAs normally present this note disclosure when reconciliation items are aggregated in the reconciliation (e.g., when capital outlay purchases and depreciation expense are netted) and the note disaggregates the amounts.

Revenues Susceptible to Accrual. The 2015-2016 *Codification*, Section 1600.108, requires that the SSAP indicate clearly, which primary revenue sources have been treated as "susceptible to accrual.” At a minimum, this disclosure normally references property taxes, special purpose local option sales taxes and state Quality Basic Education (QBE) aid.

Chapter IV-2 discusses Georgia Statutes as they relate to operating budgets.

Flow Assumption for Restricted Assets. In practice, it is common for LUAs to have the option of using either restricted or unrestricted resources to make certain payments (such as capital construction costs being financed partially from restricted grants and bond proceeds and partially from the LUA's own resources). Accordingly, LUAs must select a flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. GAAP require that this flow assumption be disclosed in the SSAP.
Cash and Investments. If a LUA participates in a cash and investment pool, the accounting policy should explain this arrangement, which could include information on how the LUA allocates interest earnings. Although the 2015-2016 *Codification*, Section I50 Investments, requires detailed disclosures for deposits and investments (this disclosure is discussed later in this chapter), the stated basis for investments should be disclosed in the SSAP. The allowable investments under Georgia statutes should be listed here. Finally, if a LUA reports cash equivalents, they should be defined.

Receivables. Normally, the basis of accounting note, included within the SSAP, discloses when receivables and revenues are recorded and reported. The receivables note should disclose the LUA policy regarding the use of an allowance for uncollectibles.

Restricted Assets. Normally, Special Purpose Local Option Sales Tax (SPLOST), general obligation bond proceeds and property taxes levied specifically for retirement of outstanding bond principal, interest and paying agent's fees (e.g., in a debt service fund) are reported as restricted assets in the statement of net position because their use is limited by applicable bond covenants or statutory provisions. This fact should be explained in the accounting policy notes. The details of assets might be presented in this note or preferably in a detailed note for restricted assets.

Interfund Balances. LUAs sometimes advance resources to other funds that will not be repaid in the current period. For example, the general fund advances operating capital to a newly created internal service fund. In these instances, the SSAP should explain that the fund balance of the loaning governmental fund is reserved at the fund reporting level to indicate it is not available for expenditure.

Inventories. ARB No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter I-4, requires a disclosure of the valuation basis of inventories (i.e., cost). In addition, the method used to determine the inventory value should be presented (e.g., first-in, first-out; last-in, first-out). Finally, because governmental funds may use either the purchases or consumption method for recognizing inventory expenditures, the method chosen should be disclosed in the SSAP.

When the purchases method is used, for budgeting purposes, the sub note also should indicate that the inventory asset amount is not available for expenditures because it has been charged to expenditures when purchased rather than when used. Chapter I-12 presents information about inventories.

If the LUA recognizes revenues from commodities, it should be clear that the amount of the value of commodities unused at year-end is reported as unavailable revenues, a deferred inflow of resources.

Prepaid Items. Although not required by GAAP for governmental fund types, LUAs may capitalize prepaid items (e.g., prepaid insurance) and charge these costs to the appropriate fiscal period. When prepaid items are capitalized, a sub note could explain this policy and indicate that a portion of fund balance equal to the prepaid items is reserved to indicate that it is not available for expenditures.

Capital Assets. The SSAP needs to include various disclosures regarding a LUA's capital assets. Many of the disclosures are required because of the variety of accounting treatments allowed. Because capital assets purchased by governmental fund types are reported differently from those purchased by proprietary fund types at the fund reporting level, the sub note should explain both accounting treatments. This disclosure also may include the LUA's accounting for betterments (i.e., improvements to capital assets that extend their useful lives). Betterments are discussed in Chapter IV-7.

The valuation bases for both purchased capital assets and donated capital assets should be disclosed. In addition, GAAP require the disclosures of a LUA's depreciation policy including the depreciation method used and the capital assets estimated useful lives. The LUAs capitalization threshold must be disclosed.

Accounting for capital assets is discussed in Chapter I-17.

Compensated Absences. The 2015-2016 *Codification*, Section C60 Compensated Absences, provides guidance regarding the accounting treatment for compensated absences. An accounting policy note should indicate clearly that the total liability is reported on the government-wide statement of net position but only reported at the fund level when due. The compensated absence liability for proprietary fund types should be accrued as earned, consistent with the accrual basis of accounting, and the disclosure should indicate this fact when both governmental and proprietary fund types are included in the financial statements.

Long-term Obligations. It is suggested that the SSAP contain an explanation of the rationale for classifying long-term obligations as fund liabilities.

Bond Discounts, Bond Premiums, Issuance Costs, and Deferred Bond Refunding Amounts.
The SSAP should include an explanation of the treatment accorded bond discounts, bond premiums and issuance costs, for governmental and proprietary fund types, as appropriate. For proprietary funds and reporting governmental fund activities at the

government-wide financial reporting, APB opinion No. 21, Interest on Receivables and Payables, provides the appropriate guidance on display and amortization.

Fund Equity. An explanation of the components of fund equity often is included in the SSAP. However, the details of the restrictions, commitments and assignments should be presented in a separate disclosure.

Operating Revenues and Expenses. If a LUA reports enterprise funds, the notes should define operating revenues and expenses.

Interfund Activity. Since a LUA maintains numerous funds, the SSAP should explain the
various types of interfund transactions as applicable. The 2015-16 *Codification*, Sections 1800.103 and 1800.106, provide the classification for the various types of interfund transactions. Chapter I-13 defines the various types of interfund transactions.

Estimates. This disclosure must indicate that the LUA's management uses estimates in the amounts included in the financial statements and actual amounts may differ from these estimates.

Comparative Data. Although not required by GAAP, a sub note could be included in the SSAP explaining that comparative data are presented in the financial statements to allow the reader to make appropriate comparisons with prior periods.

Implementation of New GASB Standards. This disclosure alerts the readers to what new GASB Standards have been implemented during the current fiscal year.

STEWARDSHIP, COMPLIANCE AND RESPONSIBILITY

Legal Compliance. Financial statement preparers are required by GAAP to provide certain disclosures to demonstrate compliance with finance-related legal and contractual provisions. Because of the importance of legal compliance in the public sector, it is appropriate that such disclosures immediately follow the SSAP. The 2015-16 *Codification*, Section 1200.112, requires the disclosure of material violations of legal requirements. GASBS 38 also requires LUAs to disclose what action they took to address these violations.

Such violations can occur, for example, if sufficient care is not taken to ensure compliance with Federal grant requirements. Since appropriated budgets limit the amount a LUA may legally expend, certain budgetary disclosures also are required to demonstrate compliance or to report noncompliance.

Budgetary Data. The SSAP should include various disclosures about the reporting entity's budget and budget process. The SSAP for budgets should provide:

- A description of the budgetary basis of accounting.

- An indication of the funds for which appropriated budgets have been adopted
- Details regarding appropriations
- An indication of the legal level of budgetary control (although GAAP no longer requires this disclosure, it is still recommended to be included).

If the LUA presents its budgetary comparison statement as a basic financial statement, the following notes are applicable. However, if the LUA presents its budgetary comparison statement as required supplementary information (RSI) (most Georgia LUAs will present this statement as RSI), these notes will be presented as notes to RSI.

When a LUA adopts a budget on a basis, which differs from GAAP, the 2015-16 *Codification*, Section 2400.109, requires that the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis be reported either on the face of the budgetary comparison statement or in the notes to the statement. Unless the reconciliation is quite simple, note disclosure is the more appropriate alternative.

Since under GASBS 34 there are two sets of notes, one to the basic financial statements and one for the RSI, the reconciliation would appear in the notes where the fund's budgetary data is presented. For the general fund and any major budgeted special revenue funds, the reconciliation would be presented in the notes to RSI. All other reconciliations would be presented in the notes to the basic financial statements. When the reconciliation is required, it is suggested that the differences be classified in a manner consistent with the 2015-16 *Codification*, Section 2400.110 - .119 (i.e., basis, timing, entity and perspective differences), although this specific terminology need not be used.

The data that should be reconciled are not indicated clearly in GAAP. Generally, there are at least two alternatives for this presentation.

- Operating statement approach (i.e., excess (deficiency) of revenues and other financial sources over (under) expenditures and other financing uses)
- Balance sheet approach (i.e., fund balance)

The 2015-16 *Codification*, Section 2400.103, requires the note disclosure of any individual funds that have expenditures over appropriations at the legal level of budgetary control (e.g., the function total). LUAs should disclose the individual fund, the legal level of control and the amount of over expenditure. GASB Statement No. 37, An Omnibus Statement (GASBS 37) requires this disclosure be placed in the notes to RSI if the over expenditure relates to funds presented in the RSI budgetary comparison statement. If the over expenditure relates to any other budgeted funds, the disclosure appears in the notes to the basic financial statement.

Deficit Fund Equities. GAAP require that the LUA disclose any individual fund balance deficits reported at year end.

DETAILED NOTES -- ALL FUND TYPES

The notes to the financial statements should include detailed disclosures of all assets, liabilities and net position/fund equities essential for fair presentation at the basic financial statements level.

It also may be necessary to provide details of selected accounts to give the reader of the financial statements a better understanding of the statement disclosures. The following discussion reviews disclosures that LUAs should present in the notes to the basic financial statements but is not intended to represent a preferred order or grouping of those disclosures.

Cash and Investments. The 2015-16 *Codification*, Section C20 Cash Deposits with Financial Institutions, requires five types of disclosure regarding cash deposits with financial institutions:

- Legal and contractual provisions governing deposits;
- Policies governing deposits;
- Exposure to custodial credit risk as of the date of the statement of position;
- Losses recognized during the period due to defaults and recovery of prior-period losses; and
- Exposure to foreign currency risk.

The 2015-16 *Codification*, Section I50 Investments, requires the following types of disclosures regarding investments:

- Participation in external investment pools;
- Information concerning realized gains and losses (when disclosed);
- Legal and contractual provisions governing investments;
- Summary of investment policies;
- Exposure to custodial credit risk as of the date of the statement of position;
- Losses recognized during the period due to defaults and recovery of prior-period losses;
- Other credit risk exposure;
- Interest rate risk and; and
- Foreign currency risk

Receivables. GASBS 38 requires that LUAs include in its' notes the details of aggregated receivables and liabilities when aggregation has obscured the major components. Finally, any receivable balance not expected to be collected with 12 months must be disclosed. If applicable, the amount of the allowance for uncollectibles also should be presented.

Property Taxes. GAAP require that the notes to the financial statements disclose lien dates, levy dates, due dates, and collection dates on the LUA's property tax calendar.

Sales Taxes. Many LUAs are approved to levy a special purpose local option sales tax

(SPLOST). These taxes normally are used for school construction or debt service on school construction. The disclosure should include the following:

- The current amount of SPLOST collected during the reporting year.
- The total amount allowed to be collected from the SPLOST.
- The final date of SPLOST collection.

The above information should be presented for each active SPLOST.

Capital Assets. In addition to the inclusion of accounting policies for capital assets, some additional disclosures for capital assets are required. The 2015-16 *Codification*, Section 2300.118, requires a disclosure of changes in capital assets. In addition, APB Opinion No. 12, Omnibus Opinion, requires disclosure in the notes of the separate classes of capital assets and the amount of accumulated depreciation, if not disclosed on the balance sheet. The disclosure of changes in capital assets may be more specific and include separate columns for the transfer from the construction in progress account to the other asset classes. In addition, both the changes in the asset classes as well as the accumulated depreciation must be disclosed separately. Finally, the amount of the current year's depreciation expense reported on the statement of activities must be disclosed by function in the notes to the basic financial statements.

Deferred inflows/outflows of resources. If a LUA has aggregated deferred inflows of resources or deferred outflows of resources on the statement of net position or a governmental balance sheet, details of the different types of the deferrals should be disclosed.

Construction and Other Significant Commitments. Disclosure is required by the 2015-16 *Codification*, Section 2300.106k, of significant long-term commitments not recognized in the financial statements. The most common disclosures of this type are construction commitments. Construction commitment disclosures should identify the type of project and selected details (e.g., project authorization, remaining commitment, required future financing) regarding the commitments.

Short-term Debt. GASBS 38 requires disclosures for short-term debt (for Georgia LUAs, this disclosure primarily relates to tax anticipation notes). The disclosures must include changes in short-term debt and the purpose of the debt issuance.

Lease Obligations. The 2015-16 *Codification*, Section L20.126-127, provides authoritative guidance on lessee disclosures for capital lease agreements in accordance with GASBS 62, paragraph 213. The disclosure requirements of GASBS 62 for capital leases include:

- General leasing arrangement
- The gross amount of assets recorded under capital leases presented by major asset classes as of the date of the financial statements

- Minimum future lease payments in total and for each of the next five years and in five-year increments thereafter (if applicable)
- Assets recorded under capital leases and the accumulated amortization thereon. The amount of amortization expense for the current period should be disclosed if included with depreciation expense.

GASBS 62 also requires the following disclosures for LUAs participating as lessees in operating leases:

- General leasing arrangements
- The future minimum rental payments in total and for each of the next five years and in five-year increments thereafter (if applicable)
- Total minimum rentals to be received in the future under noncancelable subleases
- Current year rental costs

Long-term Debt. LUAs are required to present detailed disclosures relating to outstanding long-term debt. Some of the topics that should be included are:

- A description of issues
- Changes in long-term debt
- Debt service requirements to maturity including both principal and interest
- Details regarding advance refunding of debt
- Bonds authorized but unissued

Debt Description. It is suggested that a LUA include a brief description of each outstanding bond issue that could include the following:

- Purpose of bonds
- Original amount of the issue
- Type of debt (e.g., general obligation)
- Amount of annual installments
- Interest rates
- Maturity date range

Changes in Long-term Debt. GAAP require the presentation of changes in long-term debt be presented by type of debt (e.g., general obligation bonds, capital leases). Note that the changes (i.e., increases and decreases) must be presented separately.

Amortization Schedules. The 2015-16 *Codification*, Section 2300.106i, mandates the disclosure of debt service requirements to maturity for all long-term debt. At a minimum, this disclosure must include the required payments of principal and interest to maturity, presented separately for each of the succeeding five years and for each five year increments, thereafter. For variable-rate debt, the terms by which the interest rate changes should be disclosed.

Debt service to maturity normally is presented by type of debt. The debt service requirements for capital lease obligations should be included with this disclosure. The amounts reported for the long-term also could include compensated absences and claims and judgments.

Debt Refundings. The 2015-16 *Codification*, Section D20, Debt Extinguishments and Troubled Debt Restructuring, provides guidance on disclosure requirements for debt refundings. For advance refundings, the required disclosures in the year of the advance refunding include:

- A general description of the transaction
- The difference between the cash flows required to service the old debt and the cash flows required to service the new debt, adjusted for additional cash (e.g., for issuance costs or payments to the escrow agent), but unadjusted for the time value of money
- The economic gain or loss resulting from the refunding transaction (i.e., the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid).

When the advance refunding results in an in-substance rather than a legal defeasance of debt, the amount of the defeased debt outstanding at year-end should be reported in the notes in all periods following the advance refunding for which the debt remains outstanding.

Unissued Authorized Debt. When bonds have been authorized at year-end but remain unissued, a disclosure explaining this fact is suggested.

Pensions. Substantially all teachers, administrative and clerical personnel employed by local school systems are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer defined benefit pension plan.

GAAP requires the following disclosure requirements for employer LUAs that participate in defined contribution pension plans or defined contribution OPEB plans:

- The name of the plan;
- The entity administering the plan;
- An indication that the arrangement is a defined contribution plan;
- A brief description of the plan’s provisions and the authority for establishing or amending the plan’s provisions;
- Contribution requirements (either as a dollar amount or as a percentage of salary) for the employer, participating employees, and other contributors;
- The authority for amending contribution requirements; and
- Contributions actually made by the employer and plan members
- Total employer’s plan liabilities, plan assets, deferred outflows or resources and deferred inflows of resources related to plan, and plan expense/expenditures for

the period if the total amounts are not identifiable from the financial statements
- Whether the plan issues a stand-alone financial report and how to access the report.

Interfund Transactions. Two primary types of interfund transactions occur—receivables/payables and transfers. The 2015-2016 *Codification*, Sections 2300.126 and 127, require the disclosure within the basic financial statements of the amounts of interfund receivables and payables for each individual major fund, all non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund types. GASBS 38 also requires that LUAs disclose the purpose of each of these interfund balances (e.g., for cash flow purposes). Any portion of these receivables and payables that is non-current also must be disclosed.

GASBS 38 requires disclosure of amounts transferred from other funds to individual major funds, non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund type. The principal purposes of the interfund transfers also must be disclosed. However, this disclosure only is required if:

- The transfers do not occur on a routine basis or
- The transfers are inconsistent with the activities of the fund making the transfer.

OTHER DISCLOSURES

In addition to the SSAP and the detailed notes, other disclosures should be presented that are essential for a fair presentation of a LUA's financial position results of operations and cash flows in conformity with GAAP.

Risk Management. Many LUAs have been choosing to finance all or a portion of their risks rather than to seek traditional commercial insurance coverage. The 2015-2016 *Codification*, Section C50.145 requires the following information to be disclosed:

- A description of the risks of loss to which the LUA is exposed and the ways in which those risks are handled;
- A description of significant reductions in insurance coverage from the prior year by major categories of risk;
- Instances when claims paid exceeded coverage during the period, the total amount of settlements in excess of insurance coverage for each of the past three years:
- If the LUA participates in a risk pool, a description of the nature of the participation including the rights and responsibilities of both the LUA and the pool;
- If the LUA retains the risk of loss:
  - The basis for estimating the liabilities for unpaid claims,
  - The carrying amount of liabilities for unpaid claims that are presented at present value in the financial statements and the range of discount rates used to discount those liabilities,The aggregate outstanding amount of claims

liabilities for which annuity contracts have been purchased, and
- A reconciliation of changes in the aggregate liabilities for claims for the current year and prior fiscal year.

If the LUA participates in the Georgia Education Workers' Compensation Trust or the Risk Management Program of the Georgia School Boards' Association, specific disclosures should be disclosed. Chapter IV-9 discusses risk management.

Segment Information - Enterprise Funds. The 2015-2016 *Codification*, Section 2500, Segment Information, requires the inclusion of summary segment financial information. For purposes of this disclosure, a segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that are required to be accounted for separately. Segment disclosure requirements for each segment should be met by identifying the types of goods and services provided by the segment and by providing condensed financial statements in the notes. The following disclosures should be presented in either of these situations for each enterprise fund:

- Type of goods or services provided by the segment
- Condensed statement of net position
- Condensed statement of revenues, expenses, and changes in net position
- Condensed statement of cash flows

Related Party Transactions. The 2015-2016 *Codification*, Section 2250, Additional Financial Reporting Considerations, requires certain disclosures of related party transactions. These related party disclosures include the nature of the relationship involved, a description of the transactions, the dollar amount of transactions and the amounts due to or from related party. When the report preparer believes a related party transaction exists, the relationship between the reporting entity and the related party first should be evaluated using the criteria of the 2015-2016 *Codification*, Section 2100 Defining the Financial Reporting Entity, to ensure that the related party is not to be included as part of the reporting entity. Normally, Georgia LUAs do not have related party transactions.

Contingent Liabilities. The 2015-2016 *Codification*, Section C50.155, describes the probability classifications for loss contingencies. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset, or the incurrence of a liability, can range from probable to remote. The 2015-2016 *Codification* classifies the ranges as follows:

- Probable - the future event or events are likely to occur.
- Reasonably possible - the chance of the future event or events occurring is more than remote but less than likely.

- Remote - the chance of the future event or events occurring is slight.

According to 2015-2015 *Codification*, Section C50.162, when it is reasonably possible that a contingent liability may result in a loss, this fact should be disclosed in the notes to the financial statements. The disclosure should indicate the nature of the contingency and should give an estimate of the possible loss or range of loss or state that an estimate cannot be made. Generally, pending litigation and the potential loss of grant funds resulting from a pending grant audit are the most common contingencies disclosed.

When the chance of a contingent liability resulting in a loss is only remote, no disclosure is ordinarily necessary.

Joint Ventures. The 2015-2016 *Codification*, Section J50.109, requires the inclusion of the following disclosures within the notes to the financial statements when this information is not displayed on the financial statements.

- A general description of each joint venture that includes:
  - The participants' ongoing financial interest or ongoing financial responsibility.
  - Availability of separate financial statements.

On-behalf Payments. When a government makes payments for fringe benefits or salaries to a third party on behalf of another government's employees, the employer government is required to disclose in the notes to its financial statements the related amounts recognized in its financial statements. In Georgia, the State of Georgia makes payments on behalf of all LUAs to the Teachers' Retirement System of Georgia, and to the Public School Employees' Retirement System for certain retirement payments.

The note should indicate which governments have been making on-behalf payments and the amount of these payments.

Extraordinary Items. GASBS 34 requires LUAs to report extraordinary items, when applicable. GASBS 34, paragraph 55 incorporates the definition of extraordinary items as provided by APB Opinion No. 30 and provides guidance regarding what data need to be reported as extraordinary items. When such events or transactions occur, they should be explained in the notes.

Prior Period Adjustments. GASBS 62 provides general guidance on the proper use of prior period adjustments. Such adjustments, whether resulting from the correction of an error or the implementation of a new authoritative standard, and the effects on the change in net position of prior periods should be explained in the notes. Although sometimes necessary, these should be avoided in the normal course of business, as an internal control weakness may exist.

Subsequent Events. The LUA should disclose any significant events directly affecting it that occurred between the end of the period covered by the financial statements (i.e., the year ended June 30) and the statement issuance date. The two items normally included in this disclosure are the issuance of debt and the settlement of material litigation.

Other Employee Benefits. LUAs often disclose details of various employee benefits other than pension plans.

Postretirement Benefits. The 2015-2016 *Codification*, Section P50 requires LUAs covering their employees' postretirement benefits to disclose:

- Plan description.
  - Name of plan, identification of the PERS or other entity that administers the plan, and identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan.
  - Brief description of the types of benefits and the authority under which benefit provisions are established or amended.
  - Whether the OPEN plan issues a stand-alone financial report or is included in the report of the PERS or another entity, and, if so, how to obtain the report.
- Funding Policy.
  - Authority under which those who contribute to the plan are established or may be amended.
  - Required contribution rate of plan members. This rate could be expressed as an amount per member or a percentage of covered payroll.
  - Required contribution rate of the employer, in dollars or as a percentage of current-year covered payroll, and, if applicable, legal or contractual maximum contribution rates.

In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date and the nature of the actuarial valuation process and significant methods and assumptions used. Also, additional note disclosures for cost sharing multiple-employer plans include identification of the way that the contractually required contribution rate is determined.

As discussed earlier, the SSAP should include the accounting policy for compensated absences, consistent with the 2015-2016 *Codification*, Section C60 Compensated Absences. However, a detailed disclosure could be presented that explains how employees earn benefits and when they are paid. Optionally, this additional information could be joined with the accounting policy disclosure in the SSAP.

Tax Abatements. GASBS 77 (effective for financial statements for periods beginning after December 15, 2015) requires LUAs to disclose in the notes to their financial statements certain information related to tax abatement agreements. This information includes:

- Descriptive information to include
  - Names and purposes of tax abatement programs
  - Specific taxes being abated
  - Authority under which tax abatement agreements are entered into
  - Criteria that make a recipient eligible to receive a tax abatement
  - Mechanism through which taxes are being abated
- The gross dollar amount of taxes abated during the period
- Commitments made, other than to abate taxes, as part of a tax abatement agreement.

LUAs should organize these disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

There are additional disclosures for tax abatements entered into by other governments that also affect LUAs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. For those tax abatement agreements, the disclosures should include:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

LEAs generally cannot enter into their own tax abatement agreements, but are affected by the agreements entered into by other governments. For tax abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenues, the following information should be disclosed in the notes to the financial statements by the reporting government:

1. A brief description of the abatements, including the names of the governments entering into the tax abatement agreement and the specific taxes being abated;
2. The gross dollar amount, on an accrual basis, by which the reporting government's tax revenues were reduced during the reporting period as a result of tax abatement agreements;
3. If amounts are received or are receivable from other governments in association with the abated tax revenue, disclosure is required that includes the names of the governments, the authority under with the amounts were or will be paid, and the dollar amount received or receivable from the other governments;
4. If the tax abatement agreements are disclosed individually, a brief description of the quantitative threshold the reporting government used to determine which agreements to disclose individually; and
5. If the government omits specific information required by GASB 77 because the information is legally prohibited from being disclosed, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

Below is an example of a general note disclosure of abatements by other governments: The school district property tax revenues were reduced by $8,346,000 under agreements entered into by the County of Sample. Under the County's annual budget for fiscal year 20X16-20X7, the county reimburses the school district for one-third of the reduction in tax revenues. The school district received $2,449,000 in fiscal year 20X7.
Regional Economic Development Corporation (REDC) Tax Abatements
Under agreements entered into by REDC, the school district's property tax revenues were reduced by $1,657,000.

The school district should consider when to disclose an abatement agreement individually versus in the aggregate. GASB 77 states the determination of the quantitative threshold is a matter of professional judgment that could, for example, be a percentage of the total amount of taxes abated or a specific dollar amount. GASB 77 requires a brief description of each quantitative threshold that the reporting government used in determining if an individual agreement should be disclosed separately. The Georgia Department of Education's Financial Review Division recommends that a school district set a quantitative threshold within the financial statement preparation procedures to document consistency in applying the analysis from year to year. The reason a threshold and a description of that determination is required is to establish a consistent application so the annual financial reports are comparable from year to year. GASB 77 does not set a recommended threshold, however, most examples establish a threshold of 10% of total taxes abated. See the example below:

> The County enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the County.
> For the fiscal year ended June 30, 20X7, the County abated property taxes levied on October 1, 20X6 and due on December 1, 20X6 totaling $458,000. Included in that amount abated, the following are individual tax abatement agreements that each exceeded 10 percent of the total amount abated:
>
> - A 30 percent property tax abatement to a manufacturing plant relocating and increasing employment. The abatement amounted to $157,480.
> - A 100 percent property tax abatement to a timber company employing residents. The company provides a payment in lieu of taxes of $120,000. The abatement amounted to $240,000.

The Financial Review Division recommends that all abatement agreements that total 10% or more of the total taxes abated are disclosed individually. However, each LEA must determine the appropriate threshold for their school district, considering the number of agreements and amount of property tax revenue abated. If an LEA determines that a threshold other than the 10% of total taxes abated is more appropriate for their district, the LEA needs to maintain documentation of the establishment of that threshold in the financial statement preparation procedures. It is imperative that a threshold is established and maintained for comparative purposes among fiscal years. It is not appropriate to adjust the threshold annually to limit the amount of individual disclosures.

It is important to note that disclosing an abatement agreement individually does not require disclosure of the actual company. The individual disclosure is still reported in general terminology.

Another important requirement to keep in mind is the requirement to disclose the gross amount of taxes abated in accrual basis. To meet this requirement, the district will have to determine the total amount abated on the levy date. The note disclosure will report the total amount of taxes abated, because the full amount would have been reported as revenue on the full accrual basis of accounting. For example, if the levy date is October 1, 2016, and the due date of the taxes is December 1, 2016, at June 30, 2017, the LEA will report the total amount of taxes abated that were not received as of December 31, 2016.

If there are other types of abated taxes other than property taxes, the LEA will have to determine the appropriate disclosure based on due date of the taxes.

The Government Finance Officers Association published a Best Practice paper on Tax Abatement Transparency, which can be found at the link below:
http://www.gfoa.org/tax-abatement-transparency

The recommendations include developing relationships with the economic development authorities and other governments within the jurisdiction that are charged with initiating, developing, and affirming tax abatements to ensure the proper disclosure of information. The LUA should also develop a timeline in coordination with the other entities to ensure all necessary information is provided in a manner as to not delay the issuance of the LUA's financial reports.

REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

Governments are required to compare actual results (using the budgetary basis of accounting) with the original budget and the final amended budget for the general fund and each individual major special revenue fund. (GAAP specifically permit the budgetary comparison to be included as one of the basic financial statements for governmental funds rather than presented as RSI.)

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 are committed or asssigned—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.

REQUIRED SUPPLEMENTARY INFORMATION – PENSION FUNDING

GAAP require governments to provide certain information on pension funding, presented as RSI, if the governments: sponsor single-employer defined benefit pension plans, participate in agent multiple-employer defined benefit pension plans, or include a defined benefit pension trust fund in their financial reporting entity. The schedule of net pension liability compares over time the total pension liability with the plan's net position, and the net pension liability. The schedule of employer contributions compares over time the employers' actuarially determined annual required contribution with actual contributions. GASB Statement 68 now requires additional disclosures as required supplementary information that will affect most Georgia LUAs. These additional disclosures include 10-year schedules containing:

- The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

- Information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios, including the contributions as a percentage of covered-employee payroll.

SECTION II - COMPREHENSIVE ANNUAL FINANCIAL REPORT

GAAP have established the basic financial statements and RSI as the minimum standard for financial reporting. Governments are expressly encouraged to go beyond these minimum requirements and to present a comprehensive annual financial report (CAFR).

A CAFR has three major sections:

- Introductory
- Financial
- Statistical

Introductory Section

The introductory section (and related front matter) is the first section of a CAFR. It is intended to familiarize the reader with the organizational structure of the LUA, the nature and scope of the services it provides, and a summary of an LUA's financial activities and the factors that influence these activities. Some of the introductory section material is subjective in nature in contrast to the relatively objective information reported in the financial and statistical sections. The introductory section also includes future-oriented predictive information such as economic forecasts and discussions of future initiatives. Because of the subjective and predictive nature of the introductory section material, ordinarily it is excluded from the scope of the independent auditor's examination.

This section includes the following:

- Report cover and title page.
- Table of contents - The report should have a single table that lists the various statements and schedules included in the CAFR, broken down by location in the introductory, financial, and statistical sections. In addition, the table of contents also makes it clear that the notes to the financial statements are an integral part of the basic statements.
- Letter of transmittal.

Governments are encouraged to include, in this section, other material deemed appropriate by management. Some examples of other material might include the following:

- A reproduction of the Certificate of Achievement on the prior year's financial statements, if this award was in fact obtained *(even though this is no reflection of the quality of the current year's report)*;
- A list of the principal officials of the government (no prescribed format);
- An organizational chart of the government showing the assignment of responsibilities of personnel (no prescribed format).

What follows are some technical points on each of the components:

Report Cover

- The cover should contain the title "Comprehensive Annual Financial Report."
- The cover should indicate the name of the government and state in which it is located.
- The cover should indicate the period covered-- the month, day and year of the government's fiscal year end ("Fiscal Year Ended June 30, 20XX).

Title Page

- The title should include the wording "Comprehensive Annual Financial Report";
- The name of the government and fiscal year end should be indicated; and
- The individual or department responsible for preparing the CAFR should be indicated.

Table of Contents

- Normally the introductory and financial sections should be presented as the first and second sections, respectively, of the comprehensive annual financial report.
- There should be only one table of contents.
- The table of contents should clearly be segregated into three distinct and separate sections labeled: introductory, financial and statistical.
- The table should focus the reader's attention on the basic statements and clearly distinguish them from other financial section contents.
- The table should describe the statements, schedules, and tables by their full titles.
- The table should include page number references for each item in the CAFR.

Letter of Transmittal

- The letter should be included in the introductory section.
- The letter should be presented on the letterhead stationery of the government.

- The letter should be dated on or after the date of the auditor's report.
- The letter should be signed, at a minimum, by the chief financial officer.
- The letter's contents should include, at a minimum, discussions of the following topics:
  - Formal transmittal, including such topics as:
    a) Management's responsibility for financial information;
    b) Management's explanation regarding the establishment of a comprehensive system of internal control;
    c) Refer readers to the Independent auditor's report and mention the type of opinion received;
    d) Refer the reader to the Management's Discussion and Analysis (MD&A)

  - Profile of the school district, including such topics as:
    a) Population or enrollment;
    b) Types and level of services provided;
    c) Structure or governing body;
    d) Component units;
    e) Brief summary of the budget process;
    f) Legal level of budgetary control.

  - Economic condition and outlook, including such topics as:
    a) Overview of the local economy;
    b) Information regarding major industries affecting the local economy;
    c) Future economic outlook;
    d) Relevant financial policies.

  - Other information, including such topics as:
    a) Audits;
    b) Awards;
    c) Acknowledgments.

Each LUA and the needs of its financial report users are unique. Thus, presentations of introductory section materials will vary from LUA to LUA.

FINANCIAL SECTION

Audit Reports

The first component of the financial section is the auditor's report. There are four different types of reports an auditor may issue as illustrated in the following table:

TYPE OF REPORT	WHAT IT MEANS

Unmodified Opinion	**Good-Statements fairly presented in accordance with GAAP**
Qualified Opinion (Modified)	**Not so good – Minor problems/departures from GAAP**
Adverse Opinion (Modified)	**Bad – Financial statements are not fairly presented in accordance with GAAP**
Disclaimer of Opinion (Modified)	**Worst – Your accounting records are in such poor shape, it is not known whether the statements are or are not fairly presented**

The auditor's opinion is issued on the basic statements and does not extend to either supplementary or RSI (required supplementary information). However, the auditor is required to review the other information and comment on it, if in the auditor's professional judgement, the information does not appear accurate. These comments do not affect the opinion on the basic statements.

Basic Financial Statements

See Section I for a detailed discussion of the Basic Financial Statements.

COMBINING AND INDIVIDUAL FUND STATEMENTS

The primary government's major governmental and enterprise funds are required to be reported on the face of the fund financial statements. Combining and individual fund statements required in the financial section of the CAFR for the funds of the primary government include:

- Nonmajor governmental funds
  (1) Combining balance sheets
  (2) Combining statements of revenues, expenditures, and changes in fund balances

  Individual fund balance sheets and statements of revenues, expenditures, and changes in fund balances, and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of governmental funds.

- Nonmajor enterprise funds
  (1) Combining statements of net position
  (2) Combining statements of revenues, expenses, and changes in fund net position
  (3) Combining statements of cash flows

  Individual statements of net position; statements of revenues, expenses, and changes in fund net position and of cash flows; and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of proprietary funds.

- Internal service funds
  (1) Combining statements of net position
  (2) Combining statements of revenues, expenses, and changes in fund net position
  (3) Combining statements of cash flows

  Individual statements of net position; statements of revenues, expenses, and changes in fund net position and of cash flows; and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions of proprietary funds.

- Fiduciary funds
  (1) A combining statement of fiduciary net position for each category
  (2) A combining statement of changes in fiduciary net position for each category
  (3) A combining statement of changes in assets and liabilities—all agency funds

Total columns of combining statements of nonmajor governmental and enterprise funds and for internal service and fiduciary funds should agree with the appropriate aggregated column in the fund financial statements. Likewise, any interfund and similar elimination should be made apparent from the headings or disclosed in the notes to the financial statements.

COMPONENT UNITS

The data presented for each component unit in the combining statements generally should be the entity totals derived from the component units' statements of net assets and activities. Presentation of the fund financial statements of the individual component units is not required unless such information is not available in separately issued financial statements of the component unit.

Combining financial statements for nonmajor discretely presented component units should be included in the reporting entity's CAFR using the same methodology as combining (and individual fund) statements of the nonmajor funds of the primary government.

THE STATISTICAL SECTION[5]

The statistical section contains tables which present comparative data for several periods of time, often ten years or more, or contain data from sources other than the

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5 Some people argue that the value of the information in the statistical section, when combined with the notes to financial statements, exceeds that which is displayed on the face of the basic statements.

accounting records. Examples of such non-accounting information are assessed valuations and tax rates, economic and population data, and the legal debt margin.

A statistical table differs from a financial statement insofar as the table usually covers more than two fiscal years and may present non-accounting data. In substance the statistical tables reflect social and economic data, financial trends, and the fiscal capacity of the government.

The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

Statistical section information should be presented in five categories[6]:

a. ***Financial trends information*** is intended to assist users in understanding and assessing how a government's financial position has changed over time. Examples include:

- Net -position by component, last 10 fiscal years;
- Changes in net position, last 10 fiscal years;
- Fund balances by classification, governmental funds, last 10 fiscal years; and
- Changes in fund balances, governmental funds, last 10 fiscal years.

b. ***Revenue capacity information*** is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues. Examples include:

- Assessed and actual values of taxable property, last 10 fiscal years;
- Direct and overlapping property tax rates, last 10 fiscal years;
- Principal property taxpayers, current year and nine years ago; and
- Property tax levies and collections, last 10 fiscal years.

The assessed and actual values of taxable property, last 10 fiscal years table should include the ratio of total assessed value to actual value for real and personal property (i.e., 40%). Any property tax exemptions also should be included in this calculation.

The direct and overlapping property tax rates table should indicate clearly that the tax rates are expressed in "mills per $1,000" of assessed valuation. Often the LUA presents its own tax rates in this table. When the LUA's tax rates are

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6 Statements of the Governmental Accounting Standards Board No. 44, *Economic Condition Reporting - The Statistical Section -- An Amendment of NCGA Statement*, par. 6.

presented, the tables should identify that "direct" tax rates have been incorporated. In addition, the LUA rates presented on this table multiplied by the adjusted assessed valuation should equal the total tax levy for the year. Also, when a number of overlapping governments (e.g., cities) have insignificant tax rates, they may be grouped in a single column under the caption "other."

The principal property taxpayers table is intended to indicate the extent to which the LUA is dependent upon a limited number of taxpayers for its operating resources. For Georgia LUAs this table generally presents data on property taxpayers. Both the amount of assessed valuation and percentage of total assessed valuation for each primary taxpayer should be presented.

Only taxes levied for the LUA should be included in property tax levies and collection table. Sometimes this table is presented by tax year rather than fiscal year. In this instance, the period presented (i.e., tax year) should be identified clearly in the table's title. This table usually includes the percentage of current year's taxes collected in the current year, the total and percentage of delinquent taxes collected and the total outstanding delinquent taxes in the years reported. The outstanding delinquent taxes should agree with the presentation in the financial statements and normally are calculated by taking the prior year's outstanding amount plus the current year's levy minus current and delinquent tax collections during the year.

c. ***Debt capacity information*** is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt. Examples include:

- Ratios of outstanding debt by type, last 10 fiscal years;
- Ratios of net general bonded debt outstanding, last 10 fiscal years;
- Direct and overlapping governmental activities debt as of current year end;
- Legal debt margin, last 10 fiscal years; and
- Pledged revenue coverage, last 10 fiscal years.

The table for ratios of outstanding debt by type should include each type of debt outstanding (i.e. general obligation bonds, capital lease obligations, etc) categorized by governmental and business type activities with a total for the primary government. Total per capita debt by personal income should be presented, as well as a per capita ratio of outstanding debt.

The table for ratio of net general bonded debt to assessed value and net bonded debt per capita includes a calculation of net bonded debt (i.e., gross general obligation debt less amounts available for repayment of the debt in the governmental funds) that should be traceable to the appropriate amounts in the financial statements. In addition, the population used in the debt per capita computation and the assessed value should agree with this same data presented in other tables. Some LUAs present "debt per FTE."

The table for the computation of direct and overlapping debt includes the debt for the LUA as well as any debt from overlapping governments (i.e., counties and cities). The computation is intended to demonstrate the total property tax burden on the taxpayers within the LUA's geographic jurisdiction and the total debt that their property taxes will be expected to repay. A common format includes the columns presenting the LUA's and overlapping jurisdictions' net outstanding debt and the percentage and amount of debt applicable to the LUA. The table should specify consistently either gross debt or net debt. When the LUA has numerous overlapping entities (e.g., cities) with insignificant amounts of debt, they may be grouped as long as the overlapping debt has been computed separately for each unit of government and then totaled for the presentation.

The table for the computation of an LUA's legal debt margin includes its debt limitation less the net amount of debt applicable to the limitation (i.e., gross debt less nonapplicable debt and debt service fund amounts available for debt repayment). In Georgia, this amount is limited to 10% of the assessed value.

d. ***Demographic and economic information*** is intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments. Examples include:

- Demographic and economic statistics, last 10 calendar years; and
- Principal employers, current year and nine years ago.

At a minimum, LUAs should present the following demographic and economic information: population, total personal income (if it is not presented with the ratios of outstanding debt), *per capita* personal income, and unemployment rate.

For the current year and the period nine years prior, governments should identify the principal employers in its jurisdiction, the number of persons each employs, and the percentage of total employment that each represents. Governments should present the ten largest employers in terms of number of persons employed, unless fewer are needed to reach 50 percent of total employment.

e. ***Operating information*** is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition. Examples include:

- Full-time equivalent employees by function/program, last 10 fiscal years;
- Operating indicators by function/program, last 10 fiscal years;
- Capital asset statistics by function/program, last 10 fiscal years;
- Per student cost, last 10 years.

For LUAs, the disclosure should include data regarding teachers, enrollments, attendance, and building capacities.

Capital asset statistics should include usage data for capital assets classified by governmental activities and business-type activities and by functional category within activities.

Other data may be included in the statistical section as long as it relates to financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

Award Programs

Both the ASBO and the GFOA present awards to LUAs for excellence in financial reporting. The following discussion provides a brief overview of each of these excellent programs.

Government Finance Officers Association. The Certificate of Achievement for Excellence in Financial Reporting Program (certificate program) was established in 1945 by the GFOA to encourage government units including LUAs to produce and publish excellent CAFRs and to provide educational assistance and well-deserved peer recognition to the report preparers. The certificate program is recognized as the highest award in governmental financial reporting.

LUAs choosing to participate in the program submit copies of their CAFRs for review by an impartial Special Review Committee (SRC) of qualified judges. Reports meeting program standards are awarded Certificates of Achievement. The CAFR generally should demonstrate a constructive "spirit of full disclosure" effort to clearly communicate its financial picture, to enhance understanding of the logic underlying the traditional governmental financial reporting model and to address CAFR user needs.

The certificate program is not an accreditation program. Therefore, an LUA can neither "lose" a certificate nor can a certificate be "revoked," "cancelled" or "withdrawn." However, the fact that an LUA has received a Certificate of Achievement in one or more years is not a guarantee that its subsequent reports will be similarly honored.

For more information on this program, go to the following link for requirements and checklists to assist in the preparation of a CAFR.

http://www.gfoa.org/index.php?option=com_content&task=view&id=35&Itemid=58

CONDENSED SUMMARY DATA

In addition to publishing and distributing a CAFR, some LUAs also separately issue their "liftable" GPEFS. These separately issued GPEFS are useful for inclusion in official statements related to bond offerings. They also may be helpful to certain users of the

LUA's financial statements who have less need of detailed information. A third option is provided in the 2015-2016 *GASB Codification*, Section 2700.104. This option publishes highly condensed summary financial data , usually as “popular” reports directly primarily to citizens. While condensed summary data are not sufficient to meet the requirements of GAAP, these popular reports can be an invaluable means of conveying financial information to the public and to others unfamiliar with LUA accounting and financial reporting.

Reports presenting condensed summary data therefore are designed to meet a special need not satisfied by the more traditional CAFR or GPEFS presentations. These reports by no means should be considered as eliminating the need for GAAP financial reporting; they supplement, rather than supplant, traditional financial statements. To underscore this point, the 2015-2016 *Codification*, Section 2700.104, states that condensed summary data should be reconcilable with the GAAP financial statements and that the reader of these reports should be referred to the CAFR or basic financial statements.

Popular Report Presentation

Glossy report covers, the use of colored illustrations, and pictures and typesetting are standard in many popular reports. This results in a document the LUA and its citizens can be proud of and may enhance the use of the reports by some groups. Obviously, these popular reports can be provided to potential employers and residents of the LUA's geographic area as a public relations tool.

An emerging trend in the preparation of popular type reports is the use of charts and graphs to portray the financial position and activities of the LUA. Graphs may be used primarily to describe trends and to make comparisons, either between actual and projected data or among different aspects of the reporting entity's activities. Graphics are particularly useful when an LUA issues a very condensed popular report (e.g., four pages) and wishes to briefly highlight financial resources and uses.

Other Resources
For a checklist to assist in preparing a CAFR for LUAs, go to
http://www.gfoa.org/sites/default/files/GFOASchoolDistrictChecklist.pdf

Chapter II – 3 Converting From The Fund Financial Reporting Level To The Government-Wide Financial Reporting Level

INTRODUCTION

Local Units of Administration (LUA's) report data on two reporting levels, the fund financial reporting level and the government-wide financial reporting level. One of the major challenges of meeting GASB Statement No. 34's Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (GASBS 34) financial reporting requirements relates to converting data from the fund financial reporting level to the government-wide financial reporting level.

The explanations presented after each illustrative conversion journal entry provide some guidance regarding the source of the required information that is needed to make the journal entry. This chapter explains the reconciliation process and each of the most common reconciling items.

THE ACCOUNTING RECORDS

During the year, most LUA's maintain their accounting records on either a cash or modified accrual basis. Then at year-end, the LUA, makes the necessary journal entries to report the governmental funds on the modified accrual basis, and to report the proprietary and fiduciary fund types on the accrual basis. Once the LUA posts these adjusting journal entries, the LUA's general ledger will reflect the data included in the LUA's fund level financial statements.

Then, in order for LUA's to prepare the government-wide financial statements, it must convert the fund level financial information to a format that will provide information to prepare the government-wide financial statements. This conversion is made through a variety of conversion journal entries. However, LUAs "do not post" all conversion journal entries to their accounting records. Normally, this conversion is prepared either by using pre-designed software or using Excel spreadsheets. LUAs report activity related to Capital Assets and General Long-Term Debt in the accounting software, but the merging elimination entries are generally completed outside of the accounting system.

After this conversion, the governmental funds (e.g., the general fund) will be reported twice, but differently within the same annual financial report. The LUA will report governmental funds on the modified accrual basis at the fund reporting level and on the accrual basis at the government-wide reporting level. At the fund reporting level, individual governmental funds are reported separately, and at the government-wide fund reporting level, all government funds are aggregated into a single column or row. Obviously, the LUA's accounting records can only report data one way at the same time, therefore the conversion journal entries and the related balances after the conversion, are not posted to the LUA's general ledger.

The software, spreadsheets, and conversion journal entries that support the conversion to the government-wide financial statements must be maintained as they are subject to independent audit.

THE CONVERSION PROCESS

When converting the current reporting year, the revenue and expenditure accounts, as well as the asset and liability accounts, will need to be converted to the government-wide reporting format.

THE CONVERSION JOURNAL ENTRIES

When converting the fund level data to the government-wide level, we may classify the conversion entries into three types as follows:

- Measurement Focus
- Basis of Accounting
- Reclassifications and Eliminations

The conversion journal entries illustrated below are those that the LUA would make annually to convert from the fund financial reporting level to the government-wide financial reporting level. These illustrative journal entries may not be all-inclusive; however, they are the most common conversion entries. Throughout this section, we are assuming a June 30, 20X4 conversion year. Since the LUA will not post these conversion journal entries to their general ledger, account numbers are not included with the illustrative journal entries.

Measurement Focus - The phrase "measurement focus" indicates ***what*** the LUA is measuring in its financial statements. How a LUA reports capital assets and general long-term debt, including related items, are two types of accounts that need to be converted here.

GASBS 34 requires LUAs to report their capital assets only at the government-wide financial reporting level. The capital assets must be capitalized including recording the accumulated depreciation at the beginning of the reporting year (i.e., July 1) as follows:

	DR	CR
Capital assets (by asset class)	$XXXX	
Accumulated depreciation		$XXXX
Net position		XXXX

Explanation - this conversion entry increases the net position (i.e., the equity) by the book value of the capital assets at the beginning of the reporting year. A source for this data will be the note disclosure included in the prior year's audited financial statements which reports "changes in capital assets by asset class." This data is available in the last column of this note. In the current year's notes to the basic financial statements, this data will be reported in the first column of the "changes in capital assets note." Appendix A to this chapter provides a sample "changes in capital assets by asset class" note.

The current year's capital asset purchases need to be reclassified from the current year's expenditures at the fund financial reporting level, to being capitalized as an asset at the government-wide financial reporting level.

	DR	CR
Capital assets (by asset class)	$XXXX	
Expenditures (by function)		$XXXX

Explanation - this conversion entry reclassifies the purchases or construction of capital assets from an expenditure at the fund financial reporting level to capital assets at the government-wide financial reporting level. In other words, we are capitalizing the current year's additions to capital assets. Note that each expenditure function will be reduced by the amount of capital assets purchased or capitalized within the function during the current year. The accountant responsible for capital assets should be the source of this information. The amount of assets capitalized normally will agree with the current year's increases column in the capital assets note disclosure that reports "changes in capital assets." The only time when this amount will not agree with the "increases" column of this note is when construction in progress has been reclassified as buildings or when the LUA capitalizes contributed assets. See sample note in Appendix A.

The LUA must report depreciation expense for the current year at the government-wide financial reporting level.

	DR	CR
Expense (by function)	$XXXX	
Accumulated depreciation (by asset class)		$XXXX

Explanation - the depreciation expense must be charged to the function that uses the capital asset. Note that the accumulated depreciation must be reported by asset class (e.g., machinery and equipment). Normally the source of this information is the LUA's capital asset system. When a capital asset is initially added to the system, the applicable function should be identified (e.g., a school bus within the transportation function). If a capital asset is used by *multiple functions (e.g., a school building), the depreciation should be pro-rated between functions. The amount of the current year depreciation expense will be reported in the LUA's "capital asset changes" note disclosure in the accumulated depreciation section under the "increases" column. See sample note in Appendix A.*

Since capital asset donations are not reported at the fund financial reporting level, they need to be valued at fair market value on the date of donation and capitalized on the government-wide financial reporting level with an equal amount reported as program revenue on the statement of activities.

	DR	CR
Capital assets (by asset class)	$XXXX	
Revenues - contributions		$XXXX

Explanation - this conversion entry reports contributed assets received during the current year as program revenue. The accountant responsible for capital assets should be the source of this information. Often, this information may be difficult to gather. The amount of contributions also will be included in the current year capital asset note disclosure, which reports changes in capital assets in the "increases" column. See sample note in Appendix A.

When an LUA sells a capital asset at the fund financial reporting level, it reports the sale proceeds as an "other financing source" (if material) (i.e., like revenue). If immaterial, it may be reported as miscellaneous revenue. However, at the government-wide financial reporting level, the book value of capital assets needs to be reported and deducted from the sale proceeds, resulting in an economic gain or loss on the sale.

	DR	CR
Other financing source - Sale of capital asset proceeds	$XXXX	
Accumulated depreciation (by asset class)	XXXX	
Capital assets (by asset class)		$XXXX
Gain on sale of capital assets		XXXX

Explanation - this conversion entry reduces the sale proceeds by the book value of the capital assets sold. The book value of the capital assets sold should be available from the accountant responsible for capital assets. In addition, the deletion of the capital assets and related accumulated depreciation will be reported in the current year capital asset note disclosure which reports "changes in capital assets" in the "decreases" column. The difference between the cost and the accumulated depreciation should be the total at the bottom of the deletions column on this note. See sample note in Appendix A.

Under GASBS 34, LUAs report their general long-term debt liability (e.g., general obligation bonds) only at the government-wide financial reporting level. The general long-term debt balance at the beginning of the reporting year (i.e., July 1) is recorded as follows:

	DR	CR
Net position	$XXXX	
General long-term debt payable (by type of debt)		$XXXX

Explanation - this conversion entry reduces the beginning net position by the amount of general long-term debt outstanding at the beginning of the reporting year. This conversion entry applies to outstanding bonds and capital leases. The source of this information would be the note disclosures included in the prior year's audited financial statements which report "changes in debt by type." Also this data will agree with the amounts reported in the same note in the current year's financial statements, the first column. See Appendix B for sample note.

If the LUA has issued bonds during the year, the face amount of the debt should be reclassified from an "other financing source" at the fund financial reporting level to a liability at the government-wide financial reporting level.

	DR	CR
Other financing source - issuance of general obligation bonds	$XXXX	
General long-term debt payable (bonds)		$XXXX

Explanation - this conversion entry reclassifies the issuance of debt from an "other financing source" to a general long-term liability on the government-wide statement of net position. The source of this data would be fund level financial statements, more specifically, the governmental fund "statement of revenues, expenditures, and changes in fund balances." This amount also will be reported in the changes in "the general long-term debt note," in the "increases" column. See Appendix B for sample note.

As the LUA retires debt (e.g., bonds) during the year, the retirement should be reclassified from an expenditure at the fund reporting level, to a repayment of the debt principal (i.e., reducing the liability) at the government-wide financial reporting level.

	DR	CR
General long-term debt payable (by type of debt)	$XXXX	
Debt service expenditure - principal		$XXXX

Explanation - this conversion entry reclassifies the debt retirement from an expenditure at the fund financial reporting level to a reduction of outstanding debt principal on the government-wide statement of net position. The source of this data would be fund level financial statements, more specifically, the governmental fund "statement of revenues, expenditures, and changes in fund balances." This amount also will be reported in the "changes in general long-term debt note," in the "decreases" column. See Appendix B for sample note.

At the fund financial reporting level, prepaid insurance bond issuance costs are reported as debt service expenditures but at the government-wide financial reporting level, they are capitalized and then amortized, if material, over the life of the debt. The capitalization of the prepaid insurance bond issuance costs is recorded as follows:

	DR	CR
Prepaid insurance	$XXXX	
Debt service expenditures		$XXXX

Explanation - this conversion entity capitalizes the prepaid insurance associated with bond issuance costs as an asset on the government-wide statement of net position and reduces the expenditures at the fund financial reporting level. The source of this information normally is available from the bond closing statement.

At the end of each subsequent fiscal year end, the prepaid insurance is amortized over the life of the debt. The amortization of the prepaid insurance is recorded as follows:

	DR	CR
Expenses (by function, if appropriate)	$XXXX	
Prepaid insurance		$XXXX

Basis of Accounting - The basis of accounting determines when a LUA recognizes revenue or an expenditure/expense. Since LUAs report governmental fund type transactions at the fund financial reporting level on the modified accrual basis and report these same transactions on the accrual basis at government-wide financial reporting level, numerous transactions need to be converted.

If a LUA has a compensated absence liability at the beginning of the fiscal year, this liability must be reported at the government-wide financial reporting level.

	DR	CR

Net position	$XXXX	
Compensated absences payable		$XXXX

Explanation - since the compensated absence liability is not reported at the fund financial reporting level, the LUA must report this liability on the government-wide statement of net position. This entry reduces net position by the amount of the liability at the beginning of the reporting period. The source of this information usually is the LUA's human resources personnel. Also this data will agree with the amounts reported in the "changes in general long-term debt" note in the current year's financial statements, the first column. See Appendix B for sample note.

If the LUA has a change in the compensated absence liability (e.g., an increase in liability) at the end of the reporting year from the prior year, this change needs to be reported at the government wide financial reporting level as an adjustment to the expense. If the liability increases, the following entry applies:

	DR	CR
Expenses (by function)	$XXXX	
Compensated absences payable		$XXXX

Explanation - since conversion entry #11 above reduces net position by the beginning compensated absences liability, the current years' operations (i.e., expenses) should only reflect the change in the liability. The above illustrative journal entry reports an increase in the liability. A decrease in the liability would reverse the debit and credit. Note that the change must be reported by function. The source of this information is the LUA's human resources personnel. This amount also is reported in the "changes in long-term debt" note, either in the "increases" or "decreases" column as applicable. See Appendix B for sample note.

If a LUA reports deferred inflows of resources at the fund reporting level, (e.g., for property taxes) because it is considered not available as revenue, normally it would be reclassified as revenue at the government-wide financial reporting level. On the accrual basis, a transaction may be reported as revenue, whether or not it is available. The required entry is to reclassify the deferred inflows of resources balance at the beginning of the reporting year follows:

	DR	CR
Deferred inflows of resources	$XXXX	
Net position		$XXXX

Explanation - the conversion entry increases net position by the beginning deferred inflows of resources since this amount was recognized as revenue in prior years on the accrual basis. The source for this entry would be the *governmental fund type balance sheet from the prior year's audited financial statements.*

If the LUA has a change in the deferred inflows of resources at the end of the current reporting year from the prior reporting year, this change needs to be reported at the government-wide financial reporting level.

	DR	CR
Deferred inflows of resources	$XXXX	
Revenue		$XXXX

Explanation - since conversion entry #13 above increases net position by the beginning deferred inflows of resources amount, the current years' operations (i.e., revenues) should reflect the change in the deferred inflows of resources (i.e., from the end of the prior reporting year to the end of the current reporting year), which increases or decreases revenue by the increase or decrease in deferred inflows of resources amount. The above illustrative journal entry reports an increase in deferred inflows in resources (i.e., deferred inflows in resources amount was increased so the conversion entry eliminates the increase in deferred inflows in resources and increases current year revenues). A decrease in the deferred inflows of resources would reverse the debit and credit. This amount would be determined by comparing the deferred inflows of revenues for property taxes from the prior year with a comparable amount for the current year.

The LUA must record the accrued interest payable on any outstanding debt (e.g., bonds or capital leases) at the beginning of the fiscal year, if material.

	DR	CR
Net position	$XXXX	
Accrued interest payable		$XXXX

Explanation - since the accrued interest liability is not reported at the fund financial reporting level, the LUA must report this liability on the government-wide statement of net position. This entry reduces net position by the beginning amount of the liability. This amount of the accrual is determined by reviewing the last interest payment date. For example, if the interest paid through April 30 and the next interest payment is due October 31, the LUA should accrue two months of interest expense (i.e., for May and June). In our example, the LUA can review the amount of the October interest payment for the source of information. Then, take one-third (two months divided by six months) of this payment, which will be the amount of the accrual.

The LUA needs to adjust for the change in the accrued interest payable from the end of the prior year to the end of the current year. The following conversion journal entry illustrates an increase in the liability.

	DR	CR
Expense (interest)	$XXXX	
Accrued interest		$XXXX

Explanation - since conversion entry #14 above reduces net position by the beginning accrued interest liability, the current years' operations (i.e., expenses) should reflect the change in this liability. The above illustrative journal entry reports an increase in the liability. A decrease in the liability would reverse the debit and credit.

Reclassifications and Eliminations - In addition to the above referenced reclassification, there are other reclassifications and eliminations that should be made in the conversion process. Some transactions are reported at the fund level but are eliminated from the government-wide financial reporting level.

Interfund receivables and payable between governmental funds are reported on the balance sheets at the fund financial reporting level but are eliminated on the government-wide statement of net position. The elimination entry follows:

	DR	CR
Interfund payables	$XXXX	
Interfund receivables		$XXXX

Explanation - GASBS 34 requires LUAs to eliminate any interfund receivables and payables between governmental funds so that they are not reported on the government-wide statement of net position. As a result, this entry eliminates both the interfund receivables and interfund payables by an equal amount. Since this entry affects only balance sheet accounts by an equal amount, technically it would not have to be recorded, but by reporting this conversion entry, it illustrates that the interfund receivables and payables are eliminated.

Governmental fund interfund transfers in and out are reported on the operating statement at the fund financial reporting level but are eliminated on the government-wide statement of activities. The elimination entry follows:

	DR	CR
Other financing source - transfers in	$XXXX	
Other financing use - Transfers out		$XXXX

Explanation - GASBS 34 requires LUAs to eliminate any interfund transfers between governmental funds so that they are not reported on the government-

wide statement of activities. As a result, this entry eliminates both the transfers in and the transfers out by an equal amount. Since this entry affects operating statement accounts by the same amount, technically it would not have to be recorded, but by reporting this conversion entry, it illustrates the elimination of the interfund transfers in and transfers out.

The internal service fund statement of net position accounts are reported in a separate column on the proprietary fund type statement of net position at the fund financial reporting level, but are combined with the governmental fund types on the government-wide statement of net position. An example of a reclassification follows by adding the internal service fund statement of net position accounts to the governmental fund type statement of net position accounts follows:

	DR	CR
Interfund receivable	$ XXXX	
Inventories	XXXX	
Capital assets	XXXX	
Accumulated depreciation		$ XXXX
Accounts payable		XXXX
Net position		XXXX

Explanation - In Georgia, generally only the larger LUAs utilize internal service funds. GASBS 34 requires LUAs to reclassify internal service fund net position by not reporting internal service funds on the government-wide statement of net position separately but combining them with the governmental fund types on the statement of net position. The source of this information is the current year's proprietary statement of net position at the fund financial reporting level.

The operations of internal service funds that are reported at the fund financial reporting level must be eliminated from the government-wide statement of activities; otherwise, this information would be reported twice, once in the internal service fund and once in the fund that incurred the cost. In other words, if the internal service fund reported operating income, in essence, they over-charged the other funds' functions. If the internal service fund reported an operating loss, the LUA under-charged the other funds' functions. In order to eliminate the internal service fund's operations, we must first adjust the internal service fund's operating income to zero.

If the LUA overcharged the other funds, resulting in operating income to the internal service fund, the journal entry to eliminate the operating income is:

	DR	CR
Net position	$XXXX	
Expenses (by function)		$XXXX

Explanation - Since the total net position was increased by the ending balance (which reflects the current year's operating income) (see transaction #18 above), the current year operating income is eliminated and the numerous expenses are reduced by the same amount. By decreasing the governmental fund type functional expenses, this entry ultimately reduces operating revenue in the internal services fund, the operating income then is zero and the operation of this fund may be eliminated.

If the LUA undercharged the other funds, resulting in an operating loss to the internal service fund, the journal entry to eliminate the operating loss is:

	DR	CR
Expenses (by function)	$XXXX	
Net position		$XXXX

Explanation - Since the total net position was increased by the ending balance (which reflects the current year's loss) (see transaction #18 above), the current year operating loss is eliminated and the numerous expenses are increased by the related amount.

Appendix A

Example of Note Disclosure

Changes in Capital Assets

	Balance 07/01/20X4	Increases	Decreases	Balance 06/30/20X5
Governmental activities:				
Capital assets not being depreciated:				
Land	$2,673,955	$340,600	$165,100	$2,849,455
Construction in progress	8,763,588	13,405,112	8,306,158	13,862,542
Total capital assets not being depreciated	11,437,543	13,745,712	8,471,258	16,711,997
Depreciable capital assets:				
Buildings	49,459,209	11,072,811		60,532,017
Equipment	3,910,508	588,137	69,236	4,429,409
Buses	572,045	127,062		699,107
Total depreciable capital assets	53,941,759	11,788,010	69,236	65,660,533
Total capital assets	65,379,302	25,533,722	8,540,494	82,372,530
Accumulated depreciation:				
Buildings	10,234,271	1,094,247	17,586	11,310,932
Equipment	1,558,009	237,403	34,976	1,760,436
Buses	389,444	57,205		446,649
Total accumulated depreciation	12,181,724	1,388,855	52,562	13,518,017
Book value - depreciable capital assets	41,760,035	10,399,155	16,674	52,142,516
Governmental activities capital assets, net	$53,197,578	$24,144,867	$8,487,932	$68,854,513

Appendix B

Example of Note Disclosure

Changes in Capital Assets

Governmental Activities	Outstanding 7/1/20X4	Increases	Decreases	Outstanding 6/30/20X5	Amounts Due in One Year
General obligation bonds	58,930,000	$10,475,000	$11,970,000	$57,435,000	$1,875,000
Capital lease obligations	226,209	365,474	226,209	365,474	365,474
Compensated absences	1,092,130	172,956	75,454	1,189,632	506,000
Total Governmental Activities	60,248,339	$11,013,430	$12,271,663	$58,990,106	$2,746,474

Chapter II – 4 Audit Reports, Financial Reporting Certificates

NATURE AND PURPOSE

All Georgia Local Units of Administration (LUA) are subject to an annual audit. The Georgia Department of Audits And Accounts (DOAA) audits most LUAs but some LUAs are audited by private certified public accounting firms. To assist the auditors with the audit the LUA's financial statements, note disclosures and accounting records, LUAs have a responsibility to provide certain information to facilitate the audit process and to allow the auditors to maintain their independence. This chapter discusses the different kinds of audit reports and the financial statements covered by the auditor's opinion, as well as the responsibilities which should help the LUA to be better prepared for the annual audit. Additionally, this chapter discusses various financial reporting rewards programs.

AUDIT REPORT AND FINANCIAL STATEMENTS

The first component of the financial section of the Comprehensive Annual Financial Report (CAFR) is the auditor's report. The auditor's opinion, presented in the auditor's report, is issued on the basic statements and does not extend to either supplementary or Required Supplementary Information (RSI). The basic statements are comprised of the government-wide statements, fund level statements, and notes to the financial statements. Required Supplementary Information includes the Management's Discussion and Analysis and the budgetary comparison schedule. Although an opinion is not issued on RSI, the auditor is required to review the other information and comment on it. However, the review of the RSI doesn't affect the opinion on the basic statements.

ELEMENTS OF THE AUDIT OPINIONS

The audit opinion is expressed by an independent auditor following generally accepted governmental auditing standards issued by the Comptroller General of the United States and incorporates by reference the Statements of Auditing Standards issued by the Auditing Standards Board. Standard elements of audit reports include –

a. a title that includes the word *independent*.
b. an addressee as required by the circumstances of the engagement.
c. when applicable, a section with the heading "Report on the Financial Statements" (this heading should be used when the report contains a separate section on other reporting responsibilities).
d. an introductory paragraph that should
    i. identify the entity whose financial statement have been audited;
    ii. state that the financial statements have been audited;
    iii. identify the title of each statement that the financial statements encompass; and
    iv. specify the date or period covered by each financial statement that the

financial statements encompass.

e. a section with the heading “Management’s Responsibility for the Financial Statements”.
f. a statement that management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
g. a section with the heading “Auditor’s Responsibility.”
h. a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.
i. a statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
j. a statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
k. a statement that
    i. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
    ii. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, the auditor expresses no such opinion.
    iii. an audit also includes the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
l. a statement regarding whether the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.
m. a section with the heading “Opinion.”
n. an opinion statement regarding whether the financial statements are presented, in all material respects, in accordance with the applicable reporting framework.
o. the titles of the financial statement identified in the introductory paragraph of the auditor’s report.
p. identification of the applicable financial reporting framework and its origin
q. a section with the heading “Other Matters.”
r. a section with the subheading “Supplementary Information”, Supplementary and Other Information” or “Accompanying Information.”
s. a description of the other reporting responsibilities, one example of which is

reporting on supplementary information.

t. a section with the heading "Other Reporting Required by *Government Auditing Standards.*"
u. a statement that the auditor has issued a report dated [*date of report*] on the consideration of the entity's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters.
v. a statement that the purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.
w. a statement that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.
x. the signature of the auditor (manual or printed).
y. the auditor's city and state.
z. the date of the auditor's report.

TYPES OF AUDIT OPINIONS

There are four different types of reports an auditor may issue. Either the report is unmodified, resulting in an unmodified opinion; or the report is modified, resulting in a qualified opinion, an adverse opinion, or a disclaimer of opinion. Each of these reports are discussed below.

Unmodified Opinion

An unmodified audit opinion will include all of the elements of audit reports discussed above and the following opinion –

> *"The financial statements present fairly, in all material respects, the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America."*

A sample unqualified opinion for a local unit of administration is shown in Exhibit IV-22B -1. See italics for the opinion.

EXHIBIT IV-22B-1

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
[1] Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] each major fund, and the aggregate remaining fund information of the [1] Board of Education [a component unit of the _____, Georgia], as of and for the year ended June 30, 20XX, and the related notes to the financial statements (Exhibits A through ___), which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] each major fund, and the aggregate remaining fund information of the [1] Board of Education, as of June 30, 20XX, and the respective changes in financial position [and cash flows] thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted [*identify the missing RSI, such as management's discussion and analysis or budgetary comparison information*] that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the [*identify required supplementary information, such as management's discussion and analysis and budgetary comparison information*] on pages XX–XX and XX–XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the [1] Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules __ through __, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [2] on our consideration of the [1] Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State

Auditor and made available to the press of the State, as provided for by Official Code of

Georgia Annotated section 50-6-24.

Respectfully submitted,
State Auditor

Qualified Opinion

A qualified opinion includes an “except for” clause. The “except for” means that the financial statements are fairly presented except for certain matters which the qualification describes. Reasons for issuing a qualified opinion include the presence of misstatements that are material, but not pervasive, to the financial statements or restrictions on the scope of the audit. Scope restrictions result when an auditor is not able to perform required procedures considered necessary. In addition, a qualification may be issued when the auditor believes, on the basis of his or her audit, that the financial statements contain a departure from generally accepted accounting principles, the effect of which is material (significant). When the auditor expresses a qualified opinion, one or more separate explanatory paragraph(s) should disclose all of the substantive reasons for the qualification in paragraphs preceding the opinion of the report.

A sample qualified opinion for a local unit of administration is shown in Exhibit IV-22B - 2.

EXHIBIT IV-22B-2

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
[1] Board of Education

INDEPENDENT AUDITOR’S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] each major fund, and the aggregate remaining fund information of the [1] Board of Education [a component unit of the _____, Georgia], as of and for the year ended June 30, 20XX, and the related notes to the financial statements (Exhibits A through ___), which collectively comprise the Board’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on [Major Fund Affected]

Management has not recorded current year capital asset additions or deletions in governmental activities and, accordingly, has not properly recorded current year depreciation expense on capital assets or accumulated depreciation. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities in the [major fund affected]. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on [Major Fund Affected], the financial statements referred to above present fairly, in all material respects, the financial position of the [major fund affected] of the [1] Board of Education, as of June 30, 20XX, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] [major funds not affected by the previously described qualified opinion], and the aggregate remaining fund information of the [1] Board of Education, as of June 30, 20XX, and the respective changes in financial position [and cash flows] thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted [*identify the missing RSI, such as management’s discussion and analysis or budgetary comparison information*] that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the [*identify required supplementary information, such as management’s discussion and analysis and budgetary comparison information*] on pages XX–XX and XX–XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the [1] Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules __ through __, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [2] on our consideration of the [1] Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State

Auditor and made available to the press of the State, as provided for by Official Code of

Georgia Annotated section 50-6-24.

Respectfully submitted,

State Auditor

Adverse Opinion

An adverse opinion states that the financial statements do not present fairly the financial position or the results of operations in conformity with generally accepted accounting principles. When the auditor expresses an adverse opinion, a separate explanatory paragraph(s) should precede the opinion paragraph of the report. The explanatory paragraph should include all the substantive reasons for the adverse opinion, and the principal effects of the subject matter of the adverse opinion on financial position and results of operations if possible. If the effects cannot be reasonably determined, this should be stated in the report.

A sample adverse opinion for a local unit of administration is shown in Exhibit IV-22B -3.

EXHIBIT IV-22B-3

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
[1] Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] each major fund, and the aggregate remaining fund information of the [1] Board of Education [a component unit of the _____, Georgia], as of and for the year ended June 30, 20XX, and the related notes to the financial statements (Exhibits A through ___), which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion

Management has not presented district-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require presentation of district-side financial statements. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the [1] Board of Education, as of June 30, 20XX, or the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted [*identify the missing RSI, such as management's discussion and analysis or budgetary comparison information*] that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the [*identify required supplementary information, such as management's discussion and analysis and budgetary comparison information*] on pages XX–XX and XX–XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the [1] Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules __ through __, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [2] on our consideration of the [1] Board of Education’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example’s internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,
State Auditor

Disclaimer

An auditor issues a disclaimer of opinion when the auditor does not express an opinion on the financial statements. When the auditor is unable to form or has not formed an opinion as to the fairness of presentation of the financial statements in conformity with generally accepted accounting principles a disclaimer should be issued. If the auditor disclaims an opinion, the auditor's report should give all of the substantive reasons for the disclaimer. A disclaimer may be issued when the auditor is unable to perform an audit sufficient in scope to form an opinion on the financial statements. If based on audit work performed, the auditor determines there are material departures from generally accepted accounting principles; a disclaimer should not be issued. Rather a qualified or adverse opinion is appropriate. When a disclaimer is issued, the report should not identify the procedures that were performed nor include the paragraph describing the characteristics of an audit. In addition, the auditor should also disclose any other reservations regarding fair presentation of the financial statements in conformity with generally accepted accounting principles.

A sample of a report disclaiming an opinion for a local unit of administration is shown in Exhibit IV-22B -4.

EXHIBIT IV-22B-4

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
[1] Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] each major fund, and the aggregate remaining fund information of the [1] Board of Education [a component unit of the _____, Georgia], as of and for the year ended June 30, 20XX, and the related notes to the financial statements (Exhibits A through ___), which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The financial statements of The Educational Foundation, Inc. (Foundation) have not been audited, and we were not engaged to audit the Foundation's financial statements as part of our audit of the (1) Board of Education's basic financial statements. The Foundation's financial activities are included in the (1) Board of Education's basic financial statements as a discretely presented component unit.

Disclaimer of Opinion

Because of the matter described in the Basis for Disclaimer paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the Foundation as of and for the year ended June 30, 20XX.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, [the business-type activities, the aggregate discretely presented component units,] [major funds not affected by the previously described qualified opinion], and the aggregate remaining fund information of the [1] Board of Education, as of June 30, 20XX, and the respective changes in financial position [and cash flows] thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [2] on our consideration of the [1] Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State

Auditor and made available to the press of the State, as provided for by Official Code of

Georgia Annotated section 50-6-24.

Respectfully submitted,

Summary

Auditor reports focus on the basic financial statements. There are four different types of reports: unmodified, qualified, adverse, and disclaimer. The unmodified opinion is the preferred report. It is important to read your audit opinion and be aware of its meaning.

GENERAL INFORMATION – PREPARING FOR AUDIT

There is some basic information that the independent auditor will need to audit the LUA's accounting records. Generally, the information requested assumes that the auditor will draft the financial statement and related note disclosures from the LUA provided information. The following is a list of these items, including a brief description, as applicable.

- Funds - A listing of all funds used during the fiscal year, including the fund number and name.
- Trial Balances - A balanced trial balance for each fund's general ledger. The LUA should conduct a cursory review of the trial balance to insure its accuracy. For example, most asset accounts and expenditure accounts should report debit balances and most liability accounts and revenue accounts should report credit balances. Also, fund balance normally reports a credit balance.
- School Food Service Fund Trial Balance - A balanced trial balance for the School Food Service Fund. The trial balance should be presented at a summarized level.
- Prior Year Audit Findings - A copy of the clearance letter from the Georgia Department of Education (GA DOE) regarding any prior year audit findings. Also, a copy of the LUA's corrective action plan regarding the prior year's findings should be provided.
- Board Policies - Copies of any new or updated policies.
- Financial Policies - Copies of any new or updated policies.
- Leases - Copies of any operating or capital leases in which the LUA entered into during the fiscal year under audit.
- Unemployment Compensation - Copies of billings and related cancelled checks for unemployment compensation provided by the Georgia Department of Labor for the fiscal year under audit.

- Board Minutes - Documentation of the school board minutes for the fiscal year under audit.

- School Board Members - Documentation of payroll earnings histories and vendor payment details relating to any payments to school board members for the fiscal year under audit.

- Budgets - Copies of the original adopted and the final (i.e., after all current fiscal year amendments) amended budgets for each fund. Revenues should be summarized at the following source level:
  - Property taxes
  - Sales taxes
  - State funds
  - Federal funds
  - Charges for services
  - Investment earnings
  - Miscellaneous

Expenditures should be presented by function.

- Miscellaneous Documentation - Copies of documentation related to any instances of errors, irregularities, related party transactions, or contingent liabilities identified during the fiscal year under audit or in the subsequent reporting period.
- Insurance Policies - Copies of the declaration pages for all insurance policies in effect during the fiscal year under audit, including any exclusions.

- Surety Bonds - Copies of surety bonds for all covered officials and copies of supporting documentation for payments made for the fiscal year under audit.

- Subsequent Events - Copies of documentation relating to any subsequent events occurring after June 30 of the fiscal year under audit (e.g., bonds issued, a SPLOST referendum approval, losses due to natural disasters, litigation resolved).

- 941 Reports - Copies of the 941 Quarterly IRS Reports for quarters ending 9/30, 12/31, 3/31 and 6/30 of the fiscal year under audit.

- Superintendent's Contract - Payroll earnings history and employment contract for the Superintendent for the fiscal year under audit.

- General Journal Entries - A detailed summary of all journal entries made during the fiscal year under audit (by journal entry number) and all journal entry supporting documentation.

CASH AND INVESTMENT INFORMATION

The following information needs to be provided regarding cash and investments:

- Copies of the June (i.e., for the fiscal year under audit) bank statements, outstanding check listings, deposits in transit and any other adjustment information for all bank accounts, including the school accounts.

- Copies of bank reconciliations for the months of May and June for the year under audit for all bank accounts, including school accounts.

- July, August and September (the months subsequent to the year under audit) bank statements for all bank accounts should be available for review.

- All system generated cash reports must be available for the fiscal year under audit, check registers reports for the operating and payroll bank accounts for the fiscal year under audit.

- Copies of all certificates of deposits purchased and/or redeemed during the fiscal year under audit, including renewal notifications.

- Copies of other investments made during the fiscal year under audit (e.g., Georgia Fund I, U.S government securities)

GOVERNMENT-WIDE FINANCIAL STATEMENT INFORMATION

The following information generally applies to the preparation of the government-wide financial statements.

Compensated Absences - A list of the compensated absence liabilities at June 30 for the fiscal year under audit. The schedule should include the liability classified by expense function (i.e., matched against the function in which the employee's salary is charged). Also, the schedule must include the beginning balance, the amount of compensated absences earned during the year, the amount of compensated absences used during the year and the ending balance. The LUA also must estimate the current portion (i.e., the amount of compensated absences that will be used in the subsequent year) of the year-end balance. The following is a suggested form that the LUA might use to report its changes in compensated absences:

Governmental Activities	Outstanding 7/1/2015	Increases	Decreases	Outstanding 6/30/2016	Amounts Due in One Year
Compensated absences	$956,208	$125,414	$137,448	$944,174	$128,414

In order to provide supporting documentation for this schedule, the LUA also must have available a listing of the employees, the number of day or hours of compensated absences earned and the daily/hourly pay rates at June 30.

Capital Assets - The following information needs to be provided regarding capital assets:

- Any changes to the beginning capital asset balances by asset class resulting from physical inventories, changes in thresholds, etc.

- Current year additions to capital assets, balances classified by asset class, including any
contributed assets and supporting documentation.

- A schedule of current year additions, classified by the function to which the expenditure was charged when the capital asset was purchased.

- Current year deletions to capital asset balances, classified by asset class with supporting
documentation (e.g., sale, surplus items, items sold).

- Current year depreciation expense classified by function.

Exhibit A to this chapter provides a sample form that the LUA might use to report these capital assets.

General Long-Term Debt - The following information needs to be provided regarding general long term debt (normally general obligation bonds, special purpose local option sales tax bonds or capital leases)

- Copies of documentation (e.g., checks, wire transfers) for principal and interest payments made during the year under audit.
- For any capital leases entered into during the year, provide:
  - A copy of the lease agreement
  - A copy of the lease agreement’s amortization schedule

- For any bonds issued during the year, provide:
  - The bond closing statement
  - The amortization schedule if not included in bond closing statement
  - A copy of the LUA's official statements relating to the bond issue (if applicable)
  - A signed copy of the bond resolution
  - If the bonds issued are refunding bonds, a copy of the "Non-arbitrage certificate" or tax exempt status letter and the escrow agent's name and address

Consider using the following format to account for the current year changes in general long-term debt.

Governmental Activities	Outstanding 7/1/2015	Increases	Decreases	Outstanding 6/30/2016	Amounts Due in One Year
General obligation bonds	$4,250,000	$ -	$ -	$4,250,000	$135,000
Capital leases	385,442	126,000	61,545	449,897	64,485
Total	$4,635,442	$126,000	$ 61,545	$4,699,897	$199,485

Interfund Transactions - The following information needs to be provided regarding interfund balances at year-end and for interfund transfers made during the year:

- A listing of the interfund balances between funds indicating the amount of the balance, by individual funds, and the purpose of the receivable/payable as follows:

Payable from:

	General Fund	Special Revenue Fund	SPLOST Capital Projects Fund	Total
Payable to:				
General Fund	$ -	$42,000	$53,000	$ 95,000
Special Revenue Fund	-	10,000	-	10,000
SPLOST Capital Projects Fund	240,000	______	_______	240,000
Total	$240,000	$52,000	$53,000	$345,000

- A listing of interfund transfers, by individual fund with the amount and the purpose of the transfer, as follows:

Transfers from:

	General Fund	Special Revenue Fund	SPLOST Capital Projects Fund	Total
Transfers to:				
General Fund	$ -	$ -	$24,786	$ 24,876
Special Revenue Fund	92,670	-	2,900	95,570
SPLOST Capital Projects Fund	845,000	240,000	_______	1,085,000
Total	$937,670	$240,000	$27,686	$1,205,356

FUND LEVEL FINANCIAL REPORTING

Provide the following information relating primarily to the fund financial reporting level.

Temporary Loans - Documentation related to any temporary loans made during the fiscal year under audits (e.g., tax anticipation notes).

Taxes - In order to properly accrue taxes at June 30 for the year under audit, provide documentation of receipts of property taxes (from the county tax commissioner or city clerk), of intangible taxes from the county tax commissioner or city clerk or clerk of the superior court and of special purpose local option sales taxes (from the Georgia Department of Revenue) for taxes collected in July and August of the subsequent year to the year under audit.

Accounts Receivable - A listing of all accounts receivable at June 30 for the year under audit and documentation of subsequent year receipts demonstrating the collection of the accounts receivable.

Accounts Payable - A listing of all accounts payable at June 30 for the year under audit and documentation of subsequent issued checks demonstrating the payment of the outstanding accounts payable.

Expired Grant Balances - Documentation of checks for all expired grant balances made payable to the Georgia Department of Education.

Accrued Salaries and Benefits Payable - The following information is required to be provided for salaries and benefits payable.

- For the prior year audit period, a listing of the salaries and related benefits payable (i.e., the July and August salaries and benefits relating to the prior fiscal year), presented by expenditure function at June 30.

- For the current year under audit, a listing of the salaries and related benefits payable (i.e., the July and August salaries and benefits relating to the current fiscal year), presented by expenditure function at June 30.

- The detailed listing of salaries and benefits by employee should be made available, if requested by the auditor.

School Activity Accounts - Separate these accounts into two classifications, government activity (e.g., athletics, vending) and agency activity (e.g., school clubs). For the agency accounts, prepare a schedule of activity and a consolidate schedule as follows:

Consolidation of All Schools
Agency Funds

	School #1	School #2	School #3	Total
CASH AND CASH EQUIVALENTS	$86,371.00	$14,759.00	$15,836.00	$116,966.00
FUNDS HELD FOR OTHERS	86,371.00	14,759.00	15,836.00	116,966.00
RECEIPTS	419,742.00	69,649.00	55,426.00	544,817.00
DISBURSEMENTS	401,911.00	67,985.00	48,237.00	518,133.00
Excess of Receipts Over (Under) Disbursements	17,831.00	1,664.00	7,189.00	26,684.00
BEGINNING FUNDS HELD FOR OTHERS	68,540.00	13,095.00	8,647.00	90,282.00
ENDING FUNDS HELD FOR OTHERS	$86,371.00	$14,759.00	$15,836.00	$116,966.00

The bank reconciliation and bank related bank statement for the months of June and July under audit should be copied and available for auditor use. All other bank reconciliations and related bank statements should be available, if requested by auditor.

For the governmental activity accounts, a detailed listing of revenues by source and expenditures by function and object must be prepared. It is also helpful to document why many of the expenditures from the student activity accounts are to the instruction function (1000), representing instruction resulting from interactions between students and teachers outside of regular classes. Sports, clubs and fund raisers are examples of co-curricular activities. An example of documentation for a co-curricular activity in support of validating instruction expenditures is:

- Musical and drama clubs serve to improve individual students' skills or provide entertainment for the school and/or the community.
- The musical co-curricular activities include a marching bank, symphony orchestra, chorus and a jazz ensemble.

- Drama clubs give practice in all aspects of producing a show including acting, directing, stage management, scenery production and makeup.

These are learning environments that enhance school life and teach cooperation, teamwork and leadership skills, and the receipts generated from these activities contribute to the educational experience of students by enriching the curriculum, providing new learning experiences, promoting interest in classroom work and improving morals and discipline. These student activity funds finance the normal, legitimate, co-curricular activities of the organization including the interaction between teachers and students. The following is an example:

CONSOLIDATION OF ALL SCHOOLS
GOVERNMENTAL ACTIVITY ACCOUNTS

		School #1	School #2	School #3	TOTAL
	CASH AND CASH EQUIVALENTS	$87,273.00	$16,159.00	$42,194.00	$145,626.00
	FUND EQUITY	87,273.00	16,159.00	42,194.00	145,626.00
	REVENUES				
1500	Interest	0.00	0.00	0.00	0.00
1210	Concession Sales	45,080.00	11,931.00	19,219.00	76,230.00
1220	Donations	42,383.00	3,906.00	15,270.00	61,559.00
1225	Fund Raising/Misc Sales	70,144.00	31,697.00	13,311.00	115,152.00
1230	Gate Receipts	149,718.00	2,486.00	1,286.00	153,490.00
5200	Transfer In	26,545.00	1,018.00	2.00	27,565.00
	TOTAL REVENUES	333,870.00	51,038.00	49,088.00	433,996.00
	EXPENDITURES				
1000	Instruction				
	Salaries	10,000.00	4,250.00	2,000.00	16,250.00
	Supplies and Materials	198,207.00	45,982.00	40,123.00	284,312.00
	Telecommunications	0.00	0.00	0.00	0.00
	Other Expenses	0.00	0.00	0.00	0.00
3200	Enterprise Operations				
	Salaries	0.00	0.00	0.00	0.00
	Supplies and Materials	98,722.00	16,048.00	5,526.00	120,296.00
	Other Expenses	0.00	0.00	0.00	0.00
5000	Other Outlays				
	Transfers Out	4,913.00	858.00	101.00	5,872.00
	TOTAL EXPENDITURES	311,842.00	67,138.00	47,750.00	426,730.00
	Excess of Revenues Over (Under) Expenditures	22,028.00	-16,100.00	1,338.00	7,266.00
	BEGINNING FUND EQUITY	65,245.00	32,259.00	40,856.00	138,360.00

ENDING FUND EQUITY	87,273.00	16,159.00	42,194.00	145,626.00

A summary report presented by bank account within each school should be prepared. A sample follows:

Location	Financial Institution/ Account Number	Cash Balance June 30, 2005
School #1		173,644.00
School #2		30,918.00
School #3		58,030.00
Total All Schools		$262,592.00

Finally, any reports audited either by an independent auditor or the LUA's internal auditor should be provided.

GENERAL FUND INFORMATION

Provide the following information relating primarily to the general fund:

- A copy of the "Summary Report of Completion Reports" (From GDOE Administrative Web Page).

- Copies of all contracts initiated with other state and local agencies during the year under audit.

- A copy of the "Final Allotment Sheet" for the year under audit, copies of the July and
  August QBE payment advise for the year under audit, and a copy of the July and August QBE payment advice the year end accruals (currently QBE 017 report).

CAPITAL PROJECTS FUND INFORMATION

Provide the following information relating primarily to the capital projects fund:

- Copies of all construction contracts, architects contracts, and related approved change orders for all construction projects in progress during the fiscal year under audit.
- Documents supporting architects and contractor's requests for reimbursement that were paid during the fiscal year under audit and any requests paid after June 30 but relating to prior year end.
- If any projects were completed during the year under audit, a copy of the completion
  letter sent to GSFIC, if applicable.

PENSION/RETIREMENT PLAN INFORMATION

- Copy of pension/retirement plan financial statements or web accessibility.
- Documentation of employer and employee contributions to each plan for the year under audit.
- Schedule of the deferred outflows and deferred inflows for each plan for the year under audit.
- Listing of contributions subsequent to the measurement date by fiscal year.

OTHER INFORMATION

Provide the following miscellaneous information:

- Copies of any trust or agency accounts opened during the year under audit.
- Copies of expenditure details for lottery purchases for expenditure objects 7XX and 615 and 612 during the year under audit.

Note that individual auditors may request other information not referenced above.

Exhibit A

	Adjusted Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Governmental activities:				
Capital assets not being depreciated:				
Land	$5,122,234	$ -	$ -	$5,122,234
Construction in progress	6,448,354	327,485	1,347,555	5,428,284
Total capital assets not being depreciated	11,570,588	327,485	1,347,555	10,550,518
Depreciable capital assets:				
Land improvements	3,771,115	-	-	3,771,115
Buildings	42,785,443	1,347,555	-	44,132,998
Machinery and equipment	10,558,819	-	-	10,558,819
Busses	671,148	121,442	61,157	731,433
Other vehicles	442,147	-	-	442,147
Total depreciable capital assets	58,228,672	1,468,997	61,157	59,636,512
Total capital assets	69,799,260	1,796,482	1,408,712	70,187,030
Accumulated depreciation:				
Land improvements	1,004,844	377,112	-	1,381,956
Buildings	8,668,994	1,334,557	-	10,003,551
Machinery and equipment	4,887,254	725,844	-	5,613,098
Busses	71,588	68,422	61,157	78,853
Other vehicles	74,221	58,585	-	132,806
Total accumulated depreciation	14,706,901	2,564,520	61,157	17,210,264
Governmental activities capital assets, net	$55,092,359	$(768,038)	$1,347,555	$52,976,766

FINANCIAL REPORTING REWARDS PROGRAMS

Both the Association of School Business Officials International (ASBO) and the Government Finance Officers Association (GFOA) present awards to Local Units of Administration (LUA) for excellence in financial reporting. Each of these programs' web pages provides information regarding their programs. Additionally, the Georgia Department of Audits presents a Certificate of Excellence award for school district audits that meet certain defined criteria, as detailed on their website. The following discussion provides a brief overview of each of these excellent programs.

Government Finance Officers Association. The Certificate of Achievement for Excellence in Financial Reporting Program (CAFR - certificate program) was established in 1945 by the GFOA to encourage government units including LUAs to produce and publish excellent CAFRs and to provide educational assistance and well deserved peer recognition to the report preparers. The certificate program is recognized as the highest award in governmental financial reporting.

LUAs choosing to participate in the program submit copies of their CAFRs for review by an impartial Special Review Committee (SRC) of qualified judges. Reports meeting program standards are awarded Certificates of Achievement. The CAFR generally should demonstrate a constructive "spirit of full disclosure" effort to clearly communicate its financial picture, to enhance understanding of the logic underlying the traditional governmental financial reporting model and to address CAFR user needs.

The certificate program is not an accreditation program. Therefore, an LUA can neither "lose" a certificate nor can a certificate be "revoked," "cancelled" or "withdrawn." However, the fact that an LUA has received a Certificate of Achievement in one or more years is not a guarantee that its subsequent reports will be similarly honored.

For more information on this program, contact:

GFOA
201 N. LaSalle Street,
Suite 2700 Chicago, IL 60601-1210
312/977-9700
http://www.gfoa.org/index.php?option=com_content&task=view&id=35&Itemid=58

Association of School Business Officials International. Sponsorship of the Certificate of Excellence in Financial Reporting by School Systems Program documents ASBO's mission to encourage excellence and transparency in the preparation and issuance of U. S. school district's Comprehensive Annual Financial Report (CAFR).

The Certificate of Excellence in Financial Reporting for School Systems Program is a voluntary program sponsored by ASBO to foster excellence in the preparation and issuance of LUA financial reports. A Certificate of Excellence is awarded to those LUAs who voluntarily have submitted their system's CAFR for review by an ASBO Panel of Review. Upon completion of a vigorous technical review, the panel members conclude whether the LUA's CAFR has met the criteria for excellence in financial reporting. The Certificate of Excellence Award is the highest form of recognition in school financial reporting issued by the ASBO. Since certificates are granted based on a particular fiscal year's report, an LUA must resubmit its CAFR annually to maintain its certificate.

For more information on the program contact:

ASBO
11401 North Shore Drive
Reston, Virginia 22090-4232
866/682-2729
https://asbointl.org/learning-career-development/awards-scholarships/certificate-of-excellence-in-financial-reporting

Georgia Department of Audits and Accounts. The Georgia Department of Audits and Accounts awards school districts meeting certain criteria an “Award of Distinction for Excellent Financial Reporting.” The Best Practice Criteria was established to recognize better practices for financial reporting and controls. This award was developed by the Audit Department to encourage local boards of educations to go beyond the minimum requirements of generally accepted accounting principles and recognize individual organizations that are successful in achieving that goal. Specific criteria is published on the Department’s website, www.audits.ga.gov.

SUMMARY

1. All Georgia Local Units of Administration (LUA) are subject to an annual audit.
2. The Georgia Department of Audits And Accounts (DOAA) audits most LUAs but some LUAs are audited by private certified public accounting firms.
3. LUAs have a responsibility to provide certain information to facilitate the audit process and to allow the auditors to maintain their independence.
4. The auditor’s opinion, presented in the auditor’s report, is the first component of the financial section of the Comprehensive Annual Financial Report (CAFR).
5. There are four different types of reports an auditor may issue. Either the report is unmodified, resulting in an unmodified opinion; or the report is modified, resulting in a qualified opinion, an adverse opinion, or a disclaimer of opinion.
6. An unmodified audit opinion states that *“The financial statements present fairly, in all material respects, the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.”*
7. A qualified opinion includes an “except for” clause. The “except for” means that the financial statements are fairly presented except for certain matters which the qualification describes.
8. An adverse opinion states that the financial statements do not present fairly the financial position or the results of operations in conformity with generally accepted accounting principles.
9. An auditor issues a disclaimer of opinion when the auditor does not express an opinion on the financial statements. When the auditor is unable to form or has not formed an opinion as to the fairness of presentation of the financial statements in conformity with generally accepted accounting principles a disclaimer should be issued.
10. Both the Association of School Business Officials International (ASBO) and the Government Finance Officers Association (GFOA) present awards to Local Units of Administration (LUA) for excellence in financial reporting. Additionally, the Georgia Department of Audits presents a Certificate of Excellence award for school district audits that meet certain defined criteria.

Chapter II – 5 Uniform Administrative Requirements

The Uniform Grant Guidance, as approved by the U.S Office of Management and Budget (OMB), supersedes the Single Audit Act Amendments of 1996 (Single Audit Act) and Circular A-133, *Audits of States, Local Governments*, *and Non-Profit Organizations* and sets forth detailed audit requirements for certain recipients of federal financial assistance. Georgia LUAs are subject to Section 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

This final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidance); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up. The Uniform Grant Guidance is applicable to all grants awarded by the Federal government after December 26, 2014. So for LUAs, the majority of the changes applicable to the Uniform Grant Guidance are effective for FYE June 30, 2016.

The applicability of the audit requirements set forth in 2 CFR Part 200 to a given LUA depends on the amount of federal financial assistance received during the fiscal year. All LUAs receiving $750,000 or more of federal awards in any fiscal year shall have either:

(1) an audit performed in conformity with 2 CFR Part 200 or
(2) a program-specific audit made for such fiscal year in accordance with the requirements of 2 CFR Part 200.

AUDITOR REPORTING REQUIREMENTS

Per Section 2 CFR Part 200.514, the auditor responsibilities in conjunction with a single audit are as follows:

The auditor must:

(i) Perform an audit of the financial statement(s) in accordance with Generally Accepted Government Auditing Standards (GAGAS);
(ii) Determine whether the financial statements of the LUA are presented fairly in all material respects in accordance with generally accepted accounting principles, and determine whether the schedule of expenditures of Federal awards is stated fairly in all material respects in relation to the LUA's financial statements as a whole;
(iii) Obtain an understanding of internal controls and perform tests of internal controls over the Federal program consistent with the requirements of §200.514 Scope of audit, paragraph (c) for a major program;

(iv) Perform procedures to determine whether the LUA has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs consistent with the requirements of §200.514 Scope of audit, paragraph (d) for a major program;
(v) Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the LUA in accordance with the requirements of §200.511 Audit findings follow-up, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year; and
(vi) The auditor must complete and sign specified sections of the data collection form. As required in §200.512 Report submission paragraph (b) (3).

Section 2 CFR Part 200.515 discloses the following requirements associated with Audit Reporting:

The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) must state that the audit was conducted in accordance with this part and include the following:

(i) An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is fairly stated in all material respects in related to the financial statements as a whole.
(ii) A report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance which could have a material effect on the financial statements.
(iii) A report on compliance for each major program and a report on internal control over compliance. This report must describe the scope of testing of internal control over compliance, include an opinion (or disclaimer of opinion) as to whether the LUA complied with Federal statues, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program and refer to the separate schedule of findings and questioned costs; and
(iv) A schedule of findings and questioned costs which must include the following three components: 1)a summary of the auditor's results which must include, the type of report the auditor issues, statement about existence of significant deficiencies or material weaknesses in internal control, statement about existence of noncompliance that is material to the financial statements, statement about existence of audit findings, significant deficiencies, material weaknesses, or noncompliance relative to the Federal major programs, dollar threshold used to distinguish major programs as described in §200.518, identification of major

programs by listing each individual major program and a statement as to whether the LUA qualified as a low-risk auditee under §200.520 2) findings relating to the financial statements which are required to be reported in accordance with GAGAS and 3) findings and questioned costs for Federal awards and must include audit findings as defined in §200.516 Audit findings, paragraph (a).

Section 2 CFR, Part 200.516 further discusses the requirements for reporting Audit Findings in accordance with the Uniform Grant Guidance. Furthermore, Section 2 CFR Part 200.517 details the requirements for Audit documentation when conducting a single audit, and Part 200.518 detailed how to determine if a federal program must be considered a major program.

§200.508 Auditee Responsibilities.

The LUA must:

(i) Procure or otherwise arrange for the audit required by this part in accordance with §200.509 Auditor selection, and ensure it is properly performed and submitted when due in accordance with §200.512 Report submission.
(ii) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.
(iii) Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §200.511 Audit findings follow-up, paragraph (b) and §200.511 Audit findings follow-up, paragraph (c), respectively.
(iv) Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit required by this part.

Section 2 CFR Part 200.509 further details the requirements when selecting an auditor to perform the single audit testing.
The following include the requirements when selecting an auditor:

(i) Auditor procurement. In procuring audit services, the LUA must follow the procurement standards prescribed by the Procurement Standards in §§200.317 Procurement by states through 20.326 Contract provisions of Subpart D-Post Federal Award Requirements of this part or the FAR (48 CFR Part 42), as applicable. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services the objectives and scope of the audit must be made clear and the non-Federal entity must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS. Furthermore, factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price. Whenever possible, the LUA must make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises, in procuring audit services as stated in §200.321.

(ii) Restriction on auditor preparing indirect cost proposals. An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the LUA during the prior year exceeded $1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

(iii) Use of Federal auditors. Federal auditors may perform all or part of the work required if they comply fully with the requirements of this part.

§200.510 Financial Statements.

(i) *Financial statements.* The LUA must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, non-Federal entity-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with §200.514 Scope of audit, paragraph (a) and prepare separate financial statements.

(ii) *Schedule of expenditures of Federal awards.* The LUA must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the LUA may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the LUA may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

a. List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
b. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
c. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the

CFDA information is not available. For a cluster of programs also provide the total for the cluster.

d. Include the total amount provided to subrecipients from each Federal program.
e. For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
f. Include notes that describe that significant accounting policies used in preparing the schedule and note whether or not the LUA elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

§200.511 Audit Findings Follow-Up.

(a) *General.* The LUA is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the LUA must prepare a summary schedule of prior audit findings. The LUA must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings under §200.516 Audit findings, paragraph (c). Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.

(b) *Summary schedule of prior audit findings.* The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph (b)(1) of this section, or no longer valid or not warranting further action in accordance with paragraph (b)(3) of this section.

(1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

(2) When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule must provide an explanation.

(3) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

(i) Two years have passed since the audit report in which the finding occurred was submitted to the FAC;
(ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
(iii) A management decision was not issued.

(c) *Corrective action plan.* At the completion of the audit, the LUA must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the LUA does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

§200.512 Report Submission.

(a) *General.*

(1) The audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

(2) Unless restricted by Federal statutes or regulations, the LUA must make copies available for public inspection. The LUAs and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

(b) *Data Collection.* The Federal Audit Clearinghouse (FAC) is the repository of record for Subpart F—Audit Requirements of this part reporting packages and the data collection form. All Federal agencies, pass-through entities, and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

(1) The LUA must submit required data elements described in Appendix X to Part 200—Data Collection Form (Form SF-SAC), which state whether the audit was completed in accordance with this part and provides information about the LUA, its Federal programs, and the results of the audit.

(2) Using the information included in the reporting package, the auditor must complete the applicable data elements of the data collection form. The auditor must sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package, and that the content of the form is limited to the collection of information prescribed by OMB.

(c) *Reporting package.* The reporting package must include the:

(1) Financial statements and schedule of expenditures of Federal awards discussed in §200.510 Financial statements, paragraphs (a) and (b), respectively;

(2) Summary schedule of prior audit findings discussed in §200.511 Audit findings follow-up, paragraph (b);

(3) Auditor's report(s) discussed in §200.515 Audit reporting; and

(4) Corrective action plan discussed in §200.511 Audit findings follow-up, paragraph.

(d) *Submission to FAC.* The LUA must electronically submit to the FAC the data collection form and the reporting package.

(e) *Requests for management letters issued by the auditor.* In response to requests by a Federal agency or pass-through entity, LUAs must submit a copy of any management letters issued by the auditor.

(f) *Report retention requirements.* LUAs must keep one copy of the data collection form and one copy of the reporting package on file for three years from the date of submission to the FAC.

(g) *FAC responsibilities.* The FAC must make available the reporting packages received in accordance with paragraph (c) of this section and §200.507 Program-specific audits, paragraph (c) to the public, except for Indian tribes exercising the option in (b) (2) of this section, and maintain a data base of completed audits, provide appropriate information to Federal agencies, and follow up with known LUAs that have not submitted the required data collection forms and reporting packages.

(h) *Electronic filing.* Nothing in this part must preclude electronic submissions to the FAC in such manner as may be approved by OMB.

[78 FR 78608, Dec. 26, 2013, as amended at 79 FR 75887, Dec. 19, 2014]

SUMMARY

LUAs are subject to Section 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and should use these regulations in the administering of federal funds.

Chapter II – 6 Closing The Fiscal Year And Various Reporting Requirements

INTRODUCTION

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 (GaDOE). GaDOE provides for this information to be submitted electronically. This chapter explains the content of the report.

O.C.G.A. §20-2-167(b), which states, in part, "(1) The State Board of Education shall establish a computerized uniform budget and accounting system as a component of the state-wide comprehensive education information system established pursuant to Code Section 20-2-320 and shall establish uniform regulations to be implemented by local units of administration. The computerized uniform budget and accounting system shall conform to generally accepted governmental accounting principles which shall include, but not be limited to, the following costing information: (A) Instructional program involved; (B) Whether basic education or enrichment in purpose; (C) Fund source or sources; and (D) Major program components such as instructional personnel, instructional operations, facility maintenance and operation, media center operation, school administration, system administration, staff development, or professional development. (2) The state board shall prescribe information that must be submitted to the state board and the time it must be submitted. In determining the information needed and the time for submission, the state board shall take into consideration the information and times identified by the Office of Student Achievement as necessary to the implementation of the accountability program provided for in Part 3 of Article 2 of Chapter 14 of this title."

State Board Rule 160-5-2-.21 – Annual Financial and Budget Reports was enacted to meet the obligations of the above-stated Georgia Code Sections.

It is very important to meet reporting deadlines so the Financial Review Division can meet external Federal agency reporting requirements and deadlines. Also, Financial Review receives requests for this data from state legislators, state agencies, and others.

Annual Financial Report

The annual financial report provides information to GaDOE for statistical accumulation and analysis, reporting to the federal government, and monitoring legal compliance relating to financial management. The annual financial report is also used in certain calculations such as the Minimum Direct Classroom Expenditures test, the Indirect Cost Rates calculations, General Fund QBE Program Expenditures Summary Report, the Title I and Special Education Maintenance of Effort tests, and the financial efficiency star rating. The financial data is also provided to the

Governor's Office of Planning and Budget in accordance with O.C.G.A. 20-2-68. In addition, the GaDOE provides a copy of each LUA financial report to the Georgia Department of Audits and Accounts (DOAA).

See the website for annual data transmission dates, submission instructions, and a year-end submission checklist that is updated annually.

File specifications are available for transmission of a text file with required data. The current file specifications can be found on the Financial Review website.

Financial Data Presentation
The financial transmission produces two reports – a listing of all accounts by individual fund and a summary listing of all accounts rolled into one fund.

Listing of Accounts by Fund
The listing of accounts by funds will list the system number and name first, followed by the fund number. The balance sheet accounts are listed next. Current assets and deferred outflow of resources are reported first and begin with object code 01XX. Total current assets and deferred outflow of resources are reported using account 0100. Current liabilities and deferred inflow of resources are then reported with object codes 04XX and 05XX and totaled using accounts 0400 and 0500. Fund balance accounts (07XX) appear last with a total for fund equity shown as 0700 balance. The total liabilities (0400 and 0500) is added to total fund equity (0700) to obtain the total liabilities, deferred inflow of resources, and fund equity (0900). This total (0900) must balance with the total current assets and deferred outflow of resources (0100).

Expenditures are reported next by function (1000-5100) and object (110-990). Totals are included after each functional area. A total of all functional areas is reported using account 7000. The end of fiscal year fund equity is reported in account 0004 and should agree with the amount reported on the balance sheet report, account 0700. A total for all debit accounts (all functional totals plus account 0004) is presented for account code 9000-000.00.

Revenues by source follow the expenditure accounts. Local (1XXX), State (3XXX), Federal (4XXX) revenues, Other Financing Sources (5XXX), and Other Items (6XXX) are subtotaled by source and totaled by all sources (6000). The beginning fund equity account (0001) and any adjustments to the beginning balance (0002) result in the current fiscal year beginning fund equity (0000). Total credits are shown for account 9000 (all sources 6000 plus accounts 0001 and 0002). Total debits must equal total credits for the fund to be in balance.

A final check of balances for the fund is presented next. Total Credits should equal Total Debits. Total Assets plus Deferred Outflow of Resources should equal Total Liabilities, plus Deferred Inflow of Resources, plus Fund Equity. End of current year fund equity should equal fund equity reported for account 0700, and end of prior year fund equity should equal beginning of the year fund equity.

The information explained above will be presented for each fund in the accounting system. Also presented are funds for Capital Assets (Fund 801) and General Long-Term Debt (Fund 900), which are included in the district-wide, or governmental activities, of the entity

Major categories of Capital Assets and associated Accumulated Depreciation are listed for accounts (02XX). Total capital assets, net of accumulated depreciation, are listed by account 0700 (Fund Equity) and again as 0900 (Liabilities and Fund Equity Control Totals). Depreciation expense categorized by function and major capital assets follows the balance sheet accounts. Total expenditures and other uses are listed for account 7000. End of fiscal year fund equity (0004) must agree with ending fund equity (0700). Total debits must equal total credits for the fund. Balancing totals for Fund 801 are presented as described above.

Fund 900 presents long-term liabilities (0500) and long-term portions of current liability accounts (i.e. 0423, Compensated Absences Payable). The debit offsetting the liabilities is either to the control total, Amounts to Be Provided (0304), or to the various revenues and expenditure accounts which offset the reductions or additions to the long-term liabilities posted in the governmental funds (200, 300, etc.). The fund must balance with total assets and deferred outflow of resources equal to total liabilities and deferred inflow of resources and fund equity. Equity accounts will appear in this fund. Balancing totals for all debits and credits are presented for this fund as well.

Summary of Accounts for All Funds

A separate report that summarizes all accounts across funds is also produced. It is identified after the system name and number as “Total All Funds”. Review the final totals page to make sure the report is in balance. See sample report for Total All Funds found in Appendix Chapter VII-9-1 Sample 2.

Budget Data Presentation

The annual budget report is reported in the same format that LUAs use to submit annual financial data. See the Financial Review website for [annual data transmission dates](). For more information regarding the reporting information, see Financial Data Presentation above.

Information regarding budgetary regulations, laws and procedures is found in Chapter IV-2. In addition, information regarding budgeting and reporting for LUAs with governmental fund deficit balances is found in Chapter II-8.

Level of Detail Required

The State Board Rule, 160-5-2-.21 – Annual Financial and Budget Reports requires each local unit of administration to prepare its financial and budget reports by fund, revenue source, function, program, object, and school/facility/program code, conforming to the format provided by the Department.

Due to the timeline for preparing financial statements to present for audit and CAFR purposes, it is recommended that the Annual Financial Report is as close to the final report as possible. All adjustments for capital assets, long-term debt, etc. should be posted to the Annual Financial Report.

The applicable school code is required when posting revenues and expenditures related to the operations of a school. A school, for financial reporting purposes, is defined as a FTE/QBE reporting entity. One or more schools (and school codes) can be attached to a single facility.

The applicable facility code is required when posting revenues and expenditures associated with the building, construction, additions, modifications, and renovations for each physical location using the same facility code that is approved in the Local Facility Plan. Facility, for financial reporting purposes, is defined as a building or group of buildings that are used for educational purposes. The facility code will generally be utilized in the capital projects funds, and in the General Fund when associated with maintenance and operations of a building, should the district budget those expenditures to the facility instead of the school. Instructional Facility Codes implies that the building or group of buildings will accommodate students and staff. Administrative Facility Codes are used for non-instructional purposes but still report CPI (Certified/Classified Personnel Information). Examples of Administrative Facilities include Central Office and the Transportation Garage. The facility codes for centralized operations (80XX) are utilized for expenditures that cannot be adequately allocated to a specific school.

There are certain situations that utilize a school/facility code that relates to a program. It is important to not confuse this code with the program code that follows the state appropriations or other state and federal grants. The program that relates to a school/facility code are for non-FTE reporting entities in which students are enrolled in programs but are counted back to their respective home schools for FTE determinations. An example of a program is the alternative program (when a school has not been created). The alternative program is usually defined as a program because it serves students from several different schools, and the FTEs are not reported for the alternative program but for the school in which the student is assigned.

No activity shall be recorded at the centralized level unless the activity cannot be reasonably allocated to a school or program within the LUA. For example, all salaries of employees assigned to a particular school shall be recorded on the financial records using the applicable school code. Any salaries of employees that are assigned to the central office, but only serve designated schools, shall be recorded based on an allocation to the selected locations served.

All financial and budget activity for each school or program within the LUA is required to be reported. There are no separate collections of data from individual schools within the LUA.

Data Transmission Extensions

The State Board Rule, 160-5-2-.21 – Annual Financial and Budget Reports prescribes requirements for the annual financial and budget reports transmissions to the Georgia Department of Education. The Rule requires the reports to be transmitted by a date prescribed annually by the Department unless an extension is granted.

The deadline for submission is generally set for September 30, which is 3 months after the fiscal year end. This allows the local units of administration with ample time to ensure the financial and budget records are adequately closed in accordance with generally accepted accounting principles.

Extensions to the deadlines will no longer be approved except under extenuating circumstances. If an LUA is unable to meet the target date of September 30th, the LUA will be reported as noncompliant.

Data Transmission Detail

The data presented in the data transmission must be reconciled to the LUA's accounting records. 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. This section explains the process to review the financial data prior to transmission. Also, please review the GaDOE Financial Review Website and the GADOAA website for further information regarding the closing of the fiscal year.

Review of Balance Sheet - General

Review balance sheet accounts fund by fund to verify that accounts with negative balances are correctly 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 (plus deferred outflows of resources) equal liabilities (plus deferred inflows of resources) plus fund equity for each fund.

Review of Current Assets

Cash (0101) - Reconcile cash as of 06/30/XX. The balance in the 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 http://dor.georgia.gov/unclaimed-property-program 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 on investments that are earned as of 06/30/XX, but not received, if considered to be 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) 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 typically 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 the Transfers Out (Expenditure Account 5000-930) balances with the 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 cancelled prior to posting the current accrual. 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 and benefit accruals.

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. Keep in mind that GSFIC projects withhold 10% of available funding until the completion certification letter is obtained, and therefore the revenue cannot be accrued until all compliance requirements are met.

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, if accompanied by an appropriate receiving report. 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.

Accruals for expenditures incurred but not paid, including expenditures for contracted employees' salaries, is required. Summer salaries affect all those employees that are not contracted to work 12 full months. This includes teachers, bus drivers, and certain eleven-month employees. 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.

Unavailable/Unearned 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 Unavailable/Unearned 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. Please note that GASB 54 requires fund balance to be classified as either Nonspendable, Restricted, Committed, Assigned, or Unassigned. For simplistic purposes, this paragraph refers to all designations as "reserved."

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 (unless paid through payroll in object code 111), 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 – Ascertain that Mid-Term Adjustment, if any, has been applied properly (for the financial report).

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. Adjust the year end balances by increasing or decreasing current year revenues and expenses, depending on the activity. Capital Asset additions require a debit to the Asset balance and a credit to the expenses, thus eliminating the effect of the expenditures incurred in the current period and reported in the governmental funds. Depreciation will result in a Credit to the Asset – Accumulated Depreciation account and a debit to current year expenses.

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.

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 <u>not</u> 0799 at fiscal year-end.

Verify that Fund 801 does not report any positive expenditures for acquisition or purchase of Capital Assets. These expenditures should be reported in the General Fund, Capital Projects and other funds. In the Capital Asset fund, the acquisition results in a decrease (i.e., credit) to expenses.

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 the applicable expenditure accounts. 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 Chapter V-5 for further detail on school activity accounts and reporting instructions with the implementation of GASB Statement 84 effective July 1, 2020.

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 <u>not</u> 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. Districts are required to record the activity by school in the financial analysis report.

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 require 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 or discount on issuance (5120).

For all bonds sold, record the liability in Fund 900 by debiting the applicable other financing source account reported at the fund level, debiting Deferred Charges 0185 for issuance costs, debiting Discount on Issuance of Bonds 0194, and crediting General Obligation Bonds Payable 0511. If a premium is received upon issuance of bonds, credit 0443 Unamortized Premium on Issuance on Bonds.

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.

Additional Entries as Necessary - Depending on the activity of the LUA, there may be other concerns that need to be addressed when closing the fiscal year, prior to submitting the financial analysis report. Please refer to additional resources on the GaDOE Financial Review website and the GA Department of Audits and Accounts website.

Review of Data

In this section the transmission of the annual financial analysis and budgetary reports is discussed

Process current fiscal year information for current status. Transmit this file through Error Checking until notified that Data Transmission is open. Error Checking is the process of uploading a monthly financial report so districts can determine if there are any errors in the data that must be corrected. The Financial Review Division recommends uploading a file on a monthly basis to ensure timely submission of the fiscal year end data. The monthly reports are not maintained by GaDOE.

The financial analysis report can be transmitted through Error Checking during the year and errors cleared in a timely manner. Correct all E code errors and retransmit file to verify that it is error-free. File may be transmitted as many times as necessary to correct errors until reporting deadline.

Print FIN003 Financial Analysis report and the General Ledger for any fund that reports balance sheet errors. Compare account balances and evaluate differences. (Note: the status of the Payroll Withholding Fund may be a factor.) Review journal entries to verify that account types are correct and make correcting entries if necessary. Verify that cash, accounts payable and other balances are correct. Isolate any and all problems before resolving any issues.

Preliminary Financial Report

Review warning messages to see if further action needs to be taken. Some warnings need to be cleared to ensure that good business practices are followed, that records are properly maintained, reports are accurate, and money will not have to be returned to the state
treasury. Transmit a "preliminary" report and verify that it is error free just prior to closing fiscal year.

Finalizing Financial Report

The fiscal year must be CLOSED before performing the following procedures. It is important that you follow these steps as listed. If the Financial Report is finalized prior to closing the fiscal year, the district will not be transmitting the final file as required by the approval process. This can result in errors of reconciliation between fiscal years and the transactional history submitted to the Georgia Department of Audits and Accounts in accordance with the Transparency in Government Act. Please remember that the LUA Superintendent or Director is required to sign off that the report submitted is the final, approved financial report for the LUA.

Process and transmit a final Financial Report. All E code errors should be cleared BEFORE closing fiscal year. Sign-off on report by required deadline. Sign-off is only available for the Superintendent through the portal. Performing these steps in the order specified will ensure that ending fund balances agree with beginning fund balances in new fiscal year. Otherwise, a written explanation has to be provided.

Print one or more copies of all available budget and financial reports on the web after signing off. Retain one set of reports as permanent financial records for the LUA. Most reports can be saved as PDF files for printing later if necessary.

Print the DE46 Actual and Budget Sign-Off Reports on the web portal for verification after Superintendent Sign-Off and date and time stamp. Additionally, these reports can be run before sign-off without date and time stamp and will give fund summary totals for a quick view of totals by funds for Beginning Fund Balance, adjustments to fund balance, revenues, expenditures and ending fund balance prior to sign-off. A sample of the DE 46 Actual Sign-Off Report is shown in Appendix Chapter VII-9-Sample 4.

Finalizing Budget Report – Current Year

Process/transmit an "Amended or Final" Budget for "current fiscal year". Print and review summary and detail error and warning reports. Please note when reviewing this report, Budgets do not report Balance Sheet Accounts. Review warning messages to determine if any require further action. All E code errors should be corrected and the file retransmitted to verify its status. Print Financial Comparison reports available on the web and review. These reports compare budget to actual expenditures by facility. Sign-off on budget report is required by deadline, and is only available for the Superintendent/Director for each LUA through the portal. Please note that this finalized budget report, by district and by school, is subject to be reported in accordance with the Transparency in Schools bill (HB 139).

Finalizing Budget - New Fiscal Year

Process/transmit an "Original" Budget for the new fiscal year to review the status. Print/review the summary and/or detail error and warnings report. Please note when reviewing report, Budgets do not report Balance Sheet Accounts. Review warning messages to determine if any require further action. All E code errors should be corrected and the file retransmitted to verify its status. File may be transmitted as many times as necessary.

Review the FIN010 Budget Analysis report for each fund for accuracy. **Verify that the report includes budgets for funds other than General Fund 100.** School Nutrition Fund 600 should report a budget as well as the federal programs. If federal program budgets are not approved prior to report deadline, the same amount budgeted in the previous year should be utilized and the budget amended after approval.

Verify that no fund projects a negative Ending Fund Balance in Account 0004 as of 06/30/XX. If General Fund 100 is projecting a deficit and it cannot be eliminated in the new fiscal year, a Deficit Elimination Plan must be filed. School Nutrition may be in deficit but a projected deficit in other funds should be corrected since this would not be a balanced budget for these funds.

After the fiscal year is closed, a "final" report should be submitted and signed-off by the Superintendent/Director through the portal by the required deadline.

Prepared Financial Statements

There are certain adjustments that are necessary for an LUA to present completed financial statements for presentation and audit that may not be included on the Annual Financial Analysis Report submitted to the Georgia Department of Education. Final Financial Statements prepared in accordance with GAAP are required to be submitted to the Georgia Department of Education no later than December 31st following the June 30th fiscal year end. This deadline of six months after the close of the fiscal year allows the audit cycle to be more timely, and provides better quality financial data to decision-makers such as board members and citizens. All LUAs, regardless of the firm conducting the audit, are required to submit completed financial statements to the GaDOE portal by December 31st. The financial statements should include the MD&A, Basic Financial Statements, Notes to the Basic Financial Statements, and Required Supplementary Information. Any district that does not provide financial statements by that date will be considered non-compliant to the deadline set forth in this Handbook.

Additional Reporting Requirements

The Official Code of Georgia requires LUAs to submit additional financial information to various agencies. The following is information required to be submitted.

Report of Salaries and Travel Expenditures

Georgia Code Section 50-6-27 requires the state auditor to "prepare each year a report showing the entire personnel of… every local board of education". Each LUA is required and directed to submit to the state auditor, in a format prescribed by the state auditor, a listing of all personnel showing name, title or functional area, salary, and travel expense incurred by each individual. The report shall be kept in the state auditor's office and shall be available for public inspection during regular business hours. Copies of the report or portions of the report shall be made available on request.

The Report of Salaries and Travel Expenditures, CS-1, is a report of all employees' salaries and travel expenditures. Salary is recorded on a cash basis and should reconcile to the general ledger. Travel is reported on an accrual basis and should reconcile to the general ledger.

Accruals for salary are reconciling items when balancing the CS-1 report to the accounting records. Previous year accruals are added to the expenditure accounts, and current year accruals are subtracted from the general ledger expenditure accounts to balance to amounts reported on the CS-1.

Additional resources are available at http://www.audits.ga.gov/EAD/SchoolDistrictResources.html under Transparency in Government Act.

Transparency in Government Act

Official Code of Georgia Annotated 50-6-32, requires a report of certain grant and contract payments made or due to vendors as follows: a list of all obligations entered into by the LUA during the immediately preceding fiscal year which call for the LUA to expend at any time in the aggregate more than $50,000.00 and a list of the names of each person, firm or corporation that has received from the LUA during the immediately preceding fiscal year payments in excess of $20,000 in the aggregate, including the amount paid to such person, firm, or corporation during such period.

Official Code of Georgia Annotated 48-8-141 requires districts that receive sales tax for educational purposes to submit an annual report of the status of all projects to the Georgia Department of Audits and Accounts for publishing on the searchable website. Official Code of Georgia Annotated 36-80-21(c) requires within 30 days of final budget adoption for the upcoming fiscal year, "a copy of the budget shall be electronically transmitted in a Portable Document Format (PDF) file to the Vinson Institute (Carl Vinson Institute of Government" and posted on the website by the Vinson Institute as soon as practicable".

In addition, OCGA 36-80-21(d) requires a copy of the LUA audit be electronically transmitted to the Vinson Institute and posted on the website by the Vinson Institute as soon as practicable.

A “user account“ must be created to utilize the searchable website at the Vinson Institute, and can be created at the following: https://ted.cviog.uga.edu/financial-documents/user

Federal Audit Clearinghouse

OMB designated the Census Bureau as the National Clearinghouse (or Federal Audit Clearinghouse - FAC) for the receipt of Single Audit Reports from state and local governments (later to include nonprofit organizations). In this capacity, the Census Bureau serves as the central collection point and repository for audit reports prepared and submitted under provisions of the Single Audit Act of 1984 (amended in 1996) and OMB Circular A-133. All data are provided to the public through a data dissemination/query system at the Federal Audit Clearinghouse website.

Illegal Immigration Reform and Enforcement Act Reporting

House Bill 87, also known as the Illegal Immigration Reform and Enforcement Act of 2011, was passed during the 2011 session of the Georgia General Assembly and was signed by Governor Nathan Deal on May 13, 2011.

During the 2013 session of the General Assembly, Senate Bill 160 was passed and was signed by the Governor Nathan Deal on April 24, 2013. Among the Provisions of this bill were amendments to House Bill 87 and the consolidation of the annual compliance reports into one report to be submitted to the Department of Audits and Accounts.

These bills, status history, votes, and sponsors can be viewed on the Georgia General Assembly's website: legis.ga.gov.

SUMMARY

LUAs in Georgia must meet a wide variety of reporting requirements that are associated with state and federal laws and compliance reporting requirements. The annual financial analysis report, while unaudited, is the center of all reporting requirements of an LUA. The financial analysis report reconciles to all other state reporting, and provides the basis for the financial statements prepared for audit and CAFR presentation. It is imperative that LUAs ensure the annual financial analysis report is completed in an accurate and timely manner.

Chapter II – 7 QBE Program Reporting/Budgeting

INTRODUCTION

Georgia Code Section 20-2-167 requires Local Units of Administration (LUA) to report Quality Basic Education (QBE) program financial operating data and approved program budgets to the Georgia Department of Education (GA DOE) annually.

This chapter provides information which explains the QBE programs and the current funding formula. It identifies allowable QBE costs and allocations among programs. The description below is based on the OCGA Code Section 20-2-161, and can change each year based on the appropriations approved by the General Assembly. This Chapter is meant as guidance for school districts and may not relate to each year's appropriation bill as signed by the Governor.

QBE PROGRAMS

The Quality Basic Education Act was passed by an unprecedented unanimous vote of the Georgia General Assembly in 1985 and became effective July 1, 1986. This Act describes the programs which the State of Georgia authorizes and supports in an effort to provide a quality basic education to all Georgia children. Periodically, the Georgia General Assembly has amended the original Act, with the most recent change effective for fiscal year (FY) 2016. For funding purposes, currently the Act identifies 18 QBE programs.

Identification of Programs

A program is a plan of activities designed to accomplish a predetermined objective. There are 18 individual QBE programs classified within two broad program areas. The two program areas are:

1. General and career education programs - for purposes of QBE funding, these programs include all instructional and vocational programs other than special programs. (General programs also include the non-instructional staff development, professional development and media center programs.)
2. Special programs - programs for students with special needs.

There are six general and career education programs:

1. **Kindergarten**
2. **Primary Grades (1-3)**
3. **Upper Elementary (4-5)**
4. **Middle School (6-8)**
5. **High School – General Education (9-12)**

6. **High School – Vocational Laboratory (9-12)**

There are 12 special programs:

1. **Category I** - Self-contained specific learning disabled and self-contained speech-language disordered;
2. **Category II** - Mildly mentally disabled;
3. **Category III** - Behavior disordered, moderately mentally disabled, severely mentally disabled, resourced specific learning disabled, resourced speech-language disordered, self-contained hearing impaired and deaf, self-contained orthopedically disabled, and self-contained other health impaired;
4. **Category IV** - Deaf-blind, profoundly mentally disabled, visually impaired and blind, resourced hearing impaired and deaf, resourced orthopedically disabled, and resourced other health impaired;
5. **Category V** - Those special education students classified as being in Categories I through IV, as defined in this subsection whose Individualized Educational Programs specify specially designed instruction or supplementary aids or services in alternative placements, in the least restrictive environment, including the regular classroom and who receive such services from personnel such as paraprofessionals, interpreters, job coaches, and other assistive personnel;
6. **Category VI** - Intellectually gifted
7. **Remedial Education** - Children and youth who are eligible for a general and career education program shall be provided remedial services to address their respective reading, mathematics, or writing deficiencies.
8. **English for Speakers of Other Languages (ESOL)** - Assists eligible students to develop proficiency in the English language including listening, speaking, reading, and writing, sufficient to perform effectively at the currently assigned grade level.
9. **Alternative Education** - Alternative education programs are intended to meet the education needs of a student who is suspended from his or her regular classroom and also of a student who is eligible to remain in his or her regular classroom but is more likely to succeed in a nontraditional setting such as that provided in an alternative education program.
10. **Kindergarten Early Intervention** - The early intervention program shall serve students who are at risk of not reaching or maintaining academic grade level, including but not limited to students who are identified through the first grade readiness assessment required by Code Sections 20-2-151 and 20-2-281 and students with identified academic performance below grade levels defined by the Office of Student Achievement in Code Section 20-14-31 for any criterion-referenced assessment administered in accordance with Code Section 20-2-281 for grades one through five.
11. **Primary Grades Early Intervention (1-3)** - See above.
12. **Upper Elementary Early Intervention (4-5)** - See above.

QBE Earnings Formula

The High School General Education instructional program is established as the “base program” against which the cost of all other instructional programs are compared and funded by the General Assembly. The amount of resources needed by an LUA for each full-time equivalent student in the “base program,” in order that such a program can be funded sufficiently to provide quality basic education to all enrolled students, shall be the cost of this basic program, and this amount is adjusted annually. If the funding provided by the General Assembly is not adequate to meet the requirements of the QBE earnings formula, the funded amount shall be prorated to each of the QBE program categories.

Base Program Cost. The base program cost is calculated from predetermined amounts for certain costs and from actual cost data. The computation is as follows for fiscal year 2018, grades 9 - 12 general education program:

EXHIBIT II-7-1

TOTAL FTE COST - HIGH SCHOOL GENERAL EDUCATION PROGRAM, AS OF FY 2018 (THE BASE COSTS CHANGE EACH YEAR, DEPENDING ON THE APPROPRIATIONS)

Direct Instructional Costs:	
Teacher	$ 1,753.74
Technical Specialist	36.53
Counselors	89.30
Operations Cost	113.60
20 Days Additional Instruction	27.04
Indirect Instructional Costs:	
Central administration	
Social Worker	16.24
Psychologist salaries	16.24
School administration	
Assistant Principal	82.86
Secretary	31.28
Operations	6.82
Facility maintenance & operations	298.00
Staff development	15.45
Media:	
Personnel salaries	41.43
Materials	13.03
Total cost per FTE Using Grades 9-12 as Base	$ 2,541.56

Additional FTE Costs Outside of Grades 9-12 Base

Kindergarten Aide	$746.96
Subject Specialist – Grades 1-5 (Art, Music, Physical Education, and Foreign Language)	$116.92

The determination of each of the cost components is explained in the following sections. Note – all discussions for calculation of benefits are related to earned positions.

Direct Instructional Costs – Teacher

1.	T-4 Minimum Salary	$33,981.07
2.	Retirement = $33,981.07 x 16.81% =	5,712.22
3.	Medicare = $33,981.07 x 1.45% =	492.73
4.	Sick leave = 8 days @ $18.75 per day =	150.00
5.	Total instructional salary and benefits	$40,336.02
6.	Base salary funding Per FTE = $40,336.02/23 FTE =	$1,753.74

The following explains the above computation.

1. The T-4 minimum salary is the base for certified personnel salary funding. To calculate the amount included in the formula, do the following –
    a) Calculate the July and August monthly salary by dividing the previous fiscal year's state salary for level T-4, salary step E, by 12 to get a monthly rate. ($33,424÷12=$2,785.33)
    b) Calculate the September through June monthly salary by dividing the current fiscal year's state salary for level T-4, salary step E, by 12 to get a monthly rate.($34,092 ÷12=$2,841.00)
    c) Multiply the rate calculated in step (a) by two months and the rate from step (b) by ten months.

    Add together the amounts calculated in step (c). This is the annual salary. (Note: this calculation must be performed in years that the state salary schedule is increased.)
2. The QBE formula funds the LUA teachers' retirement at the same rate as that charged by the Georgia Teachers' Retirement System (TRS). The rate for each fiscal year is published by TRS. It can also be found on the funding worksheet at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for the QBE Funding Formula (6 pages). In the upper left corner, the rate for retirement should be displayed.

3. The QBE formula funds the LUA for Medicare at the actual rate determined by the Social Security Administration.

4. Eight days of sick leave are funded for each teacher at a predetermined rate.

5. Total instructional salary and benefits equals the sum of items 1 through 4.

6. The FTE used to calculate the base salary funding by FTE comes from the student teacher ratios defined in 20-2-161(b) for the high school general education base program.

FTEs per Program

Program	FTE
Kindergarten	15
Kindergarten – Early Intervention	11
Primary Grades 1-3	17
Primary Grades 1-3 - Early Intervention	11
Upper Elementary 4-5	23
Upper Elementary 4-5- Early Intervention	11
Middle Grades 6-8	20
Grades 9-12 (Base)	23
Vocational Labs Grades 9-12	20
Special Education Category I	8
Special Education Category II	6.5
Special Education Category III	5
Special Education Category IV	3
Special Education Category V	8
Special Education Category VI	12
Remedial Education	15
Alternative Education	15
English Speakers of Other Languages	7

Direct Instructional Costs – Technical Specialist

1. T-4 Minimum Salary $33,981.07
2. Retirement = $33,981.07 x 16.81% = 5,712.22
3. Medicare = $33,981.07 x 1.45% = 492.72
4. Total instructional salary and benefits $40,186.01
5. Base salary funding Per FTE = $40,186.01/1,100 FTE = $36.53

Direct Instructional Costs – Counselor

1. T-4 Minimum Salary $33,981.07

2. Retirement = $33,981.07 x 16.81% = 5,712.22
3. Medicare = $33,981.07 x 1.45% = 492.72
4. Total instructional salary and benefits $40,186.01
5. Base salary funding Per FTE = $40,186.01/450 FTE = $89.30

The following explains the computations for both Technical Specialist and Counselor.

1. Steps 1-4, see explanation under Direct Instructional Costs – Teacher.

2. Total instructional salary and benefits equals the sum of items 1 through 4.

3. The FTE used to calculate the base salary funding by FTE comes from the Weights for FTE Funding Formula spreadsheet located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for QBE Funding Formula (6 pages). The ratio of Technical Specialists and Counselors is highlighted to the left of the FTE cost on page 2 of the spreadsheet (for Base Program Grade 9-12).

Operations Cost

The QBE funding formula provides the following for each earned FTE in Grades 9-12:

Consumable materials	$35.91
Instructional Materials	55.65
Travel	.93
Equipment replacement	3.11
Non Vocational Lab Equipment	18.00
Total costs	$113.60

These amounts may be obtained from Direct Instructional Operational Costs, Page 6, located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for QBE Funding Formula (6 pages).

Indirect Instructional Cost

Central Administration Salaries- Psychologist & Social Worker

1. T-4 Minimum Salary $33,981.07

2. Retirement = $33,981.07 x 16.81% = 5,712.22
3. Medicare = $33,981.07 x 1.45% = 492.72
4. Total instructional salary and benefits $40,186.01
5. Base salary funding Per FTE = $40,186.01/2,475 FTE = $16.24

Note – funding is for both a psychologist AND a social worker at $15.89 per FTE.

The following explains the computations for both Psychologist and Social Worker.

1. Steps 1-4, see explanation under Direct Instructional Costs – Teacher.

2. Total indirect instructional salary and benefits equals the sum of items 1 through 4.

3. The FTE used to calculate the base salary funding by FTE comes from the Weights for FTE Funding Formula spreadsheet located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for QBE Funding Formula (6 pages). The ratio of Psychologists and Counselors is highlighted to the left of the FTE cost on page 2 of the spreadsheet (for Base Program Grade 9-12).

In addition, Code Section 20-2-186 states that the beginning salaries of a superintendent and two assistant superintendents, as well as a secretary and accountant will be allowed for a LUA with 5,000 or less students. For LUAs with over 5,000 FTE but less than 10,001, funds will be allowed to pay the beginning salaries of a superintendent and four assistant superintendents, as well as a secretary and accountant. For FTE over 10,000, funds will be allowed to pay the beginning salaries of a superintendent and eight assistant superintendents, as well as a secretary and accountant.

Indirect Instructional Cost

School Administration – Assistant Principal (For 9-12)

1. Assistant Principal – Base Salary $40,186.00
2. Base Salary ÷ 970 (Base School Size)= Cost per FTE $44.65
3. 2 Assistant Principals $89.30

The following explains the Assistant Principal computation.

1. Assistant Principal Base Salary

2. Base salary divided by base school size found on page 5 of the Weights for Salary and Operations, Grades (9-12) & Vocational Lab. Worksheet is located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for QBE Funding Formula (6 pages).

3. Two Assistant Principals are earned for every 970 FTE as stated on the worksheet on page 5 of the spreadsheet referenced in Step 2. Multiply cost per FTE for Assistant Principal by 2.

4. NOTE: K-5 earn ½ Assistant Principal for every 450 FTEs; Middle School/Special Education/Gifted/Remedial/ESOL/Alternative earn 1 Assistant Principal for every 624 FTEs; and 9-12/Vocational Education earn 2 Assistant Principals for every 970 FTEs.

School Administration – Secretary

1. Secretary – Base Salary (12 month)	$16,547.00
2. Secretary – Base Salary (10 month)	$13,789.00
3. Total Secretary Base Salaries	$30,336.00
4. Base Salary ÷ 970 (Base School Size)= Cost per FTE	$31.28

The following explains the Secretary computation.

1. Secretary Base Salary for 12 month employee – amount established in original formula in 1985, plus applicable employer retirement contribution percentage.

2. Secretary Base Salary for 10 month employee- amount established in original formula in 1985, plus applicable employer retirement contribution percentage.

3. Add Secretary salaries for both 10 month and 12 month employees

4. Base salary divided by base school size found on page 5 of the Weights for Salary and Operations, Grades (9-12) & Vocational Lab. Worksheet is located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for QBE Funding Formula (6 pages).

In addition to the above, each LUA shall earn funds to pay the beginning salary of a principal for each school in the local school system with a principal of record for the preceding year. For any school that operates as a combination school, funds will be earned to pay one principal's salary except for schools operating as combination schools with separate school codes issued by DOE. A LUA shall earn funds in the midterm adjustment sufficient to pay the beginning salary of a principal of a new school when the school has reported FTE counts in the October count, has an approved facility code issued by DOE, and has reported a principal in the October FTE count under the new facility code. Each LUA shall also earn funds sufficient to pay for nursing services.

School Administration – Operations

1. Supplies	\$2,198.00
2. Travel	\$1,500.00
3. Equipment (replacement)	\$1,759.00
4. Miscellaneous	\$1,162.00
5. Total Operations	\$6,619.00
6. Total Operations \$6,619 ÷ 970	\$6.82

The following explains the Operations computation.

1. Operations costs are obtained for the Weights for Salary and Operations spreadsheet, page 5 under Grades (9-12) & Vocational Lab calculation.

2. Total all costs for operations.

3. Total Operations cost is divided by base school size of 970 for grades 9-12 & vocational lab found on the worksheet referenced in Step 1.

Facilities Maintenance & Operations

The \$298 per FTE is a flat amount recommended during the appropriations process.

20 Days Additional Instruction

Code Section 20-2-184.1 requires funds to provide 20 additional days of instruction for 10 percent of the full-time equivalent count of the kindergarten, kindergarten early intervention, primary, primary grades early intervention, upper elementary, upper elementary grades early intervention, middle grades, middle school, and high school programs. Such funds shall be used for addressing the academic needs of low-performing students.

The \$27.04 per 15.70 FTE is calculated as follows:

1. Total Instructional Salary (\$40,336.02, Weights for Salary and Operations)
2. Divide by 190 instructional days (\$40,336.02 ÷ 190 = \$212.29)
3. Multiply by 10 % (\$212.29 x 10% = \$21.23)
4. Multiply by 20 days (\$ 21.23 x 20 days = \$424.60)
5. Divide by 15.70 FTE (\$415.50 ÷ 15.70 FTE = \$27.04)

Staff and Professional Development

The $15.45 for the "Grades 9 - 12" program is determined by taking 0.9% of all certified professional salaries in that program area per code section 20-2-182(h). To calculate this amount for each program, you use the teacher base salary ($33,981.00) from the Weights for Salary and Operations spreadsheet under Base Instruction Salary. The base salary is then divided by the funding ratio for positions under each program. The calculation for Grades 9-12 is as follows –

Base Teacher Salary -	$33,981.00

The Base Teacher Salary is individually divided by the following funding ratios obtained from the Weights for FTE Funding Formula spreadsheet.

Teacher Student Ratio – 23	$1,477.43
Counselor Ratio – 450	$75.51
Technical Specialist Ratio- 1,100	$30.89
Psychologist Ratio– 2,475	$13.73
Social Worker Ratio – 2,475	$13.73
2 Assistant Principal Ratio– 970	$70.06
Media Ratio - 970	$35.03
Total Salaries	$1,716.38
0.9% of Salaries	$15.45

Principal Staff and Professional Development

Official Code of Georgia Annotated 20-2-190 states, "(a) Subject to appropriations by the General Assembly, the State Board of Education shall provide professional development centered on state-wide strategic initiatives. Such strategic initiatives may include, but are not limited to, training on the new common core curriculum, support for under-performing educators, and mentoring programs in specific subject areas. (b) it is the intention of the General Assembly that… (2) For Fiscal Year 2015 and thereafter, an amount equivalent to 0.25 percent of salaries of all certificated professional personnel, including school level administrators, used in the development of each respective program weight be appropriated to the State Board of Education for purposes of funding state-wide strategic initiatives for professional development, as provided in subsection (a) of this Code section."

For FY 2018, the amount appropriated for this program was $307 per principal.

Media

Salaries

1. Media Specialist - Base Salary less sick leave $40,186.00
2. Base Salary ÷ 970 Base School Size $41.42

The following explains the Media computation.

1. Base salary for media specialist is the Base Instruction Salary from the Weights for Salary and Operations spreadsheet, excluding sick leave.

2. Base salary is divided by the base school size for Grades 9-12 & Vocational Lab (970).

Materials

1. Books/Periodicals $13.03

The Materials calculation is based on amounts included in the appropriations bill as passed by the General Assembly.

Additional FTE Costs Outside of Grades 9-12 Base - Kindergarten Aide

1. Teacher Aide - Salary $13,445.34
2. Salary ÷ 18 $746.96

The following explains the Kindergarten Aide computation.

1. Teacher Aide cost is determined at 1/3 the cost of the T-4 teacher salary plus benefits. Total salary plus benefits for fiscal year 2018 is $40,186.00. Worksheet with details is located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for Funding Formula (6 pages). Amounts are listed on page 5, under Base Instruction Salary.

2. Salary is divided by 18. The Weights for FTE Funding Formula, page 5, under the Kindergarten program section indicates an aide will be provided for every 18 students (see ratio in column 1).

Additional FTE Costs Outside of Grades 9-12 Base – Subject Specialist

1. Subject Specialist – Salary $40,186.00
2. Salary ÷ 345 $ 116.48

The following explains the Subject Specialist computation:

1. Subject specialist cost is the cost of a T-4 teacher salary plus benefits. Worksheet with details is located at https://app3.doe.k12.ga.us/ows-bin/owa/qbe_reports.public_menu?p_fy=2000 (press Ctrl and click). Select QBE Allotments. Select the fiscal year. Under Select a Report, choose QBE001, Weights for Funding Formula (6 pages). Amounts are listed on page 5, under Base Instruction Salary.

2. Salary is divided by 345. The Weights for FTE Funding Formula, page 1, under the Primary, Upper Elementary, and Middle School program sections indicate a subject specialist will be provided for every 345 students (see ratio in column 1) under program.

Health Insurance

Health Insurance is funded for certificated personnel on a per member / per month basis as determined by the Board of the Georgia Department of Community Health, and annually funded in QBE in the Appropriations Act. The number of eligible certificated personnel is collected from the annual October Certified Personnel Information submitted.

Program Weights

Since different programs vary in cost of operation, each of the 18 instructional programs is assigned a different program weight. These weights reflect the costs of teachers, aides and other instructional personnel; instructional materials; facility maintenance and operations; media center personnel and materials; school and central office administration and staff development.

As previously indicated, the "Grades 9 - 12" program is defined as the base program for the purpose of determining relative program costs. The costs of each component of this program are totaled and the result is given a weight of one. The other 17 programs are assigned weights that reflect their cost relative to that of the "Grades 9 - 12" program.

FY 2018 Program Weights

Program	Weight
Kindergarten	1.6532
Kindergarten – Early Intervention	2.0382
Primary Grades 1-3	1.2859
Primary Grades 1-3 - Early Intervention	1.7955
Upper Elementary 4-5	1.0358
Upper Elementary 4-5- Early Intervention	1.7892
Middle Grades 6-8	1.1317
Grades 9-12 (Base)	1.0000
Vocational Labs Grades 9-12	1.1907
Special Education Category I	2.3828
Special Education Category II	2.7933
Special Education Category III	3.5559
Special Education Category IV	5.7624
Special Education Category V	2.4532
Special Education Category VI	1.6609
Remedial Education	1.3099
Alternative Education	1.4727
English Speakers of Other Languages	2.5096

For example, the 2017 weight for grades 1-3 is determined by dividing the cost of this program or $3,167.66 by the base program cost (i.e., grades 9-12) of $2,463.78 resulting in a weighting of 1.2859.

For purposes of computing the annual allotment to each LUA, program weights are carried out to four decimal places.

Note – the weights may be adjusted to support the mandated increase in the teacher salary schedule. These adjusted weights are reflected in the Weights for FTE Funding Formula spreadsheet.

FTE Counts

The initial enrollment count should be made after October 1 but before November 17. The final enrollment count should take place after March 1 but prior to May 1. To calculate the FTE for each program, count the number of 1/6 segments of the school day for each student enrolled in qualifying programs. Then divide the total number of segments for each program by six. This results in the FTE for each state recognized program. Failure to provide counts in the manner and by the dates required will render the school system ineligible for recalculation adjustments (GA Code Section 20-2-162(a)).

To calculate FTE to use for funding purposes, the second enrollment will be projected. The projection is based on the following –

1. Divide the first FTE count for the current fiscal year by the first FTE count for the immediately preceding fiscal year.
2. Percentage from step 1 is then multiplied by the second FTE count for the preceding fiscal year. This will be the projected second FTE count for the current fiscal year.
3. Then, divide the average of the local school system's two most recent full-time equivalent program counts by the average of the two most recent total full-time equivalent counts.
4. Multiply the quotient obtained in step 3 by the product obtained in step 2 to calculate the second full-time equivalent count for the current fiscal year.

The average of the first full-time equivalent program count, weighted two parts, and the projected full-time equivalent program count, weighted one part, shall be used to initially determine funding for the ensuing fiscal year. See code section 20-2-160 for detailed information.

QBE Allotment Sheet

In the Spring of each year after the General Assembly has completed its annual session, the allotment sheet for the subsequent fiscal year is provided to all LUAs. This allotment sheet indicates the amount of QBE state funding that is forthcoming prior to any mid-term adjustment. The data from the allotment sheet initially is calculated by taking the average of the FTE counts times the base cost per FTE times the program weights, adjusted for both direct and indirect costs and adjusted for the teacher training and experience.

The total earnings for QBE are reduced by the current year local fair share. The local fair share is the amount of the total cost of QBE for an LUA that must be supported with local funds (e.g. property taxes). The local fair share for each LUA is an amount equal to the amount that can be raised by the LUA levying five mills on the 40 percent equalized property tax digest. For fiscal year 2018, the local fair share equates to five effective mills of property tax based upon the most recent equalized adjusted school property tax digest according to requirements in code section 20-2-164(a)(1)(A) less adjustments for homestead exemptions listed in paragraph (g).
An example follows:

Net 100% tax digest	$ 5,824,447,821
Gross 40% equalized digest	$ 2,329,779,128
Less total eligible exemption amount	$ (184,357,587)
Net 40% tax digest $	$ 2,145,421,541
Five mills	.00500
Local fair share	$ 10,727,108

In the event that the combined local fair share for all school systems exceeds 20 percent of the sum of the statewide QBE formula earnings, then the local fair share is reduced by district in a prorata fashion such that the combined Local Fair Share amount statewide does not exceed 20 percent of the QBE formula earnings.

Mid-term Adjustment

Since the QBE formula is based upon FTE counts which are taken from the previous school year, there is a need to adjust the QBE earnings as more current FTE counts become available. After preparing the recalculation, if the total amount needed by the local school system is greater than the amount originally allotted, the school's allotment will be increased. If the recalculation results in a reduction in funds, the initial funds allotted will not be reduced. A mid-term adjustment for the school's five mill share will be made if the following occurs –

> The most recent property tax digest for maintenance and operations of a local school, as approved by the Department of Revenue, is less than the actual property tax digest for maintenance and operations used to calculate the system's five mill share if the reduction is due to more accurate assessments or actual loss in tangible property (20-2-162-(b)(1) and the most recent equalized adjusted school property tax digest for the local school system is less than the equalized adjusted school property tax digest for the year used initially to calculate the system's local five mill share (20-2-162(b)(2)).

Allowable Expenditures

Most instructional costs relating to a QBE program are allowable costs. The following link, http://archives.doe.k12.ga.us/fbo_financial.aspx?PageReq=FBOFinRevCOACR, LUA Chart of Accounts, under the code relationships view, lists the object codes allowed for each function and program.

Georgia code section 20-2-167(a)(1) states that each local school system shall spend a minimum of 90 percent of funds designated for direct instructional costs on such costs of such program at the school site in which the funds were earned except for special education programs which shall be summed for purpose of expenditure control. One hundred percent of funds earned for direct instructional salaries shall be expended for salaries of direct instructional personnel and aides. The total number of positions earned due to FTE counts shall be used to provide services. If QBE funds allocated for direct instructional costs remain unexpended, they must be returned to the State. (20-2-167(a)(1)), unless granted a waiver by the state Board of Education.

Media center costs for personnel and materials must be expended 100%, 90% of which must be spent at the school site for which the funds were earned (20-2-167(a)(2)), unless granted a waiver by the state Board of Education.

Amounts allotted for staff development must be spent 100% for these costs. If FTE counts are below amounts originally estimated and staff development costs savings are returned to the State the 100% for staff development shall be reduced by this amount, (20-2-167(a)(3)), unless granted a waiver by the state Board of Education.

All funds earned must be used for the operation of educational programs as authorized under article 6, chapter 2 of Title 20, unless granted a waiver by the state Board of Education.

Refer to the information included on the Financial Review website, http://archives.doe.k12.ga.us/fbo_financial.aspx?PageReq=FBOFinRevCOAR&fy=18, in the program descriptions

Salary and Benefit Proration

Since salaries and benefits consist of the majority of an LUAs instructional costs, it is important that these salaries and benefits be charged to the correct QBE program. The GA DOE provides some alternatives for charging salaries and benefits to the correct QBE program.

Prorating regular salaries and benefits. If an employee works 100 percent of his or her time in a single QBE program, 100 percent of his or her salary and employee benefits should be charged to that program. If an employee works in more than one QBE program, the salary and benefits should be prorated according to the percentage of time worked in each program. The GA DOE has established certain rules regarding proration of salaries as follows:

1. Homeroom periods, assigned planning periods, breaks and lunch periods are ignored in prorating salaries.

2. Assigned activities assume a six period workday with 50 minute periods.

   The proration formula is a follows:

$$\frac{\text{Periods worked in program A}}{\text{Total periods worked}} = \text{Proration Percentage}$$

Some examples illustrating this formula follow:

1. A teacher works six periods - four in program A, two in program B and no planning period.

Program A	<u>4 Periods</u> 6 Periods = 66.7%
Program B	<u>2 Periods</u> 6 Periods = 33.3%

In this example, all six periods are considered in the proration since 100 percent of the teacher's time is spent in QBE programs.

2. A teacher works six periods - four in program A, one in program B, and one planning period.

Program A	<u>4 Periods</u> 5 Periods = 80%
Program B	<u>1 Period</u> 5 Periods = 20%

In this example, only five periods are considered since planning periods are ignored in prorating salaries and benefits.

3. A teacher works six periods - three in program A, two in program B, and one non-instructional period.

Program A	<u>3 Periods</u> 6 Periods = 50.0%
Program B	<u>2 Periods</u> 6 Periods = 33.3%
Undistributed	<u>1 Period</u> 6 Periods = 16.7%

In this example, all six periods are considered in the proration. However, the non-instructional period cannot be charged to a QBE program. It is charged to the undistributed, non-basic program.

4. A teacher works six periods - three in program A, one in program B, one non-instructional, and one planning period.

Program A	$\frac{\text{3 Periods}}{\text{5 Periods}}$	= 60.0%
Program B	$\frac{\text{1 Period}}{\text{5 Periods}}$	= 20.0%
Undistributed	$\frac{\text{1 Period}}{\text{5 Periods}}$	= 20.0%

In this example, only five periods are used in the proration (i.e., the planning period is ignored) and the non-instructional is charged to the undistributed program.

Prorating Substitute Teachers' Salaries. The proration of substitute teachers' salaries can be very complex since substitute teachers may teach in a large number of QBE programs in a given payroll period. The GA DOE suggests three options for prorating substitute teachers salaries as follows:

1. Charge the substitute teacher’s salary to the QBE Programs in the same proration as the teacher for which they are substituting. This option is the most accurate, but can be difficult to calculate.

2. Charge the substitute teacher’s salary to the QBE program or other program based upon the major program to which the teacher being substituted for is charged. For example, if the regular teacher is being charged 60 percent to program A and 40 percent to program B, the substitute could be charged 100 percent to program A.

3. When the regular teacher teaches 50 percent in each of two QBE programs, the substitute salary may be charged 100 percent to either of the two programs.

Some LUAs, that have no trouble meeting the 90 percent spending requirements, accumulate the substitute costs in a single undistributed account during the year and then allocate them at year-end. This method is not recommended since there is a risk that the 90 percent spending requirements will not be met and budget control is somewhat reduced (i.e., substitute teacher costs are budgeted by QBE program, but not charged against the program until year end).

Instructional Material Allocations

Since the cost of instructional materials is a major portion of non-salary and benefit QBE program costs, the allocation to QBE programs should be as accurate as possible. The GA DOE suggests two options:

1. Specific identification which charges these costs to the actual QBE Program in which the materials will be used. However, this option often is difficult to implement. Usually, the orders for instructional materials are placed in June for the upcoming school year. For example, it may be difficult to determine which program will be using construction paper, even though the school principal may have a good idea of the total amount needed.

Use of this method can work best if the LUA has some type of central warehouse facility where all deliveries can be made and the inventory can be stored until drawn from inventory for use. Usually at time of withdrawal, the user has more knowledge of the actual intended use of the inventory. The LUA might use an internal service fund to account for this activity (see Chapter I-20 for discussion of internal service funds).

2. Allocate the cost of instructional materials on the same ratio as the percentage of full-time equivalent (FTE) count. Usually, the proration is based upon the projected FTE for the upcoming school year (i.e., from the allotment sheet). However, if possible, this allocation should be adjusted to actual FTE counts as they become known during the school year.

FTE - Specific program
FTE - All QBE Programs = Proration Percentage

ANNUAL QBE FINANCIAL REPORT

The annual QBE financial report provides information to the GaDOE for monitoring compliance with expenditure requirements for the 18 QBE Programs. This information is due to the GaDOE no later than the last working day of September. The school superintendent must verify the report.

The data presented must be reconcilable to the LUAs accounting records. As LUAs provide this information and see a need to make some additional allocations, these allocations should be made on the accounting records through journal entries. In addition, any errors discovered should be corrected in the accounting records.

EXPENDITURE CONTROLS

Official Code of Georgia Annotated Section 20-2-167 sets forth expenditure controls for the QBE direct instructional program allotments, as well as the professional development, nursing, and 20 additional days instruction. The expenditure controls are waived for all charter systems, and those systems that have the approved waiver as part of the strategic waivers school system flexibility contract. If a school district has elected to remain a Title 20/No Waiver school system or has not met the accountability requirements of their flexibility contract, the expenditure controls as set forth in the Code Section will apply. While austerity reductions are still in effect, the ability to reduce the allotment per category based on the austerity will be available to districts when determining whether the district met the expenditure controls. The QBE Expenditure Tests must be performed during the review of financial data for fiscal year end electronic submission.

CURRENT EXPENDITURE TESTS

QBE Formula Funds Tests

TEST 3:

(a) (1) The State Board of Education shall annually compute, based upon the initial allotment of funds to each local school system, the total funds needed for direct instructional costs for each program identified in Code Section 20-2-161, specifying the number of positions earned and salaries and operational costs portions. "Direct instructional costs" is defined as those components of the program weights which are specified in subsections (a) through (g) of Code Section 20-2-182. In computing the total funds needed for direct instructional costs for each program, the state board shall apply the percentage that these costs represent of the total costs used in developing the program weights. The direct instructional costs for the five instructional programs for disabled students shall be summed into one amount for special education. Following the midterm adjustment, the state board shall issue allotment sheets for each local school system and each school reflecting the total amount of earnings, initial earnings, and midterm adjustment, if any, for each program authorized by Code Section 20-2-161. For each such program, each local school system shall spend a minimum of 90 percent of funds designated for direct instructional costs on the direct instructional costs of such program at the school site in which the funds were earned, except that funds earned for special education programs shall be summed for the purposes of this expenditure control. For the purposes of this expenditure control, funds earned for counselors and technology specialists shall each be summed to the school level. Only the state salary amounts resulting from the amount earned on the state-wide salary schedule as approved by the State Board of Education pursuant to Code Section 20-2-212 plus associated benefits funded by the state and the salaries and any state earned benefits or comparable state earned benefits of technology specialists and classroom aides may be applied to the salary cost components for the purpose of meeting this expenditure control. Except as otherwise provided by law or rule and regulation of the state board, local school systems may decide whether direct instructional funds shall be used for teacher salaries, aide salaries, instructional material or equipment, or any other appropriate direct instructional expense; provided, however, that 100 percent of funds earned for direct instructional salaries shall be expended for salaries of direct instructional personnel and classroom aides. The total number of positions earned for direct instruction as specified in Code Section 20-2-182, adjusted for maximum class size, shall be employed for the delivery of services for which the funds were earned. This position control shall be for the kindergarten program, the kindergarten early intervention program, the primary grades program, and the primary grades early intervention program combined and the combined total for all other programs; provided, however, that positions earned for art, music, foreign language, and physical education, technology specialists, and counselors shall be totaled for all programs. Fractional amounts may be combined and used for any direct instructional position. Funds earned for any fractional amounts may be used for any direct instructional expense. **Quality Basic Education Formula funds in excess of the amount required by this paragraph to be expended by a local school system for the direct instructional costs of an instructional program specified by Code Section 20-2-161 which are not expended for direct instructional costs must be returned to the state treasury."**

The above relates to **TEST 3**: 100% of the Direct Instruction QBE Earnings and 90% of the Program Earnings, both Salaries and Operations, must be expended for the direct instruction at the system level and site level. This test is applicable to the following program codes:

1011 – Kindergarten
1061 – Kindergarten EIP
1021 – Grades 1-3
1071 – Grades 1-3 EIP
1051 – Grades 4-5
1091 – Grades 4-5 EIP
1081 – Middle School Program 6-8
1041 – High School 9-12
3011 – Vocational Lab 9-12
2011 – Special Education Programs
2021 – Special Education Category I
2031 – Special Education Category II
2041 – Special Education Category III
2051 – Special Education Category IV
2061 – Special Education Category V
2111 - Gifted
2211 – Remedial Education
5071 – Alternative Education Program
1351 – English for Speakers of Other Languages
1460 – Mid-Term Hold Harmless

Key Points with **TEST 3**:

1. Only salary and benefit expenditures associated with the state salary can be considered when determining if meeting this test. Any salary expenditures based on the locally approved supplement or other contractual arrangement cannot be used to meet the 100% test at the system level. Because of this, **any school districts that must adhere to the expenditure controls should report salary and benefits associated with the local supplement to the local program codes.** The local program codes are as follows: 1013, 1023, 1033, 1043, 1053, 1063, 1073, 1083, and 1093. These program codes are included in the LUA Chart of Accounts.

2. This test calculates the allotments for all 18 direct instructional programs (including the mid-term hold harmless) combined. However, the total allotments by program, separated by salaries and operations, are provided. The allotment for salaries covers both salaries and benefits. So the comparison report compares the allotted amount for salaries to the total expenditures for salaries, plus benefits, plus contracted services (in lieu of salaries). The allotment for operating costs is compared to the total expenditures charged to objects 300, and 331-890.
3. Currently, site level allotment sheets are not available. Therefore, the test that 90% of direct instructional funds awarded to the site level are spent will not be performed (TEST 1). However, each district should ensure the provisions of State Board Rule 160-5-2-.21 are met, which include reporting the expenditures by school code.
4. The Hold Harmless revenue earnings, which are recorded to program code 1460, must be expended in one of the program codes above. Do not code expenditures to program code 1460. This test, **Test 7**, is combined with Test 3 to include the total Hold Harmless revenue earnings with the total direct instructional programs.
5. Middle Grades, Program Code 1031, was not appropriated. All related FTEs were calculated using the Middle School formula. No expenditures should be coded to program code 1031 in current period.
6. Austerity can be applied to each of the program categories above.

TEST 4:

O.C.G.A. §20-2-167 (a)(2) states, in part, "…Each local school system shall spend 100 percent of the funds designated for media center costs for such costs, and a minimum of 90 percent of such funds shall be spent at the school site in which such funds were earned."

The above relates to the **TEST 4**: 100% of the funds designated for Media Center Costs at the System Level. The program code tested for media center is 1310. Media materials are defined as those instructional materials including print, non-print, periodicals, online databases, supplies, and equipment that are critical to the support and enhancement of the school library media center program. These materials are housed in and circulated through the library media center for use by the entire learning community of the school.

Key points with **TEST 4**:
1. All media center program expenditures should be expensed to function 2220.
2. Local supplements **are allowable** for meeting the media expenditure control test. Also allowable are salaries for media aides.
3. Austerity reductions can be applied to this program category.

TEST 5:

O.C.G.A. §20-2-167 (a)(3) states, in part, "…Each local school system shall spend 100 percent of the funds designated for staff and professional development costs, as allowed by State Board of Education policy, for such costs."

Additionally, O.C.G.A. §20-2-167 (a)(3) includes, "….The State Board of Education, in consultation with the Professional Standards Commission, shall establish category-level expenditure controls to ensure that the staff development funds allotted pursuant to this paragraph are utilized in such a manner as to help align professional learning with results in improved achievement. Such category-level expenditure controls shall be established no later than July 1, 2015, and shall reflect the revised certification renewal rules established by the Professional Standards Commission pursuant to paragraph (4.1) of subsection (b) of Code Section 20-2-200 regarding the impact of professional learning on student achievement."

The above relates to **TEST 5**. 100% of Staff and Professional Development Earnings must be expended for Staff and Professional Development costs at the system level. This test combines the Staff and Professional Development, program code 1210, and the Principal Professional Development, program code 1211, allotments.
Key points with **TEST 5:**

1. State Board Rule 160-3-3-.04 sets forth the uses of the professional development allotment. Each district and charter shall have a plan in place for how the funds will be spent. The districts are required to submit a budget for the professional development funds in conjunction with the consolidated application.
2. Professional development funds are drawn down monthly and a completion report is required at the end of the fiscal year.
3. Professional development expenditures should be expensed to function 2210.

TEST 8:

O.C.G.A. §20-2-184.1 states, in part, "Each local school system shall spend 100 percent of the funds designated for additional days of instruction for such costs at the system level, which may include transportation costs incurred for transporting students who are attending additional classes funded by those designated funds."

The above relates to **TEST 8**. 100% of 20 Additional Day funds must be expended, up to 15% of earnings are allowed to be expended for transportation expenditures. Expenditures related to the 20 Additional Days of instruction should be expensed to program code 1100.

Key points related to **TEST 8**:

1. The Code section further states, "shall reflect sufficient funds to pay the beginning salaries for instructors needed to provide 20 additional days of

instruction for 10 percent of the full-time equivalent count of the respective program. Such funds shall be used for addressing the academic needs of low-performing students with programs including, but not limited to, instructional opportunities for students beyond the regular school day, Saturday classes, intersession classes, summer school classes, and additional instructional programs during the regular school day. Each local school system shall spend 100 percent of the funds designated for additional days of instruction for such costs at the system level, which may include transportation costs incurred for transporting students who are attending additional classes funded by these designated funds."

2. The expenditure controls are set to ensure that not more than 15% of the allotment is coded to function 2700 for allowable transportation expenditures.

Categorical Grants Expenditure Tests

<u>TEST 10:</u>

O.C.G.A. §20-2-186 (5) states, in part, "Each local school system shall expend 100 percent of the funds earned pursuant to this paragraph for salaries and benefits for school nurses."

The above relates to **TEST 10**. 100% of Nursing Services must be expended for nursing services and recorded to program code 1500.

Key points related to **TEST 10:**

1. OCGA 20-2-186(5) states, "Each local system shall earn funding for one nurse for every 750 full-time equivalent students at the elementary school level and one nurse for every 1,500 full-time equivalent students at the middle and high school levels. Such funding shall have a ratio of one registered professional nurse to five licensed practical nurses. Such funding shall be based on a contract length of 180 days and shall be sufficient to pay 50 percent of the average salary and benefits, as determined by the Department of Education, for a registered professional nurse or for a licensed practical nurse; ……Local school systems shall not be required to provide any local matching funds for school nurses to receive funds pursuant to this paragraph. Local school systems that do not meet the minimum full-time equivalent student counts set out in this paragraph shall receive a base amount of funding."
2. Only salaries and benefits for nursing services shall be recorded to program code 1500.

There are several tests that will not be tested in FY 2016:

1. Site level allotment sheets are not available for FY 2016, therefore the following tests will not be tested:
    a. TEST 1 – 90% of the Direct Instruction Funds Earned, Salaries and Operations, Must Be Expended on the Program and at the Site Where Earned.
    b. TEST 2 – 100% of Direct Instruction Salary Earnings Must Be Expended for Salaries in Direct Instruction in the System. (**Please note: While this test is not tested separately, TEST 3 above does detail the salary and operations allotments separately so the district can compare the salary earnings by system to the total salaries allotment by system. When testing the salaries allotment and earnings, the total salaries allotment for Kindergarten (1011), Kindergarten EIP (1061), Primary Grades (1021), Primary Grades EIP (1071), Upper Elementary Grades (1051), and Upper Elementary Grades EIP (1091) are combined. All other categories are combined for testing. One consideration to keep in mind is that the Training and Experience is allocated proportionately to each category. The actual test for salaries would require site level earnings to determine actual salaries earned per program.)**
    c. TEST 4 – 90% of Media Earnings, Salary and Operating, Must Be Expended on Media Costs at the Site Where Earned. (Test 4 currently is only testing at system level.)
2. The following test is combined with TEST 3:
    a. TEST 7 –100% of “Hold Harmless” Earnings Must Be Expended in QBE Formula Categories in the System (Test 3 includes the allotment for Hold Harmless.)
3. The following tests are not performed because there were no appropriations in current period:
    a. TEST 6 – 100% of Earnings for Principal Supplements Must Be Expended for Principal Supplements at the Site Where Earned
    b. TEST 9 – 100% of Alternative Programs Sparsity Grants Must Be Expended for Alternative Programs Salaries and Benefits
    c. TEST 11 – 100% of Migrant Services must be spend on Migrant Program
    d. TEST 12 – 100% of Bus Replacement must be spent on Bus Replacement – Unspent Funds must be reserved.

Chapter II – 8 Reporting For High And Moderate Risk LEAs And Those With Governmental Fund Deficit Balances

INTRODUCTION

Infrequently, some Georgia local units of administration (LUAs) face various issues/obstacles that result in an increased risk of financial misappropriation or inaccurate reporting. Increased risk is assessed via the annual audit process. Georgia law (O.C.G.A. §50-6-6) requires the Georgia Department of Audits and Accounts (DOAA) to conduct an annual financial audit of the books and accounts of LUAs. The statute also includes a provision allowing LUAs to engage a certified public accountant (CPA) to provide an "additional audit". By strict interpretation, this "additional audit" would not relieve the GA DOAA from the legal requirement to perform the audit. However, to prevent duplicity, the GA DOAA has maintained a practice of accepting audits of LUAs conducted by CPAs but continue to maintain the responsibility of reviewing and publishing the audits on the public searchable website. In performance and review of audit engagements, the DOAA assess the risk of financial misreporting based on the results of the audits. If the LUA is determined to be a high or moderate-risk entity, there are certain training and reporting requirements an LUA must meet, which are discussed in this chapter.

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

The seriousness of fund balance deficits cannot be overstated. Deficits can only be eliminated by increasing revenue (property taxes) or reducing expenditures (decrease employment, instructional supplies, increase classroom sizes). Operating deficits decreases the public's confidence in the LUA to operate efficiently and effectively, as stewards of taxpayer's dollars. Because of the impact of deficits on an LUA's current and future operations, the Georgia Department of Education (GaDOE) requires those LUAs with deficit governmental fund balances to meet certain reporting requirements. This chapter illustrates these reporting requirements in addition to the reporting requirements of high or moderate risk LUAs.

HIGH OR MODERATE RISK LUA DETERMINATION AND REPORTING REQUIREMENTS

The Official Code of Georgia Annotated (O.C.G.A.) Section 20-2-67 requires the Department of Audits and Accounts to designated local school systems that have reported irregularities or budget deficits for three or more consecutive years as high-risk local school systems and designate local school systems that have had reported irregularities or budget deficits for one year or two consecutive years as moderate-risk local school systems.

Irregularities are defined by the DOAA, based on significant deficiencies or material weaknesses in internal control noted during an audit engagement.

If an LUA is designated as high- or moderate-risk by DOAA, the LUA and the State Board of Education and Department of Education are notified. The State Board of Education is then required to inform the superintendent of the LUA of any irregularities or budget deficits, including if a local school system has been designated as a high-risk local school system or moderate-risk local school system. The superintendent is required to submit to the GaDOE a response to the findings and a corrective action plan approved by the local board of education at a board meeting within 120 days of the notification. These corrective action plans are collected and reviewed by the GaDOE Financial Review Division, with updates reported to the State Board of Education.

The risk designation of a local school system is considered when negotiating the systems flexibility contract, either as a charter system or a strategic waiver system.

Additionally, LUAs determined to be high-risk must require all members of the local boards of education to complete training on his or her own local school system's most recent audit findings and the risk status of the local school system as determined by the Department of Audits and Accounts or the Department of Education. The training shall also include the role of the local school superintendent with respect to financial management and financial governance of the local school system.

BUDGET DEFICITS

An LUA is prohibited from purposely budgeting into a fund balance deficit. This means that beginning fund balance (or equity) plus anticipated revenues cannot be less than anticipated expenditures for any fund category. When an audit of the financial statements reports an LUA is operating in a fund balance deficit situation, there are certain requirements related to the irregularity that must be met, in addition to the reporting requirements of high- or moderate-risk LUAs.

O.C.G.A. § 20-2-67 requires that any local school system with a budget deficit reported by its auditor must comply with the following –

1. The local school superintendent shall present to each member of the local board of education for his or her review and written acknowledgement a monthly report containing all anticipated expenditures by budget function for such school or school system during the current month. The report shall be

presented to local board members on or before the tenth business day of each month. Each monthly report shall be signed by each member of that local board and recorded and retained in the minutes of the meeting of the local board of education.

2. Not later than September 30 of the year, each local board shall cause to be published in the official county organ wherein the local school system is located once a week for two weeks a statement of actual financial operations for such schools or school system identified by the Department of Audits and Accounts as having financial irregularities. Such statement of actual financial operations shall be in a form to be specified and prescribed by the state auditor for the purpose of indicating the current financial status of the schools or school system. Prior to publication, such form shall be executed by the local board of education and signed by each member of said board and the local school superintendent.

3. A copy of the actual financial operations form required to be published by subsection (c) of this Code section shall be mailed by each local board of education to the Department of Education and the local county board of commissioners or local municipal governing authority. A current copy of said form shall be maintained on file in the central administrative office of the local school system for public inspection for a period of at least two years from the date of its publication. Copies of the statement shall be made available on request.

4. Submit to the Georgia Department of Education (GaDOE) a Deficit Elimination Plan.

5. Present to each school board member for review and written acknowledgment a monthly report containing all actual expenditures by budget function for the system during the current month and compare to the year-to-date budget expenditures. The monthly reporting is required until the next audit report indicates the deficit has been eliminated. The GaDOE Financial Review Division does exercise judgement in suspending the monthly reporting prior to an issued audit report, depending on the status of the monthly reports and the timing of the audit. This report will be presented at each board meeting. The report must be signed by each board member and retained in the minutes of the board of education. The report shall also be forwarded to DOE monthly until the deficit is eliminated.

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

local board of education and signed by each member of the board and the local school superintendent.

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

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

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

UNAUDITED DEFICITS REPORTED TO GaDOE

Because of the seriousness of operating in a fund balance deficit situation, the GaDOE Financial Review Division also reviews the unaudited annual financial report that is submitted each fiscal year to determine if any LUAs have a deficit situation, or fund balance is declining at such a rate that a fund balance deficit appears probable. If it is determined that the LUA has a deficit situation, GaDOE will require the LUA to meet the following reporting requirements of O.C.G.A. §20-2-67:

1. The local school superintendent shall present to each member of the local board of education for his or her review and written acknowledgement a monthly report containing all anticipated expenditures by budget function for such school or school system during the current month. The report shall be presented to local board members on or before the tenth business day of each month. Each monthly report shall be signed by each member of that local board and recorded and retained in the minutes of the meeting of the local board of education.

2. Submit to the Georgia Department of Education (GaDOE) a Deficit Elimination Plan.

3. Present to each school board member for review and written acknowledgment a monthly report containing all actual expenditures by budget function for the system during the current month and compare to the year-to-date budget expenditures. The monthly reporting is required until the next audit report indicates the deficit has been eliminated. This report will be presented at each board meeting. The report must be signed by each board member and retained in the minutes of the board of education. The report shall also be forwarded to DOE monthly until the deficit is eliminated. This monthly report is required until the LUA has eliminated the deficit for at least one year or until it ends a fiscal year with an operating reserve of at least 10% of the property tax revenues collected during the calendar year. The GaDOE Financial Review Division exercises judgement of continued or suspended

monthly reporting, based on the information provided. These reports are due to the GaDOE Financial Review Section immediately after board approval.

REDUCTION OF DEFICITS

Fund Balance deficits can only be eliminated by increasing revenue or reducing expenditures. If an LUA determines they have a deficit situation, they only have a few options for eliminating that deficit.

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

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

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

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

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

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

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

If the fund deficit is reported for school nutrition, the LUA must determine if meal prices should be increased, staffing levels reduced, or if there are any other cost-cutting measures that can be implemented. The local board of education will also need to approve a line item in the General Fund budget to supplement the operating costs of the nutrition program with the local tax revenue.

If a fund deficit is reported for capital projects, the LUA must determine if other planned projects with the SPLOST dollars must be eliminated before contracts are entered into or determine how much of the General Fund operating budget must be approved by the local board of education to cover the excess capital project expenditures.

SUMMARY

It is emphasized that financial stability of LUAs is critical to the state's commitment to Georgia's children for a quality education. Irregularities in financial operations and reporting, as well as fund deficits require swift action by the LUA to implement corrective measures, and those action plans must be monitored by the Georgia Department of Education.

The reporting and financial training requirements for LUAs with a high or moderate risk designation or reported governmental fund deficits are quite stringent. LUAs with financial irregularities must ensure management (superintendent and board members) are notified and are aware of the audit issues noted and are actively managing a corrective action to eliminate the irregularities. Management must also make every effort to eliminate governmental fund deficits as quickly as possible. However, most deficits were not created in a single year. Therefore, it may require several years to eliminate these deficits. LUAs that do not monitor their deficits and implement budget cuts to eliminate the deficits as quickly as possible could face even more strict reporting requirements, at the discretion of the State Board of Education. Additionally, the State Board of Education may request an LUA to attend a State Board Audit Committee meeting to discuss the status of the irregularities and deficits.

Chapter II – 9 Indirect Costs

INTRODUCTION

Revised in December 2015, the Office of Management and Budget (OMB) 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards authorizes Local Units of Administration (LUAs) to recover reimbursement for indirect costs associated with various federal programs. While OMB has assigned the U.S. Department of Education the responsibility for approving indirect cost plans of LUAs in compliance with provisions of OMB 2 CFR Part 200, in accordance with U.S. Department of Education regulations (34 CFR 76.561), the Georgia Department of Education (GaDOE) has been delegated the authority to approve indirect costs rates for each LUA. The GaDOE calculates both the restricted and non-restricted indirect costs plans for each LEA, based on data submitted in the most recent year-end financial report. These rates are available through the PORTAL LOGIN website located at: https://portal.doe.k12.ga.us/login.aspx.

After a successful login, select FINANCE APPLICATIONS, FINANCIAL REVIEW APPLICATIONS and REPORTS. On the bottom of this menu is FIN INDIRECT REPORTS MENU.

The calculation is based on data from the latest fiscal year submitted. GaDOE uses the annual Financial Analysis Report (DE046) that is submitted electronically by each LEA to calculate the next fiscal year's rate. For example, the 2024 Indirect Cost Rate is based on data submitted for fiscal year 2022. The rate has to be calculated prior to the fiscal year, so the fiscal year data used is two years behind the fiscal year in which the rate will be applied. Because we calculate the rate using unaudited financial data, a comparison of the unaudited data to the annual Audit is completed. The rates could require amendment if there are significant differences between the unaudited and audited amounts used to calculate the rate. Therefore, it is essential that LEAs classify expenditures uniformly, accurately, and consistently.

Should an LEA wish to propose an alternate Indirect Cost Rate other than that calculated by GaDOE, provisions are available through the "Indirect Restricted or (Non-Restricted) Cost Adjustment Log." Revisions to the rate must be in accordance with the GaDOE's approved Indirect Cost Rate Plan.

Instructions for this application are available on the Financial Review web page, http://www.gadoe.org/fbo_financial.aspx underthe "Indirect Cost User's Guide".

School districts are not required to recover indirect costs from federal grants and contracts. If the district elects to claim indirect costs, the rate used may be less than the calculated rate. But in no instance may the rate exceed the approved rate. Upon completion of the federal grant or contract, the recovered indirect costs amount may not exceed the amount computed by multiplying the approved rate by the amount actually expended for direct costs less unallowable and excluded expenditures. LUAs must include indirect costs in their budget within the Federal consolidated application for each federal grant in which indirect cost will be applied. If the district does not initially include indirect cost recovery in their approved budet, the LUA must request a budget amendment before applying the indirect cost rate. Additionally, recovery of indirect costs on grants is subject to the availability of funds. Upon completion of the grant, the indirect cost amount claimed may not exceed the amount computed by multiplying the approved indirect cost rate by the amount actually expended for direct cost.

Normally, LUAs elect a restricted indirect cost rate rather than a non-restricted rate, although application depends on the type of grant. LUAs may use the non-restricted rate for grant programs for which a supplement, not supplant provision does not apply. The most common grant for LUAs is the School Nutrition Program. In compliance with federal requirements including those of 34 CFR 75.563 and 34 CFR 76.563, an LUA must use the restricted indirect cost rate when charging and claiming indirect costs for federal funds received by the LUA through the GaDOE, unless the grant program qualifies for the non-restricted rate. The primary difference between the two rates is that maintenance and operation of plant may be considered as an indirect cost in the non-restricted rate.

All expenditures reported must be analyzed and divided into costs that are (a) excluded, (b) not allowable, (c) indirect, or (d) direct. The following definitions are used in preparing the plan (note that the term "superintendent" is used to denote either superintendent, charter school director, or Regional Educational State Agency (RESA) director):

Excluded Costs

This includes items for which federal funds cannot be used, such as bad debts, contingencies, contributions, donations, entertainment, fines and penalties charged to the school system, and interest. The cost of capitalizable assets (715, 720, 73X), facilities acquisition and construction (function 4000), and cost of debt service (function 5100) including interest on short-term loans, must be excluded. Any cost charged to Enterprise Operations (function 3200) or Other Uses (function 5000) should be excluded. In function 3100 School Nutrition Program, Food Usage (object 630), Food Acquisition (object 635), and Equipment (objects 730 and 734) must be excluded). All other function 3100 costs must be listed as direct costs. All objects in series 700, except for Depreciation Expense, should also be excluded. Expendable equipment (object 615/616) should NOT be excluded, as expendable equipment is considered a direct cost.

Not Allowable Costs

This section includes the costs of general local government salaries (e.g., the salaries of the superintendent and his/her secretary, associate and/or assistant superintendents, their staff and clerical assistants), the employee benefits for these positions, and other costs related to these positions (e.g., travel and office expense). Such costs are treated as indirect costs in the non-restricted costs plan. Any expenditures related to the local board of education (e.g., travel, per diem) are not allowable. Costs associated with school principals, clerical assistants, office costs, etc., are not allowable cost in the restricted indirect cost rate and will be treated as direct costs in the non-restricted costs plan. While not allowable for application of the indirect cost rate, the not allowable costs are included in the base with the direct costs in determining the rate to be used. The rate is only applied to direct costs of the grant or award.

Indirect Costs

This section includes the salaries and expenditures for direction and control of system wide activities and not those confined to one school, subject, or phase of operation. Generally, this would include the salaries and other costs directly attributable to those personnel who have responsibilities in business affairs (e.g., budgeting, payroll, personnel, and purchasing) and would include such personnel as CFOs, directors, accountants, bookkeepers, etc. These costs may include clerical assistance, office expense, travel, and employee benefits. Associate and/or assistant superintendents are not allowable as indirect costs.

Maintenance and Operation of plant is considered as indirect costs on the non-restricted cost plan, and as direct costs on the restricted plan; however, equipment is excluded in both plans. In preparation of restricted indirect cost plans, only general fund administration and fixed charges is considered indirect costs.

Direct Costs

Direct costs are expenditures for all other purposes. Direct costs are the balance of costs after proper distribution of costs to the “excluded costs”, "not allowable costs", and "indirect costs" categories. Project directors and their immediate clerical assistants are considered direct costs. These directors include persons whose positions may be funded from more than one program. The immediate clerical positions would include secretaries and other clerical positions. Clerical positions associated with personnel, purchasing, and accounting would not be classified as a direct cost, but would be included in the indirect cost column. In any instance where a position is used less than full time in a federal program, time records must be maintained to properly allocate their time. State program administrators will review positions classified as direct cost at the time of project approval. In turn, both state and federal auditors will give direct cost positions special attention.

The information listed below is a brief summary of the categories of costs by functional category. Further detail is included in the Indirect Cost User’s Guide.

1000 Instruction – Direct Costs. Capital Outlay and Equipment purchases are excluded (objects 700 through 739, and 750).

2100 Support Services – Pupil Services – Direct Costs. Capital Outlay and Equipment purchases are excluded.

2210 Support Services – Improvement of Instructional Services – Direct Costs. Capital Outlay and Equipment purchases are excluded.

2220 Support Services – Educational Media Services – Direct Costs. Capital Outlay, Equipment purchases, and regional and county library dues are excluded.

2300 General Administration – Costs are separated into excluded, not allowable, indirect, and direct costs. Salary, employee benefits, and associated costs for the superintendent, associate, and/or assistant superintendents, RESA directors, and their secretaries are not allowable. Costs related to board members are not allowable. Salaries, employee benefits, and associated costs for administrative assistants and other administrative clerical personnel are classified as indirect cost. Other administrative costs allowable are prorated based on the salaries classified as indirect to the total salaries. Only general fund expenditures are eligible for indirect cost. Items such as federal indirect cost (function 2300, object 880), equipment, and other pre-defined items are excluded. Special fund costs are entered in the direct cost column unless they are excluded.

2400 School Administration – Not Allowable - restricted plans and Direct Costs - non-restricted plans. Capital Outlay and Equipment purchases are excluded.

2500 Support Services – Business – All items related to administration are treated as indirect costs. Any salaries not associated with administration (object 181) are classified as direct costs. Only General Fund expenditures are eligible for indirect cost reimbursement. Interest on loans, capital outlay, and equipment purchases are excluded.

2600 Maintenance and Operation of Plant Services – Direct Costs – restricted plan. Indirect Costs - non-restricted plan. Capital Outlay and Equipment purchases are excluded.

2700 Student Transportation – Direct Costs. Equipment, capital purchases, and lease-purchase agreements for buses are excluded. The consumption of the capital purchases are included as direct when consumed.

2800 Support Services – Central – Any item related to administration is treated as an indirect cost. Other items are analyzed and divided into costs that are excluded or direct. Only general fund expenditures are eligible for the indirect cost (Column D). RESA fees, capital outlay, and equipment purchases are excluded.

2900 Other Support Services – Any item related to administration is treated as an indirect cost.

3100 School Nutrition Program – Direct Costs, except for food usage (object 630), food acquisition (object 635), capital outlay and equipment purchases (objects 700 through 739, and 750), which are excluded. All other SNP costs are listed as direct cost.

3200 Enterprise Operations – Direct Costs. Capital Outlay and Equipment purchases are excluded.

3300 Community Service Operations – Direct Costs. Equipment, depreciation, and federal indirect cost charges (object 880) are excluded.

4000 Facilities Acquisition and Construction Services – Direct Costs. All object 7XXs are excluded, except for depreciation expense in the 74X range.

5000 Other Uses – Exluded Costs.

5100 Debt Services – Excluded Costs.

Purchased Professional and Technical Services (object 300) is analyzed and classified as direct cost, unless a relationship can be established to support an allowable indirect cost activity. Other items should be analyzed and divided into costs that are excluded or direct. Only General Fund expenditures are eligible for the indirect cost. RESA fees, capital outlay, equipment purchases, and Services Purchased from LUAs within Georgia (object 592) are excluded.

The US Department of Education Cost Allocation Plan issued in 2009 is included in the Appendix of the Financial Management Handbook. This cost allocation plan has not been updated for the changes in the Uniform Grant Guidance.

Section III – The Accounting Cycle Procedures

Chapter III – 1 Cash Receipts

INTRODUCTION

Most local units of administration (LUAs) receive a limited number of cash receipts in the central office. An LUA's State and Federal funds are received primarily via electronic funds transfer from the Georgia Department of Education (GaDOE). The LUA receives property taxes from the county tax collectors periodically. The most voluminous cash receipts come from the LUA's school nutrition program and school activity accounts. Though the dollar value may not be high, there is a daily deposit by each school cafeteria. In most LUAs, the deposit slips are listed on a form and sent to the central office weekly for recording in the School Nutrition Special Revenue fund.

As cash and negotiable items (e.g., checks, wire transfers) are received, the staff has two responsibilities:

- Accountability must be established
- Accelerate the deposit of cash receipts

This chapter reviews these responsibilities as well as provides an overview of internal controls for cash receipts. Accounting for revenues and cash receipts is presented in chapter I-9.

ACCOUNTING FOR CASH RECEIPTS

Most LUA business offices include cash-receipting systems and record keeping systems. Many software programs provide excellent record keeping systems for cash receipts.

Responsibility for Cash Receipts

Normally the LUA business manager or bookkeeper is responsible for cash receipts. Some of these responsibilities include:

- Developing written policies and procedures covering collection activities
- Training of staff
- Prudent handling of the LUA's cash

The policies and procedures should address the following:

- The handling of both cash and checks
- The method of documenting cash transactions
- The reporting of these transactions
- The evaluation of cash collection procedures

All LUA personnel involved in cash collections and deposits should be trained to understand the cash receipts system. In addition, the staff has a fiduciary responsibility to the taxpayers in its district as well as to the taxpayers in the State of Georgia for these public monies. Often, staff that collect and deposit monies also may be personally liable for the money in their custody.

Billing Procedures

A standard set of procedures should be developed for all revenues that are collected as a result of a billing process. In LUAs, these revenues usually are limited to billings for tuition and building rentals. In addition, LUAs request cash from GaDOE for various state and federal grants on a periodic basis. This cash normally is requested on DE Form 0147 electronically through the GaDOE Grants Accounting System. An invoice or billing should include at least the following information:

- The name and address of person or company billed
- A description of services the LUA provided
- Date services were provided
- The cost of the service and the amount due
- Remittance information (check payee, remittance address, or electronic transfer)
- A telephone number to call for questions
- Due dates clearly indicated

Another billing issue is "when to bill?" Generally, an invoice should be submitted immediately after the service has been provided or in the case of a tangible item, as soon as it has been delivered to the purchaser. The timing of billing directly affects when an LUA can expect to receive revenues during the fiscal year. Tuition may be billed from one LUA to another for pupils attending the billing LUA's schools or billed directly to parents for pupils attending an LUA other than their resident LUA. The timing of billings usually is agreed upon, between the LUA and the LUA or parent responsible for the billing. In order to improve the LUA's cash flow, tuition billing should be generated monthly. Building rental billings should be sent immediately after buildings are used. It may be the policy in some LUAs to require a damage deposit and evidence of liability insurance for rental of school facilities.

Accounts Receivable System

A connection must be made between the billing system and an accounts receivable system. Once the service has been provided, a receivable should be debited to ensure that the LUA has recorded the asset. The credit for the transaction depends on whether the modified accrual basis or accrual basis of accounting is used. If the accrual basis of accounting is used, revenue is credited. If the modified accrual basis of accounting is used and the revenue is considered available, revenue is credited. If the revenue is not considered available, deferred inflow of resources will be credited. See Chapter I-7 for basis of accounting discussion. The receivable account is credited when payment is received.

Collection Procedures

Collection policy issues might include:

- Efficiency of cash receipts processing
- Maintenance of internal controls
- Proper handling of cash and checks

Efficiency of cash receipts processing, through reductions in collection float, should be one of the LUA's primary goals. Collection float refers to the time lag caused by the normal processing of revenue receipts through the mail and an LUA's internal processing of cash and checks and subsequent deposit into the bank.

LUAs receive their QBE funds and other grants through electronic funds transfers which basically eliminate any collection float since these monies are deposited directly into the LUA's bank of choice.

Georgia law (O.C.G.A. 48-5-141) requires the county tax collectors to distribute tax collections, including interest earned while held by the tax commissioner, once a week for counties with population over 30,000 and once every two weeks for population under 30,000. School taxes collected for independent school systems by the municipality are directly appropriated to the school board in accordance with O.C.G.A. 48-5-405.

As indicated earlier, the primary cash collectors in an LUA are those employees at the end of each school cafeteria breakfast or lunch line. The greatest risk of cash loss is from negligence. All efforts should be made to ensure that each location collecting cash provides adequate physical security and that cash handling procedures are followed. Because most cash losses are due to lack of training in cash handling, security, and loss prevention procedures, all cash handlers should be trained in cash handling procedures. The amount of actual cash accepted in the food lines has decreased with the use of electronic payment systems by the school districts.

Deposit of Revenue/Receipts

Bank deposits should be made intact daily with no substitutions of checks for cash. In no instances should amounts be removed to purchase any goods or services. If same day deposit is impractical, then the deposit should be made no later than 24 hours after the receipt of cash. The employee making the physical deposit at the bank should be someone other than the cash handler. The deposit bag should remain locked, and kept in a secure location.

All checks should be endorsed with a stamp that reads "for deposit only, account #___." This endorsement ensures that all checks are deposited in an LUA's account and not diverted for other purposes. Checks received with incorrect payment amounts should be deposited promptly, as errors can be reconciled after a check has been deposited.

Every LUA should have a policy regarding checks that have been returned due to insufficient funds in a checking account. The policy should include redepositing first-time returned checks. As an alternative, LUAs can take advantage of check recovery services that allow virtually risk free processing of checks.

CASH RECEIPT - INTERNAL CONTROLS

Internal controls are established within the accounting system to safeguard the LUA's assets. Because of the risks inherent in cash collections, these controls are essential. Small LUAs have a particular need for an adequate system of internal controls because they lack the margin of safety and greater tolerance for error of large LUAs. A good system of internal controls protects those LUA employees involved in cash collections because they may be held personally liable for the loss of any money because of negligence. All employees who have responsibility for handling cash and checks should be properly bonded to protect the LUA from any cash or property losses.

There are several basic principles of internal controls that apply to the collection of cash.

Proper Authorization of Transactions - All transactions related to cash collections should be approved by an LUA staff member who has responsibility, but is not directly responsible for cash collections, such as the business manager or the superintendent.

Segregation of Duties - The segregation of duties is an extremely important aspect of internal controls. However, this aspect is very difficult to achieve in small LUAs with limited staff. When "segregation of duties" exists, no one LUA employee should ever be placed in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of their duties. For example, no one employee should be allowed to complete the following activities from beginning to end.

- Collecting cash
- Preparing the bank deposit
- Approving the bank deposit
- Recording cash entries in the accounting records
- Reconciling the bank statements
- Preparing monthly financial statements for the school board and administration

Security for records - The internal controls system should limit the access to and use of the assets and records of the cash receipts personnel.

The following is an internal control checklist for cash receipts.

- Are checking accounts authorized by the local board?
- Is the mail opened by an employee who does not make the bank deposit or have access to the accounts receivable ledger?
- Are cash receipts deposited intact daily?
- Is cash deposited by someone other than the person who prepares the bank deposit?
- Are cash receipts reconciled to accounts receivable records or cash receipts reports included in the accounting software?
- Are bank statements reconciled by someone outside the cash collections process?
- Are employees who handle cash bonded?
- Are vacations mandatory?

SUMMARY

Fortunately in Georgia LUAs, most large dollar amounts of revenue are received either through electronic funds transfer or check, therefore, reducing the risk of misappropriation of cash. Periodically, LUA finance staff should review the cash receipts processes to insure the integrity and efficiency of the processes in place. Chapter III-2 provides information regarding cash disbursements and Chapter IV-6 discusses the management of cash and investments.

Chapter III – 2 Cash Disbursements

INTRODUCTION

Georgia local units of administration (LUAs) issue many cash disbursements in a fiscal year. Normally checks are written or electronic transfers are made to vendors for goods and services and to employees. Most LUAs pay vendors according to a predetermined schedule, pay one primary payroll at the end of the month, and pay hourly employees usually weekly. The primary goal of an LUA's disbursement system is to schedule the payment of resources so that the maximum amount of monies are available for investment for the longest period of time, while paying all vendors and employees on a timely basis. This chapter discusses primary payments to vendors for goods and services. Chapter III-3 discusses the payroll process.

THE CASH DISBURSEMENTS PROCESS

The two primary methods that LUAs use to disburse resources are through a commercial bank check or an electronic funds transfer.

A commercial bank check is most widely used by Georgia LUAs and is the cash disbursement discussed is this chapter. A check is simply an order to pay money on demand to the payee from the LUA's bank account. Electronic funds transfers move monies from one bank to another electronically over datalines.

Normal Vendor Payment Process

Most LUAs have established disbursement patterns. Some LUAs pay invoices weekly, bi-weekly or monthly. Normally an invoice should be paid within thirty days of receipt. However, many vendors provide payment discounts for prompt payment. LUAs should take advantage of any discounts if cash is available and the accelerated payment does not disrupt the normal cash disbursement process.

The process of paying vendors begins with the LUA's purchasing system. Normally the purchasing process includes the following steps -

1. The LUA issues a purchase order to the vendor,
2. The vendor provides the service or delivers the goods,
3. The LUA staff that receives the goods or services notifies the accounts payable personnel that the services or goods have been received satisfactorily. Normally, a receiving copy of the purchase order is signed indicating to the accounts payable staff that the invoice is ready to be paid.
4. The cash disbursement process begins when the LUA receives the invoice from the vendor and matches the invoice with the receiving copy of the purchase order signed as indicated above.

Rather than using a copy of the purchase order as a receiving copy, some LUAs send a copy of the invoice to the receiving department or school for verification receipt. If this process is used, a copy, not the original invoice, should be used. The advantage to this method is that the department or school confirms the amount of the invoice and the amount to be charged against their operating budget before it is paid. The disadvantage is that the disbursement process is slowed and could harm vendor relations because of late payment.

If the LUA has a purchasing department, normally the purchasing department should approve any increases in prices from the purchase order to the invoice. If the only difference is freight charges, often the accounts payable staff can authorize the increased cost.

Manually Prepared Checks

Occasionally LUAs must make a payment on a manually-written check (sometimes called a hand drawn check) rather than on a computer-generated check. Exceptions to the normal invoice processing should be minimized and discouraged. Urgency should be the only justification for issuing a manually-prepared check.

INTERNAL CONTROLS

Accounting is the "heart" of an LUA's internal control system. It is critical that internal controls be in place to minimize the risk in disbursing monies.

Checks

Since checks are the lifeline of a cash disbursement system, care must be given in maintaining and processing them. All checks issued by an LUA must be pre-numbered and each check number must be accounted for. If checks are voided, spoiled, or mutilated, they must be retained and properly filed to prevent reuse. All unissued checks must be maintained in a secure area to which only authorized LUA personnel have access.

Check Signatures

The persons signing checks should be employees other than those who:

- Maintain petty cash,
- Approve disbursements,
- Record cash disbursements,
- Post to the cash disbursements journal,
- Reconcile bank accounts,
- Mail checks.

This distribution of duties is known as "segregation of duties." This concept is one of the key components of internal control systems. Unfortunately in small LUAs, segregating duties often is difficult because of the limited number of LUA staff. In these cases it is often necessary to assign some of the above duties to non-fiscal personnel such as the Superintendent's secretary or an instructional employee in the central office. The segregation of duties is so important to maintaining a good internal control system that every effort must be made to utilize, if necessary, other non-fiscal central office employees to achieve that objective.

It is recommended that all checks must have two authorized signatures. Often the LUA superintendent and either the chief financial officer or the accountant are the staff members most likely to sign checks. It is recommended that the school board authorize individuals to sign checks.

If signature facsimiles are used, the signature plate must be properly secured and its use controlled. If an electronic signature within the accounting software is used, proper administrative controls should be in place to limit access.

Check Payees

Normally vendor checks are payable to businesses. On some occasions they might be payable to owners of businesses. Checks should never be payable to "cash". In no instances, should blank checks ever be signed, even though convenience makes this violation of internal controls very tempting. Prior to placing an order, a completed form W-9 (IRS) should be on file for the vendor.

Outstanding Checks

Every attempt should be made to properly remit payment. As part of the bank reconciliation process, checks outstanding more than sixty days should be investigated. There should be a financial policy governing the disposition of outstanding checks that have not cleared the bank within a reasonable amount of time. Title 44, Article 5 of the Georgia Code refers to the process to be followed in the event property becomes unclaimed. Go to the Department of Revenue (DOR) website, https://dor.georgia.gov/documents/unclaimed-property-holder-government-entities-filing-requirements-and-returns-abandoned, for details regarding different types of payments. Once checks are outstanding beyond the holding period specified by the Unclaimed Property Act, the check should be voided and submitted to the Department of Revenue according to instructions at the above referenced website. It is not acceptable to simply write the check off. If payment is remitted to DOR, documentation of the transaction should be kept.

Summary

1. Checks are written to vendors for goods and services and to employees

2. The two primary methods that LUAs use to disburse resources are through a commercial bank check or an electronic funds transfer

3. The process of paying vendors begins with the LUA's purchasing system.

4. It is critical that internal controls be in place to minimize the risk in disbursing monies.

5. Since checks are the lifeline of a cash disbursement system, care must be given in maintaining and processing them.

6. This distribution of duties when disbursing funds is known as "segregation of duties."

7. There should be a financial policy to govern the disposition of outstanding checks that have not cleared the bank within a reasonable amount of time.

Chapter III – 3 Payroll Administration

INTRODUCTION

Payroll administration is a very important function of the business office of a Local Unit of Administration (LUA). In the accounting function, if an accountant makes an error, a simple general journal entry can be made to correct the error. However with the payroll function, mistakes can cause benefit issues for employees, tax payment errors, and even loss to the LUA if not corrected immediately. In addition, if the payroll is incorrect, a manual check may be necessary to correct the error. Then, the manually prepared check information must be entered into the computer, resulting in more risk of error. Therefore, absolute accuracy in payroll administration is vitally important.

In LUAs, payroll and the related benefit costs comprise a major portion (i.e., usually up to 80% - 85%) of the LUA budget. Since payroll personnel are responsible for the accurate and timely disbursement of approximately 80-85% of the LUA's appropriations, it is easy to see the importance of the payroll administration function.

Payroll administration is closely related to both human resource and financial management. Human resource management is involved because personnel actions are necessary to place an employee on the payroll or to modify an employee's status. Personnel policies on such matters as leave, pay adjustments, and benefits are the basis for payroll actions. Adherence to these policies requires that those responsible for timekeeping and payroll be familiar with the policies and be notified of all changes in an employee's status. A payroll operation also can provide valuable personnel information as a by-product. For example, statistical data on the age composition of employees is useful in determining when retirements are likely to occur. Also, information on overtime and turnover is also available from the payroll operation. These and other kinds of personnel data can be useful to LUA management. Therefore, it is important that the personnel aspects of payroll administration be fully understood. Payroll preparation and disbursement as well as accounting for payroll expenditures are all financial activities. LUAs must develop adequate controls to prevent errors and abuse. This control extends through all phases of the payroll administration from timekeeping to proper expenditure account posting. The finance department is concerned with the accuracy of payroll calculations, adherence to the budget, and the maintenance of proper accounting records.

Chapter I-11 provides specifics regarding the accounting for payroll and payroll deductions.

PAYROLL POLICIES

A number of basic policy decisions must be made relative to a payroll system. These include decisions on:

- the length of the pay period,
- the lag period from the date the work period ends to the day the payroll disbursement is made, and
- the number and type of discretionary payroll deductions allowed.

Payroll Periods

In most LUAs, certified staff and central office staff are paid monthly, usually on the last work day of the each month. Custodial and food service personnel often are paid monthly as well, although some LUAs may pay biweekly. The frequency of payrolls is a local decision and will vary among LUAs. Payroll periods typically can be monthly, semimonthly, biweekly, weekly or some combination of these options.
Biweekly pay periods offer certain advantages, especially the scheduling of pay on the same day of the week. The staggering of payroll periods for different groups of employees and the uniform number of days in each pay period simplify the computation of overtime and deductions for time off. A major problem of biweekly pay periods is the possibility of having a 27th pay day approximately every eight years. If a biweekly payroll cycle is chosen, care should be taken to ensure personnel costs are properly budgeted for the fiscal year.

Payroll Lag Time

Another policy matter involves the lapsing of time between the end of a pay period and the issuance of pay checks for that pay period. This lag time allows time sheets to reach the payroll office for verification and subsequent preparation and payroll disbursement. If lag time is not allowed, there is risk an employee may receive pay for time not worked. This can be a serious problem in the case of temporary employees. Lag times can run from one day to over fifteen days with five days being the most common. If not currently in effect, the provision of such lapse time should be implemented gradually so as not to inflict undue hardship on the employees. In no circumstances, should an employee be paid for a period not yet worked.

Payroll Deductions

LUAs continually are faced with an increased demand for additional types of payroll deductions. Traditionally, these deductions have included Federal and State withholding taxes, social security and Medicare taxes (FICA, Federal Insurance Contribution Act), retirement contributions, and life and health insurance premiums. In addition, employees request deductions for tax sheltered annuities saving bonds, credit unions, loan repayment, uniform payments, employee organization dues, and charitable causes.

Providing for deductions can be a costly and time consuming task. Various reports may be needed and separate accounting reconciliations may be necessary. Other problems include designing earning statements to reflect all deductions. In many computer operations, the capacity for a large number of deductions can be limited. Moreover, considerable employee time must be devoted to answering inquiries about deductions.

A policy decision should be made by the school board regarding the number of voluntary deductions to allow. These additional deductions place a considerable additional burden upon the payroll preparation staff and should be evaluated carefully as to their cost effectiveness prior to their being approved as deductions for employees of the LUA.

Many times, such additional deductions are authorized by the school board without any thought being given to the additional work load and time demands being placed upon the person(s) who prepare the payroll. Any additional workload must be evaluated carefully.

Centralized Versus Decentralized Payroll System

A payroll system consists of authorizing payroll additions and changes, timekeeping, payroll preparation, paying employees and distributing charges for personal services to the proper accounts. The centralization of these activities provides for uniform treatment of all employees and more effective control. Timekeeping is usually a departmental function (decentralized) while payroll preparation and record keeping is handled centrally. In most instances, central control should be exercised over timekeeping in order to guarantee adherence to rules and regulations (specifically the Fair Labor Standards Act, FLSA) and to prevent lax practices. The FLSA relates primarily to paying overtime pay to various classes of employees who work a specified number of hours in a particular payroll period.

As a minimum, the final audit and approval of payrolls and the issuance of checks should be handled centrally. The centralization of the payroll function permits the establishment of a uniform system of timekeeping, record keeping and payroll processing. Payroll terms can be defined, rules developed and written procedures issued. Written regulations regarding tardiness, lunch and rest periods, leaving the work place, overtime and calculation of pay for partial pay period are vital. Moreover, well-defined procedures and forms are needed for authorizing additions to the payroll and for change notification.

PAYROLL RECORDS

The basis of a sound payroll system is the records which are used. As a minimum, these include

- forms used to appoint and terminate personnel and authorize other personnel actions such as leave,
- daily attendance reports,
- time sheets,
- payroll and deduction registers,
- checks, check registers,
- statements of earnings and deductions, earning records,
- annual Federal and State W-2 reports,
- annual Federal 1094 and 1095 reports for ACA,

- quarterly Federal 941 reports and State G-7 reports,
- other reports associated with savings bonds, pensions, hospitalization, credit unions, dues deductions, tax shelters, etc.

This enumeration of forms and reports indicates the large volume of paper work and record keeping involved in payroll administration. These records, however, are essential to achieving uniformity. They should be designed, issued, and controlled centrally. Detailed instructions on the use of forms should be provided. Written payroll and timekeeping procedures outlining the steps to be followed can do much to prevent errors and simplify payroll activities.

Electronic forms are utilized for the abundance of recordkeeping associated with the payroll process. Employees generally can access these forms and complete them online. The form can be signed and forwarded to the payroll department. The use of electronic forms allows employees access to the most current version and eliminates the cost of reproduction. When designing forms it can be useful to contact other LUAs to obtain samples. Many forms manufacturers have developed standard payroll forms which can be adapted to local use. In addition, some software programs provide employee self service portals that allow online form completion and submission.

The Internal Revenue Service (IRS) requires employers to keep track of and add to an employee's gross taxable income personal use of employer-provided vehicles. IRS Publication 15-B provides guidance for taxation of fringe benefits.

PAYROLL AUTHORIZATIONS

The first step in a payroll system is the authorization for an employee to be placed on the payroll. Provision should be made for written authorization by the appointing authority. The procedure should also provide the finance office with approval regarding availability of funds and conformance to the budget. Copies of the authorization form serve as notices to the timekeeper and payroll office to add, remove or modify the status of an employee.

Forms authorizing a payroll action should be examined to determine that the titles and salaries or wages are proper and in conformance with the salary schedule and classification plan. A determination should also be made that there is adherence to all rules and regulations. A single form is usually adequate for notification of appointments, terminations, and changes including classifications, name, address, work location, leaves, promotions, and transfers.

TIMEKEEPING

As indicated earlier, timekeeping is primarily a departmental function. Provisions, however, should be made for central control and review. Accurate timekeeping assures that only legitimate names are carried on the payroll and that employees are only paid for time earned. Timekeeping is also essential for accurate cost accounting. The methods for keeping time include the use of a time clock or provision for the employees to record their arrivals and departures. Time clocks, both manual and computerized, are the most accurate form of keeping time. Provisions should be made to prohibit employees from recording the time of their fellow workers. Electronic time clocks are most commonly used for hourly employees and are usually not practical for employees who may not have access to the online timekeeping system. Use of attendance sheets usually work best in these situations, as well as with salaried employees. Employees record their arrival and departure times on attendance sheets along with their signature. The time of hourly field personnel is usually recorded by foremen or field timekeepers. Salaried field personnel are often required to complete a form which documents the location of stops they make during the day and time spent at each location.

Daily attendance reports should be pre-printed in a central location to show name, employee number, and title. The information from time cards or daily attendance reports is posted on time sheets by the timekeeper. Written instructions should be provided on how to complete daily attendance reports and time sheets. There is also a need for a flow of documents to keep the timekeeper and payroll office informed of changes. Time sheets should be pre-printed by the central payroll office to show the pay period, the operational unit, employee name and number, title, eligibility for overtime hours, and other pertinent information.

Time Sheet

A time sheet supplies the evidence that wages and salaries are due and payable. The sheet lists each employee and shows the time he worked. Salary checks are prepared from this time sheet.

A subsidiary record to the payroll is the "Employee Earnings Record." This record is created for each employee. It includes the total earnings of an employee, the deductions from these earnings, and the net pay the employee received. A form for an "Employee Earnings Record" is illustrated in Chapter I-11. When the salary check is issued or direct deposit is transmitted, the number of the check or remittance advice is posted to the appropriate column of the earnings record. The total amount paid for salaries and wages is calculated and the deductions are posted to the various columns across the earnings record.

All timekeepers should be aware of the availability of previously earned leave which may mean the difference between paid and unpaid absences. Through the use of computers it is possible to have this information accumulated centrally.
Payroll records are an essential part of the whole payroll function. Because of this it is vital that the forms used are updated when needed. Revision of forms and the design of forms are essential ingredients to a good payroll system.

The four basic payroll records include the payroll journal or register, individual earnings records, annual statement of earnings (W-2) and, of course, the payroll check or direct deposit advice. Each of these contains essentially the same information and, therefore, much of the work involved is of a repetitive nature.

INTERNAL CONTROL OF THE PAYROLL PROCESS

One of the basic concepts of internal control is the separation of the various components of a financial function among two or more persons. This separation would make an attempted defalcation more difficult because it would require the collusion of two or more persons. Some suggested procedures for effecting internal controls as they relate to payroll administration are as follows:

- *Centrally prepared payroll from verified time sheets*. The payroll checks should be prepared at a central point by persons other than those who keep the time sheets. The time sheets should be verified by someone other than the person preparing them. Payroll checks should be prepared only from verified time sheets.

- *Distribution of Checks or Transmission of Direct Deposit*. The payroll checks should be distributed by someone other than the person who prepares the time report. In addition, the direct deposit transmission should be performed by someone other than the payroll processor. Periodically, the auditors should, on an unannounced basis, collect all payroll checks at the central preparation point and distribute them to the employees at their work stations. They should have each employee receiving a paycheck furnish identification and sign for his check. This will insure that only those entitled to receive a check for that pay period will actually receive one. Auditors often peform other types of testing, such as data mining to verify the receipt of payment for services whether through an actual paper check or through a direct deposit.

- *Reconciliation of payroll checking account.* The payroll checking account should be separate from all other accounts and should be reconciled monthly with all exceptions accounted for. Further, the individual who reconciles the payroll checking account should not be the individual who writes or gives out the payroll checks.

The deposits to the payroll checking account can either be the gross total or the net total. If the gross is deposited then the various deductions taken from the employees are held in the payroll account and separate payroll checks are written to pay out for the various deductions, i.e., withholding tax, social security, group insurance, etc. If only the net pay is deposited then the checking account would have a zero balance when all the paychecks are cashed and the various deductions withheld would be retained in the other operating funds until disbursed. Both systems work and, generally, it is up to each finance department as to which system it likes.

CAFETERIA PLANS

A cafeteria plan is a tax-favored method of offering a variety of fringe benefits to employees under a single-plan maintained by the LUA. The qualification, taxation, and reporting requirements are governed by the Internal Revenue Code (IRC) article 125.

As its name implies, a cafeteria plan may provide LUA employees with a "menu" of benefits options. However, a cafeteria plan can be as simple or as complex as the LUA chooses. For instance, one form of cafeteria plan, the flexible spending plan (flex plan) may differ between LUAs. Some flex plans include only health and welfare benefits such as medical insurance. Other plans may give employees the option of purchasing a wide range of taxable and nontaxable benefits. Also, an LUA may set a minimum standard for some insurance benefits and keep those benefits outside the plan, but allow additional insurance coverage or other benefits to be purchased under the flex plan. In summary, the LUA has a great deal of flexibility in the design of the cafeteria plan.

Purchasing Benefits

Under IRC article 125, employees are allowed to pay for qualified flex plan benefits with pretax dollars. Since the pretax contribution reduces taxable wages, this method of payment is referred to as "salary reduction."

In addition, employees may pay for flex plan benefits with after-tax dollars (regular payroll deduction). In fact, an after-tax deduction may be a more favorable alternative to the pre-tax contribution for such benefits as group-term life and disability insurance.

Cafeteria Plan Advantage

The primary reason for adopting a cafeteria plan is the tax savings that can be realized. Without a cafeteria plan, benefits such as medical and dental insurance are paid on an after-tax basis. In other words, the payroll deduction does not lower the employee's taxable earnings. But under a cafeteria plan, certain benefit contributions may be paid on a pretax basis. Thus, the employee and employer may realize significant tax savings under a cafeteria plan.

Cafeteria Plan Disadvantages

In spite of its obvious merits, there are a number of reasons why many LUAs are reluctant to implement a cafeteria plan, including the following:

Administrative burden. Cafeteria plans require more administrative support than the traditional benefit plan. Enrollment, record keeping, discrimination testing, and monitoring for statutory compliance are tasks that require additional staff resources. For many LUAs, the services of a qualified benefits consultant are necessary, thereby increasing the cost of providing the plan.

Employee communications. Where a cafeteria plan's options are varied and complex, many employees may require assistance in making wise plan elections. Some LUAs spend a great deal of time and money providing orientation materials to assist employees during the enrollment process.

Nondiscrimination Rules. A cafeteria plan can lose its qualified status if it disproportionately favors or "discriminates" in favor of highly compensated employees or key employees by allowing them to receive greater tax advantages or benefits than other participants. To meet nondiscrimination requirements, a cafeteria plan must pass two tests: the contributions/benefits test and the eligibility test.

> *The contribution/benefits test.* Total benefits and nontaxable benefits (or employer contributions allocable to each) attributable to the highly compensated employees may not be significantly greater than the total benefits and nontaxable benefits attributable to other plan participants. Total benefits and nontaxable benefits are measured as a percentage of total compensation; they must bear a uniform relationship to participants' compensation.
>
> *The eligibility test.* The three-part test to establish employees' eligibility to participate includes the following requirements:
>
> - The plan must benefit employees qualifying under a classification that the IRS determines does not discriminate in favor of highly compensated employees.
> - The waiting period for enrollment in the plan does not exceed three years, and the employment requirement for each employee is the same.
> - Any employee who meets the length-of-service eligibility requirements is permitted to participate in the plan no later than the first day of the first plan year beginning after the date the employment requirement was satisfied.

Benefits Allowed

For a cafeteria plan to be qualified, it must offer participants the choice between at least one qualified (nontaxable) benefit and one cash (taxable). Thus, the cafeteria plan that offers participants the choice of only nontaxable benefits is not a qualified plan.

Nontaxable benefits permitted. The following nontaxable benefits may be included in a cafeteria plan:

- Accident and health insurance under IRC article 105 including vision and dental care, HMOs, PPOs, and managed care plans.

- A self-insured medical reimbursement plan if the plan benefits are deemed to be nontaxable outside of the cafeteria plan.

- Group-term life insurance (i.e., the first $50,000 of coverage) under IRC article 79.

- Dependent care assistance (i.e., the first $5,000) under IRC article 129.

Taxable (or cash) benefits permitted. Employees are allowed to pay for certain taxable benefits with pretax contributions; however, income must be recognized when the benefit is actually received. Taxable benefits allowed in a cafeteria plan are discussed below.

- Group-term life insurance over $50,000*.* Employees may purchase taxable group-term life insurance with pre-tax contributions under a flexible benefits plan; however, the pre-tax contribution is deemed to be an employer contribution for tax purposes and does not reduce taxable income computed under IRS rules.

- Group disability insurance*.* Employees may pay for group disability insurance with pre-tax contributions under a cafeteria plan; however, pre-tax contributions are deemed to be LUA contributions for tax purposes. Thus, should the participants receive disability benefits under the policy, 100% of the payments would be considered taxable income. For this reason, it may not be wise for employees to purchase group disability insurance with pre-tax dollars.

Flexible Spending Accounts (FSAs)

Flexible spending accounts or "reimbursement accounts" are an optional feature of the cafeteria plan. There are two reimbursement accounts allowed: (1) a health care reimbursement account, and (2) a dependent care reimbursement account.

Health care reimbursement account. Employees elect to contribute pretax dollars for qualified medical expenses at the beginning of the plan year. These pre-tax contributions are deducted from wages, thereby lowering the employee's federal and state income taxes and FICA taxable wages. As employees incur qualified expenses, they are reimbursed up to the total amount that they elect to contribute at the beginning of the plan year. The advantage of an FSA is obvious. The participant's out-of-pocket medical and dependent care expenses are reduced by the tax savings associated with the pre-tax contribution.

Dependent care assistance spending accounts. Under a dependent care assistance spending account, an employee may be reimbursed up to a maximum of $5,000 ($2,500 for married taxpayers filing separately) per year for qualified dependent care expenses. The spending account may be funded with flex credits or by salary reduction (pretax contributions). Unlike health care FSAs, the employee may only be reimbursed with contributions he or she actually made to the spending account.

Qualified dependent care assistance reimbursements. Many people believe that dependent care assistance reimbursements are made exclusively for child care expenses. This is not the case. Reimbursements may be made for non-medical expenses that enable an individual to work while ensuring a *dependent's* well-being and protection. A qualified dependent is: (1) a child under the age of 13, (2) a disabled spouse, and (3) other dependents who are physically or mentally challenged and in need of regular care.

Federal Tax Treatment

Some of the benefits purchased through a cafeteria plan are taxable and some are not taxable.

Salary reduction (pretax contributions). Employee pretax contributions to a qualified cafeteria plan (including health care and dependent care FSAs) are exempt from federal taxes, even if pretax contributions are used to purchase taxable benefits. However, the taxable benefits are taxable when actually received by the recipient to the same extent that they are taxable outside of the cafeteria plan.

After-tax contributions. Benefits that are purchased with after-tax dollars are exempt from federal taxes. However, because the contribution is made on an after-tax basis, the contribution does not reduce the amount of wage subject to federal taxes.

LUA contributions. LUA contributions toward benefits included in a qualified cafeteria plan are exempt from federal taxes to the extent the benefits are exempt from tax outside of the cafeteria plan. Conversely, employer contributions toward benefits included in a qualified cafeteria plan are taxable and subject to federal taxes to the extent the benefits are taxable outside of the cafeteria plan.

Reporting Requirements

Form 941 reporting requirements. Pretax contributions under a qualified cafeteria plan are not included on Lines 2 (total wages), 5a (social security wages), or 5c (Medicare wages) of form 941. Taxable benefits received under the plan are subject to the reporting requirements that would have applied had they been offered outside of the cafeteria plan.

Form W-2 Reporting Requirements

Salary reduction. In general, pretax contributions to a qualified cafeteria plan, including pretax contributions to a health care FSA, are not reported in Box 1 (wages), Box 3 (social security wages), or Box 5 (Medicare wages) of the W-2 form. At the employer's option, pretax contributions or tax-free employer contributions to a cafeteria plan may be reported in Box 14 "Other" and must be labeled according to type. Taxable benefits received under a cafeteria plan are reported as though they were offered outside of the plan.

Dependent care assistance. Pretax contributions applied to a dependent care assistance flexible spending account must be reported in Box 10 on the W-2 form. Any excess over $5,000 must be reported in Boxes 1, 3, and 5 as well.

Form 940 reporting requirements.

Salary reduction. In general, pretax contributions to a qualified cafeteria plan, including pretax contributions to a health care or dependent care FSA are included on the Form 940, Part 2, Line 3, "total payments." Since salary reductions under a cafeteria plan are exempt from FUTA, the total amount of the salary reduction is included in Part 2, Line 4, "exempt payments." Check the appropriate box listed below Line 4.

Dependent care assistance FSAs. Pretax contributions or employer contributions up to $5,000 per year are exempt from FUTA and are reported in Part 2, Line 4 as an exempt payment. Contributions in excess of $5,000 are FUTA taxable and should not be reported as a FUTA exempt payment.

General recordkeeping requirements. Any LUA maintaining a cafeteria plan during any year must keep such records as may be necessary for purposes of determining whether the requirements for the exclusions from income are met.

Form 1094 and 1095 reporting requirements

There are reporting requirements related to the Affordable Care Act under Internal Revenue Code Sections 6055 and 6056 that went into effect for calendar year 2015. Employers with 50 or more full-time employees (including full-time equivalent employees) will use Forms 1094-C and 1095-C (located at www.IRS.gov) to report the information required regarding offers of health coverage and enrollment in health coverage for their employees.

One aspect to consider regarding the reporting requirements for Form 1094-C is how your district will document the hours worked of employees that currently are not offered health insurance. For example, if substitutes are paid based on days worked instead of hours worked, your district will need to consider how those days worked will be converted to hours worked to determine eligibility for health insurance coverage.

Due to the reporting requirements, we recommend using an hourly rate when feasible to capture the activity of various employees. However, if an hourly rate is not practical, please understand that **a conversion process to report eligibility to the IRS will be necessary**.

Form 1095-C, Part III, requests information for each employee and covered individuals. The information from the State Health Benefit Plan is provided by ADP on an annual basis.

Summary

1. Since payroll personnel are responsible for the accurate and timely disbursement of approximately 80-85% of the LUA's appropriations, it is easy to see the importance of the payroll administration function.

2. Payroll periods vary depending on employee function and present different challenges in processing payment.

3. Lag time between time worked and payment to employees is common and should be minimized when possible.

4. Payroll deductions can be administratively time consuming, and therefore, should be seriously considered by the LUAs board before adding.

5. The centralization of payroll activities provides for uniform treatment of all employees and more effective control.

6. Payroll records are an essential element to the payroll process and therefore, should be carefully designed and controlled.

7. Procedures should be established to determine proper authorization before employees are added, removed, or changes are recorded to payroll records.

8. Timekeeping is a crucial element to the payroll process and must be properly controlled.

9. Establishing appropriate internal controls is an essential part of the payroll process.

10. Cafeteria plans offer tax saving options to both employees and employers. Due to their complexity, only those properly knowledgeable of IRS requirements should administer the plan. In addition, special reporting relating to cafeteria plans is required for forms 941, 940, and W-2.

Chapter III – 4 Inventories

INTRODUCTION

Local units of administration (LUA) use many consumable materials in their operations, including administration, instruction, food service and operations and maintenance. This chapter discusses some of the conceptual issues regarding inventory maintenance and use. Chapter I-17 provides details regarding the management of capital assets which also are inventories. Chapter I-12 covers inventory accounting for consumable supplies.

The Importance of Inventories

Inventories can be defined as materials required for an LUA to provide services, education and support, without incurring excess investment in stocks or increased costs and without generating excess losses because of pilferage, waste, or damages. LUAs maintain inventories to ensure that LUA staff has the supplies and materials when they need them to do their jobs. Some large LUAs maintain warehouses to store inventories. Inventories could be stored in a warehouse or a room in a school or central office. In either instance, it serves the same purpose providing immediate access to the users of the inventories.

Ordering large quantities of supplies and materials can help to minimize ordering and receiving costs and permit purchase discounts. An inventory is used as protection against running out due to fluctuations in demand or lead times during the reordering period.

Content of Inventories

LUAs which maintain warehouses for their inventories might store a wide range of supplies and materials including:

- Educational supplies used in art, science, industrial arts,
- Food,
- Maintenance and construction supplies including lumber, plumbing, glass, and paint,
- Physical education and athletic supplies,
- Office supplies.

In small operations, LUA inventories normally might be limited to office supplies, custodial supplies and the child nutrition program's food inventory.

It is suggested that a stock catalog be developed to include each inventory item maintained in stock. This catalog should be available to all schools and departments to assist them in ordering inventories. Finally, all efforts should be made to standardize inventories. Most schools can use the same type, style and quality of a particular item. Standardization can reduce the costs of ordering and maintaining inventories.

ORDERING INVENTORIES

Some of the questions that need to be addressed when maintaining an inventory include, "When to order?" and "How much to order?".

When to Order

The "when to order" point is determined by the expected demand and the time it takes (i.e., lead time) for the inventory to be ordered and received. Generally in an LUA, the heaviest demand is at the beginning of the school year. If the inventory system is computerized, often the system includes a "re-order" point which indicates when stock of a particular inventory items needs to be ordered.

How Much to Order

Once decisions are made regarding when to order, it must be decided how much to order. This is an economic issue that compares the cost of maintaining an inventory with the convenience of having inventory available on an "as needed" basis.

If an LUA chooses to make purchases only when inventory items are needed, the cost of placing these orders would be very high, due to the clerical time, receiving, checking, filing and invoice processing involved. In addition, punctual delivery might be a problem. If inventories were purchased only once a year, the ordering costs would be lower, but the year-around investment in inventory would be extremely high. A number of analytical methods have been developed for calculating the correct amount of inventory to maintain. This chapter does not address these methods; however, the reader may consult the standard texts on this subject. At a minimum, the LUA should analyze the usage of large volume supplies to determine the optimum re-order point.

In the commercial sector, the cost of maintaining an inventory can range from 18% to 35%, with some estimates as high as 50% of the inventory item. This cost is known as the carrying cost. The cost of an order can be as low as a telephone call or a postage stamp to as high as $150 per order. Carefully analyzing these questions will allow the LUA to make the correct decision regarding its inventory.

Ordering this School Year for next School Year

One of the major questions for LUAs is, "when should they order educational supplies for the upcoming school year?" Many LUAs wait until July 1 to order supplies for the upcoming school year. In some respects, this process can be considered appropriate since there is no budget available to fund these inventories until July 1. However, it may not be practical since vendors will have less than one month to deliver the inventories to be available for the upcoming school year.

There are two alternatives which allow an LUA to order inventories before July yet record the expenditure in the subsequent year.

Use of an Internal Service Fund

Often LUAs that maintain a warehouse use the internal service fund classification to account for the inventories in the warehouse. As explained in Chapter I-20, this fund classification is used to account for goods and services provided to other funds within the LUA.

A central stores warehouse internal service fund could be established by transferring applicable capital assets to this fund. The capital assets could include the warehouse building, shelving, delivery trucks, carts and office equipment. In addition, all consumable inventory would be transferred to this fund. The capital assets and inventories would be classified as assets and the offset would be to a capital contribution revenue account (account number 6100).

When inventories are withdrawn from the stock, the school/department requisitioning the inventory would report an expenditure/expense and the internal service fund would record the revenue. Therefore, if the LUA chooses to purchase the inventory for the next school year in this school year, the purchases would be reported as inventories, an asset account, rather than as a cost of the internal service fund. Budgeted expenditure accounts would not be affected until the subsequent year as the inventory is consumed. However, the LUA would need to have adequate cash in the internal service fund to pay the vendors for the inventory. An initial amount of cash may be in the form of a cash advance from the general fund to be repaid or as a transfer which would not be repaid. (See Chapter I-20, Internal Service Funds.)

Reporting Inventory in a Governmental Fund

If an LUA chooses to purchase inventory for the next school year in the current year, it could record the purchase in the "Inventory for Consumption" account (account number 0171), rather than as an expenditure. When the inventory is used in the subsequent year, its use would be recorded as an expenditure in the appropriate governmental fund type. The inventory is not required to be kept in a central warehouse, as long as it was not used until the next school year. If an LUA chooses this alternative, it must use the consumption inventory method. Under this method, the inventory is reported as an expenditure when used or consumed, rather than when purchased. These methods are described later in this chapter and in Chapter I-12.

RECEIVING INVENTORIES

Receiving is essentially a clerical operation. Because many clerical functions are regarded as "routine," the importance of receiving is often overlooked. Problems in receiving can include a shortage in quantity, damaged material, and wrong items shipped. If these problems are not detected and corrected during the receiving operation, the cost to correct the mistake later is much higher.

A typical receiving procedure consists of four steps.

1. Unloading and Verifying the Shipment

   The number of containers unloaded should be compared to the carrier's manifest to make certain the total order has been received. The containers should be inspected for external damage. The receiving clerk should note any damages on the receipt that the clerk signs. Failure to follow this procedure can relieve the carrier of any liability.

2. Unpacking and Inspecting the Inventory

   A receiving clerk should complete three verifications:

   - Compare the inventory received against the vendor's packing slip and against the LUA's purchase order to verify that the correct items have been shipped.
   - Verify the quantity of the shipment in the same manner as above.
   - Inspect the general condition of the inventory to determine if any damage was incurred during shipment.

3. Completion of the Receiving Report

   LUAs should use some type of a receiving report. This report could be a specialized form or more often is a copy of the original purchase order. The inventory clerk checks off what has been received and outstanding portions of the order. Then usually the requisitioner, the purchasing department, and the accounting department must be notified of the delivery.

4. Delivery of the Material

   If an LUA uses a warehouse, often all inventory items are initially delivered to the warehouse and subsequently delivered to the user school or department. Sometimes materials are delivered directly to the schools or user departments. The same procedures listed above need to be implemented when delivery is decentralized. Since many deliveries are made in the summer when only a custodian may be on duty in a school, special effort must be made to ensure that the items received are the same as those ordered.

STORING INVENTORIES

If a warehouse or storeroom is properly organized, it should provide the following benefits to users of inventory:

- Ready accessibility to users
- Efficient utilization of space
- A reduced need for inventory handling equipment (such as forklifts)
- Minimization of inventory deterioration
- Minimization of inventory pilferage
- Ease in physical inventory

Storage Equipment

The type of equipment used in storage can vary depending upon the quality of the storage facility. This equipment could include pallets, skids, open shelving, closed shelving, cabinets, bins, and stacking boxes. The use of the proper type of storage equipment is essential to a quality storage area.

CONTROLLING INVENTORIES

The following two basic systems can be used in physically controlling inventories:

- A closed inventory system
- An open inventory system

Closed System

A closed inventory system is one in which all inventories are physically stored in a closed or controlled area. Locking the storage area is the best method for protecting these inventories. Inventory would only be received or disbursed through authorizing documents. This system is designed to afford maximum physical security and to ensure accounting control of inventories.

Open System

Normally in an open system, no warehouse or storeroom exists. Inventories are stored as close to the point of use as physically possible. For example, computer paper would be stored near the computer's printer. Another example of an open system would be the office supplies in the finance office.

When inventories are delivered directly to schools, the open system is used. This system is easy to use; however, it places little emphasis on the physical security of inventories. In ideal situations, this method can be justified if the inventories are used relatively quickly, and they are not subject to a high rate of deterioration or obsolescence.

Records

Prior to the use of computers, LUAs would maintain a "bin tag" listing the amount of inventory for the specific item. As items are received, they were added to the tag and as items were requisitioned, the inventory on the tag was reduced. However with computers, inventory records have become more sophisticated. As indicated in chapter I-12, many LUAs use a perpetual inventory system. When using this method, a continuous record of changes in inventories is maintained. In other words, the value of physical inventory should closely agree with book value of the inventory. When using this method, the inventory can be physically counted and compared with the accounting records anytime during the year.

Physical Inventories

No matter how well inventories are controlled, there always will be some discrepancies between the actual and the book balances of inventories. Since mistakes can happen, every inventory item should be counted physically and checked against its book balance at least once a year. A physical inventory can be conducted in one of the following three ways:

1. **Annual Inventory** - Most LUAs that maintain significant amount of inventories conduct an annual physical inventory, usually at June 30.

2. **Continuous Inventory** - Inventories can be divided into approximately 52 equal segments (i.e., once a week) and a portion of the inventory is counted every week.

3. **Low-point Inventory** - Some LUAs count their inventories when they reach a low point, thus making it easier to count. Normally, this would be in the spring of the year before school is ended.

Regardless of which method an LUA uses, efforts should be made to properly document the inventory in order that the independent auditor (i.e., usually the Georgia Department of Audits and Accounts) can give an opinion of the amount reported on the LUA's balance sheet.

INVENTORY METHODS

Current generally accepted accounting principles (GAAP) allow LUAs to account for governmental funds inventory using two methods, the purchases method or the consumption method. Proprietary and fiduciary funds are required to use the consumption method. Each of these methods is explained below.

Purchases Method

Generally, most LUAs use this inventory method. Under this method, LUAs recognize the cost of an inventory item when it is purchased. However since inventory items purchased are reported on the operating statement rather than the balance sheet, GAAP require that any material amount of inventories on hand at year-end should be reported on the appropriate fund's (i.e., usually the general fund or food service fund) balance sheet.

During the year, a running balance of the cost of inventory items is not known. Therefore a physical inventory must be taken at year-end.

Consumption Method

Normally, the large LUAs who maintain some type of central stores warehouse use the consumption method of accounting for inventories. Under this method, inventories are charged as expenditures when used (i.e., consumed) rather than when purchased. If inventory usage is recorded on a monthly basis, the balance sheet reports the amount of inventory on hand at the end of each month. When using this method, it is easier for the LUA to check physical inventory with book inventory to determine if all inventory is accounted for. Additionally, the consumption method is required for financial reporting purposes. If an LUA chooses to utilize the purchase method, a year end adjustment to convert to the consumption method is required.

See Chapter I-12 for discussion of inventory valuation methods.

Summary

1. LUAs maintain inventories to ensure that the LUA staff has the supplies and materials when they need them to do their jobs.

2. Inventory supplies include food, maintenance and construction items, educational supplies, and physical education and athletic supplies.

3. It is important to know when to order and how much to reorder to balance the needs of users and the use of resources.

4. Inventories can be accounted for using either an internal service or governmental fund.

5. It is important when receiving inventory to carefully evaluate condition and quantities received against orders placed.

6. When storing inventories, it is important to consider placement and physical conditions. Both open and closed inventory storage are also options.

7. Records of inventory usage and balances must be maintained in the accounting

system to facilitate both reordering as well as conducting a physical inventory.

8. Both the purchases method and consumption method are available to account for inventory in governmental funds, provided the inventory is adjusted to the consumption method on the government-wide presentation of financial statements. Only the consumption method is allowed for proprietary and fiduciary funds.

Section IV – Financial Management

Chapter IV – 1 Developing Financial Policies

NATURE AND PURPOSE

What are financial policies? Why should school boards adopt them? Are there obstacles to developing financial policies? How are they developed? This chapter examines these questions about financial policies.

WHAT ARE FINANCIAL POLICIES?

Financial policies are the rules that govern financial decisions of an LUA. They are guidelines or a plan of action for decisions as they relate to finaincial matters. School boards adopt these policies and follow them when making financial decisions for their school system. Once school boards adopt financial policies, most subsequent financial decisions are simplified because the school board has already deliberated over most of the financial issues when developing financial policies.

LUAs should adopt financial policies that cover at least the following topics:

- Operating and Capital budgets
- Capital Assets
- Revenues
- Cash and Investments

- Fund Balance
- Purchasing
- Debt
- Accounting, Auditing, and Financial Reporting

The school board establishes policies with a concentration on long-term financial sustainability. Effective financial policies will be clear, specific, and comprehensive. They will answer the questions of “who, what, when, and where” that will guide all financial decisions. The LUA’s administration will support these policies by establishing financial procedures that answer the question of “how” staff actions will adhere to the adopted polices.

WHY ADOPT FINANCIAL POLICIES?

Many LUAs have financial policies, however, their school boards may not have formally adopted them. Often these policies result from "past histories." For example, the LUA's property tax rate might not have been changed for a number of years, even though the LUA has no written policy that limits increasing the tax rate. The tax-paying citizen may

assume that the school boards position is not to raise property taxes. Similarly, a Board may have informal polices that they have discussed and agreed to in principle, but they may never have been written down and formally adopted.
School boards should adopt financial policies for a variety of reasons, including:

- Policies provide school boards opportunities to review their present approach to financial management from a long-range viewpoint. School boards tend to be "annually oriented" in their financial planning due to the nature of the "annual" budget process. However, developing and adopting financial policies requires school boards to conduct financial planning on a more long-range basis and promotes a more strategic approach to financial management.

- Policies provide an educational process for the school board. Because most school boards have a heavy workload, they normally discuss specific financial issues on a sporadic basis. The development and regular review of these policies educates school boards about all facets of financial management.

- Policies improve credibility and public confidence. If the public is aware that the school board has adopted meaningful financial policies, they should feel confident that the school board is providing sound financial management for their LUA.

- Policies can define roles and responsibilities and establish boundaries. Strong financial policies will establish appropriate limits on actions that staff members may take, and significantly reduce the risk of fraud, waste, and abuse.

- Policies save time and energy for both the school board and the LUA's administrative staff. Strong finanicial policies allow the LUA's administration to move ahead with financial matters following policies adopted by the board, rather than wait for decisions from the school board.

- Policies provide continuity for the LUA and its school board members. As newly elected school board members take office, there should not be major changes in the financial management of the LUA because of the existence of financial policies. Of course, this doesn't mean that the newly elected board members can't or shouldn't change the policies, rather, existing financial policies promote necessary continuity for LUAs.

- Policies provide a basis for coping with fiscal emergencies. Revenue shortfalls and emergencies requiring unanticipated expenditures can have a severe impact on an LUA unless financial plans and policies have been established to handle them. Financial policies are critical for an LUA to remain solvent.

OBSTACLES TO DEVELOPING FINANCIAL POLICIES

Unfortunately, school boards may encounter a few obstacles when developing financial policies. Often, school boards may be resistant to developing long-range financial plans. As indicated earlier, school boards are annually oriented because of the annual budget cycle. School boards might feel that developing a long-range financial plan has no benefit because so many things can change over a long period of time.

In addition, some school boards might be reluctant to reveal too much information about a particular topic (e.g., increasing property taxes). There is no question that as financial policies are developed, many important issues will be discussed in public meetings. When developing financial policies, the positions of each of the school board members on specific issues will be discussed.

Finally, one of the major drawbacks when developing financial policies is that the task is time-consuming for both board members and staff. Usually, development requires a number of special meetings or work sessions, and maintaining policies will usually require attention throughout the year.

HOW TO DEVELOP FINANCIAL POLICIES

There are a variety of necessary steps for school boards to complete before they can adopt financial policies. As the school board is responsible for the overall governance of the LUA, they are are responsible for establishing and adopting the system's financial policies. However, it is likely that the LUA's administration is going to do significant work on the project. The LUA's administration's first step is to receive the "go ahead" from the school board to begin the development and drafting of financial policies. The LUA's administration might present the school board with a position paper which includes most of the topics this chapter refers to. For example, the position paper might include:

- The definition of financial policies.
- The purpose and benefits of financial policies.
- A review of the obstacles to developing financial policies.
- The types of financial policies with samples for each topical area.
- The methods of developing financial policies.
- Strategies for using financial policies.

Once the school board approves the plan and chooses the areas for policies, the LUA's administration should begin drafting policies consistent with other adopted policies as necessary. A good way to begin is to review policies adopted by other LUAs. Many Georgia LUAs have formally adopted financial policies posted on the district's website. Another suggested source for obtaining model financial policies may be the Association of School Business Officials (ASBO). Information on ASBO is available online at https://asbointl.org/.

Another potential source of sample policies is the Government Finance Officers Association (GFOA). This organization has published a book called *Financial Policies* that outlines how to develop and implement financial policies. GFOA has also posted a variety of samples from city, county, and school governments online at http://www.gfoa.org/financialpolicies.

After the LUA administration drafts the policies, the school board should devote as many work sessions as necessary to review these policies before approval. This process will be educational for the school boards and can be time-consuming.

The school board might decide to hold a public hearing on the policies to allow for citizen input. Finally, the policies should be formally adopted by the school board. All financial policies should be reviewed and edited or affirmed periodically. Some school boards may choose to review all financial policies annually, while others may prefer to review policies after newly elected school board members take office. Another option may be to establish a schedule for review, where portions of the policy manual are reviewed each year on a rotating basis, with all policies receiving edits or affirmations every two or three years.

CONCLUSION

The importance of financial policies cannot be overemphasized. Georgia statutes and the Georgia Department of Education do provide specific guidance regarding some of the issues that will be addressed in financial policies. However, every effort should be made by the LUA administration and its school board to adopt meaningful financial policies. Upon adoption, both the LUA administration and the school board must follow their adopted policies. The LUA administration will need to train appropriate staff and develop procedures to support the policies.

Chapter IV – 2 Preparing Operating Budgets

NATURE AND PURPOSE

Budgeting for Local Units of Administration (LUAs) is an art, not a science. Absolute answers for the budget preparation are not available. There is not a single way to prepare an LUA budget. This chapter illustrates the various types of budget approaches that LUAs might use; it discusses the issues that a local board of education should consider when establishing budget policies; it reviews alternative budget processes; it provides assistance in estimating revenues and expenditures; and it discusses administration of the budget. This chapter also discusses the requirements governing Georgia LUA budgets.

What is a budget? Often it is described as a document that expresses the anticipated revenues and expenditures of an LUA for a fiscal year. A budget also might be classified as follows:

- A financial plan
- An allocation of resources for ongoing educational purposes
- An identification of revenues and expenditures
- A reflection of an LUA's goals, objectives and priorities
- A series of educational goals with price tags
- An instrument for securing efficiency
- A spending guideline or control
- A decision making guide

However a budget is classified, it should serve two primary purposes:

1. As an authorization to spend LUA resources.
2. To provide a vehicle to control spending.

BUDGETARY APPROACHES

Operating budgets may be developed using various approaches. This section covers the various approaches that an LUA can use in developing its operating budget. These budget approaches are generally identified as follows:

- Line-item
- Activity
- Program
- Performance
- Zero-base

Normally, however, most LUAs will use some aspects of each of these approaches.

<u>Line-item Budgeting</u>

Generally, line-item budgeting is considered the most traditional and the simplest because it parallels the object dimension of the LUA's expenditure format (i.e., what the LUA is purchasing). A large majority of LUA budgets are classified as line-item. A line item budget includes the type of data that the actual financial report includes (i.e., expenditures are classified by object within function and fund). Exhibit IV-32-1 is an example of a line-item budget for the business services function of an LUA.

EXHIBIT IV-32-1
LINE-ITEM BUDGET
SUPPORT SERVICES-BUSINESS
FUNCTION 2500

ACCOUNT NUMBER		
142	SALARIES (CLERICAL)	$ 26,800
190	SALARIES (OTHER)	50,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	30,000
TOTAL SALARIES AND EMPLOYEE BENEFITS		106,800
443	RENTAL OF COMPUTER EQUIPMENT	4,500
530	COMMUNICATION	1,500
580	TRAVEL--EMPLOYEES	500
642	BOOKS AND PERIODICALS	300
730	PURCHASE OF EQUIPMENT	5,000
734	PURCHASE OF COMPUTERS	0
810	DUES AND FEES	500
TOTAL OTHER		12,300
GRAND TOTAL		$118,100

A line-item budget relates dollar amounts to categories of expenditures. In a sense, this budget approach is nothing more than a reproduction of a portion of an LUA's accounting system. This budget is built entirely on inputs to the fiscal process (i.e., dollars to be spent). The line-item budget does not show results (e.g., lower pupil/teacher ratios, higher test scores, clean buildings) but rather focuses upon the allocation of LUA resources by object of expenditure.

This approach ignores the importance of LUA actions to achieve goals and objectives. Program elements may not be coordinated and the evaluation of alternatives is not encouraged. With this approach, budget reviewers (e.g., school board members) tend to focus on the incremental changes from previous years' expenditures (e.g., the budget is increased 5% from last year). A line-item budget is straightforward, fairly easy to prepare and administer, and easy to understand.

Even though the level of detail in a line-item budget is required for reporting to the Georgia Department of Education (GA DOE), an LUA should not limit its budget approach to line-item budgeting.

Activity Budgeting

Activity budgeting typically is the next step up from line-item budgeting. Activity budgets tend to flow from departmental organizational structures but recognize that within a given department, there may be several activities. Activities should not be confused with programs, because the focus of an activity budget is on the organizational working unit, not its results.

Exhibit IV-32-2 is an example of an activity budget for the business services activity of an LUA:

EXHIBIT IV-32-2
ACTIVITY BUDGET - FUNCTION 2500
SUPPORT SERVICES - BUSINESS

ACCOUNT NUMBER		
	ACCOUNTING ACTIVITY:	
142	SALARIES (CLERICAL)	$ 6,800
190	SALARIES (OTHER)	15,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
530	COMMUNICATION	500
580	TRAVEL	200
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	2,000
810	DUES AND FEES	200
TOTAL ACCOUNTING		$ 34,800
	PAYROLL ACTIVITY	
142	SALARIES (CLERICAL)	15,000
190	SALARIES (OTHER)	20,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
530	COMMUNICATION	500
580	TRAVEL	200
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	1,000
810	DUES AND FEES	100
TOTAL PAYROLL		$45,900
	BUDGETING ACTIVITY	
142	SALARIES (CLERICAL)	$ 5,000
190	SALARIES (OTHER)	15,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
443	RENTAL OF COMPUTER EQUIPMENT	4,500
530	COMMUNICATION	500

580	TRAVEL	100
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	2,000
810	DUES AND FEES	200
TOTAL BUDGETING		$ 37,400
TOTAL		$118,100

Therefore, as partially illustrated in Exhibit IV-32-2, an activity budget for the business office could include activities such as administration, accounting and financial reporting, payroll, risk management, purchasing, and food service.

Activity budgets do tend to introduce specific goals and objectives or at least define the purpose of the budgetary unit and the activity itself. One of the advantages of activity budgets is that each activity matches exactly to one organizational unit (e.g., food service). This budgeting approach provides unusually detailed expenditure data to enable an LUA to better manage its resources.

Program Budgeting

Program budgeting is an attempt to combine planning with the costs of functions or activities. A complete program budget requires that the total costs (i.e., direct and indirect) of a function be presented as an independent program without regard to the organizational units or different accounting funds. This method crosses organizational structure and focuses on the delivery of services and specific functions. Accounting becomes complicated because cost allocation becomes necessary (i.e., to allocate indirect costs to programs).

The program budget is the most basic of the output budgets. Its focus is on policy planning and resource allocation. The program budget assumes that in an environment of scarce resources, LUA management must choose between different types of services. The program budget focuses on choices at the output level, rather than how the resources are spent to obtain that level of service.

Another strength of program budgeting is its focus on delivery of services. Decision-makers are able to make judgments on the level of program activity, with the implicit assumption that more or less might be appropriate.

Historically, program budgeting evolved during a period of growth in the public sector mainly because this method appeared to be an effective means of controlling costs. However, when budget reductions are necessary, this budget approach may not work as well as line-item budgeting. One of the chief administrative weaknesses of program budgeting is the difficulty in reducing staff in one program area without accomplishing similar reductions elsewhere. In short, personnel adjustments tend to be accomplished along organizational lines, not programmatic lines.

Exhibit IV-32-3 is an example of a program budget for general administration of an LUA.

EXHIBIT IV-32-3
PROGRAM BUDGET
GENERAL ADMINISTRATION

SUPERINTENDENT'S OFFICE	$100,000

BOARD RELATIONS	10,000
LEGAL SERVICES	50,000
CURRICULUM	75,000
FEDERAL PROGRAMS	60,000
TOTAL ADMINISTRATIVE PROGRAM	$295,000

Performance Budgeting

The performance budget became very popular several years ago, and was viewed as a positive step upward from line-item budgeting. This budgeting approach relates units of output (accomplishments) with inputs (budgeted resources). In other words, how much educational opportunity can we provide with so many dollars? Performance budgeting is not a complete system, but rather a technique for including productivity measures within the budget. The performance budgeting system does assign responsibility for programs and seeks to hold school boards accountable for the efficiency of operations assigned to them. However, performance budgeting has at least two primary deficiencies:

- This technique requires extensive data gathering at low levels within an LUA, thus diverting operations staff from performing other tasks.

- Performance budgeting asks questions about the efficiency of an operation (i.e., whether the same tasks can be accomplished at a lower costs). However, performance budgeting does not ask whether the tasks or function itself is worthwhile.

Exhibit IV-32-4 is an example of a performance budget for an LUA's transportation function.

EXHIBIT IV-32-4
PERFORMANCE BUDGET
TRANSPORTATION
FLEET OF 10 BUSES

BUS ROUTES				
NUMBER OF ANNUAL MILES				$360,000
COST PER MILE			27 cents	
TOTAL ANNUAL COST			$ 97,200	
BUS MAINTENANCE				
WASHING (36 WASHINGS)		$ 1,800		
TUNEUPS (20 @ $50)				1,000
TIRES (30 PER YEAR @ 125)				3,750
INSURANCE (ANNUAL PREMIUM)		10,000		
MISCELLANEOUS			2,000	
TOTAL ANNUAL COST			$18,550	
TOTAL	$115,750			

Zero-base Budgeting

Zero-base budgeting (ZBB) requires that all programs compete for budget resources from year-to-year on an equal footing, regardless of whether or not they have been approved in prior fiscal years. In other words, it seeks to avoid incremental decision-making (e.g., increasing last year's budget by 5%) and each program or activity must be justified on its own merit annually. This budgeting approach requires the development of various levels of service (i.e., decision packages) with estimated costs for each level.

Decision units (e.g., program elements) are established within organizational subunits with a designated manager who has responsibility and authority for a specific set of activities. Decision packages are devised for each decision unit at alternative levels of funding. A package should identify the mission and goal of the unit, outline different ways to deliver the services, and describe the benefits of each alternative. In most cases, funding levels are stated in percentages of current year funding (e.g., 90%, 100%, 110%). The selected packages of the decision unit are ranked and then implemented until the resources are exhausted. Those decision units not funded are not implemented in the budgeted fiscal year.

One major problem with the ZBB approach is that it requires massive paperwork if implemented in its pure form. In addition, a major weakness of the ZBB system is its lack of relationship to the accounting function. Typically the budget must be converted entirely after its adoption in order to fit the accounting system.

Even if an LUA chooses not to implement ZBB in its entirety, the concept should not be overlooked in the development of the budget. Just because a department received a budget allocation for a particular expenditure in the current year, it may not be necessary in the subsequent year. ZBB does not work as well with the QBE program since all the state resources allocated to a particular program must be spent in that program area. However, there may be better ways to deliver at least the same level of service at lower costs. Exhibit IV-32-5 is an example of part of a zero-base budget for a municipal police department. The budget contained seven decision packages, but only one is illustrated along with the rankings.

EXHIBIT IV-32-5
ZERO-BASE BUDGET

DECISION UNIT: Junctionville Police Department

DECISION PACKAGE: 1 (of 7)

1. BENEFITS THAT WILL RESULT FROM DECISION PACKAGE

This package provides minimal police protection for Junctionville. It permits employment of five patrol officers sufficient for a three shift, seven days a week coverage of the city by one patrol officer with some extra time. It permits only 16 hours a day, seven days a week dispatching service. It does not provide for an investigator, a juvenile officer, or more than minimal administrative services. It would not give adequate police protection to the city if more than one patrol officer is needed at a particular time. It would leave eight hours a day uncovered for dispatching. This is the bare minimal police protection that this city can afford to have.

2. RESULTS OF NOT APPROVING THE DECISION PACKAGE

There would be no city police and very serious law enforcement problems would occur in this city.

3. COST OF DECISION PACKAGE

Salaries and Wages	$161,020
Personnel Benefits	37,729
Supplies	8,930
Contractual Services	8,890
Capital Outlay	6,200
Total	$222,769

RANKING OF DECISION PACKAGE

Decision Unit	Decision Package Number	Cost of Package	Cumulative Cost
Junctionville	1	$222,769	$222,769
Police Department	2	57,107	279,876
	3	17,118	296,994
	4	39,737	336,731
	5	26,094	362,825
	6	19,593	382,418
	7	2,600	385,018
		$385,018	

DEVELOPING BUDGETARY FINANCIAL POLICIES

As Chapter IV-1 indicates, financial policies are the guidelines that school boards should establish and follow when making financial decisions about the future of their LUAs. The school board should concern itself with overall budgetary and programmatic policy. School board members can be most effective when they use the budgetary process to establish the scope and direction of LUA services through the adoption of budgetary policies. Annually, school boards should establish and review budget policies long before the LUA budget process begins.

For example, it is the school board's decision on whether to approve a growth or no-growth budget, to increase taxes to afford higher expenditure levels, or to incur 100% of bonded indebtedness to finance the capital needs of an LUA. However, the school board should make these decisions before the budget process begins.

Budget policy issues that school boards must consider are implicit in the following questions:

- What types of budgets should be adopted?
- Which fund types should be budgeted?
- Must revenues equal expenditures?
- What budgetary basis of accounting should LUAs use?
- Do appropriations lapse at year-end?
- Should contingencies be budgeted?
- How much fund balance should be maintained?
- What level of budgetary control should be maintained?

What types of budgets should be adopted?

There are two types of budgets: annual operating budgets and project budgets.

An annual operating budget is the budget the school board adopts for the LUA's fiscal year, that is, for a 12-month period consistent with the LUA's fiscal year (i.e., July 1 - June 30). This is the type of budget that every Georgia LUA adopts. O.C.G.A. specifies that the fiscal year is July 1 - June 30.

A project budget is a budget a school board adopts for a specific project without regard for the period of time the project will last.

In some states, LUAs use project budgets for selected grants which have a fiscal year which differs from the LUA's fiscal year. For example, a federal grant may have a 12-month budget period which differs from the 12 months of the LUA's fiscal year (e.g., for the Federal government's fiscal year October-September). The LUA would adopt the budget for the federal grant period. This budget is classified as a project budget rather than an annual operating budget.

LUA's must adopt annual budgets for state and federal grants. If a grant period applies to portions of two LUA fiscal years, the appropriate portion must be budgeted in each of the LUA's two fiscal years.

Capital project funds include construction projects which may require a number of years to complete. When the school board adopts a project budget, the total cost of construction is authorized (i.e., without regard to the number of years required to complete the project) and subsequent annual budgets for the same project are not necessary. It can be a problem for LUA officials to prepare an annual budget for a multi-year project because it may be difficult to determine when (i.e., in which fiscal year) the actual costs of construction will occur.

However, an operating budget for capital project funds may be adopted on a project basis. For example, assume that an LUA is going to build an addition to a high school at a cost of $5 million and it is anticipated the project will span three of the LUA's fiscal years. A single budget for the project (i.e., $5 million) would be adopted by the school board in the year the project initially will begin. A note would be made in the budget that the project budget is for three years. In the second and third years of the project period, no formal budget adoption would be required by the school board. Project budgets would be reported in the legal advertisement of the budget and in budget information submitted in the year the project budget initially was adopted.

Although a school board may adopt either an operating budget for capital projects (estimated portion to be completed in the fiscal year) or a project budget (the entire capital project cost in the initial year) the GA DOE strongly recommends the adoption of a project budget as described above for capital projects.

Which Fund Types Should Be Budgeted?

Currently, school boards must adopt annual operating budgets for all fund types that they maintain except fiduciary funds. Annual operating budgets mean that school boards may not adopt project budgets for federal grants which have a fiscal year different from July 1 - June 30.

If an LUA reports athletic and student activity funds in the General fund, an annual budget is required. However, if the athletic and student activity funds are reported as agency funds, no budgets are required since agency funds do not report revenues and expenditures.

In summary, annual operating budgets must be adopted for governmental fund types, i.e., general fund, debt service funds, special revenue funds, and permanent funds. A project budget is recommended for capital projects funds. In addition, annual operating budgets must be adopted for internal service and enterprise funds. Annual operating budgets are not required for fiduciary funds.

A school board's policy for adopting budgets should contain these provisions:

"Annual budgets (i.e., from July 1 - June 30) are adopted for all funds except capital project funds and fiduciary funds (e.g., athletic and student activity funds). Project budgets are adopted for major capital projects."

Must Revenues Equal Expenditures?

School boards must adopt balanced budgets. That is, estimated revenues equal estimated expenditures.

Estimated Revenues	$4,000,000
Estimated Expenditures	4,000,000
Difference	$ -0-

However, there are two instances when revenues and expenditures do not equal. For example, a school board could adopt the following budget:

Estimated Revenues	$4,200,000
Estimated Expenditures	4,000,000
Difference	$ 200,000

One could say that this budget is more than balanced (i.e., if everything occurs as planned, the fund balance will increase $200,000). A school board would adopt this type of budget when:

1. The school board wants to accumulate resources, usually for cash flow purposes, for capital items or for unforeseen emergencies (see discussion regarding the allowable amount of fund balance later in this chapter).

2. The school board has incurred a deficit fund balance (i.e., actual expenditures have exceeded revenues in prior years) and acts to reduce or eliminate this deficit. The primary method to eliminate or reduce deficits is to adopt a budget with projected revenues in excess of estimated expenditures and to spend only what is budgeted.

However, some school boards might attempt to adopt the following budget:

Estimated Revenues	$4,000,000
Estimated Expenditures	4,200,000
Difference	($ 200,000)

This budget is not acceptable since there is no means of financing the deficit.

A school board can adopt this type of budget only when it has an adequate fund balance (i.e., the accumulated excess of revenues over expenditures from prior years) to eliminate the anticipated deficit as follows.

Projected Fund Balance Beginning of Year	$ 200,000
Estimated Revenues	4,000,000
	$4,200,000
Estimated Expenditures	4,200,000
Difference	$ -0-

A fourth possibility exists. If it is known that in the current fiscal year extraordinary expenditures not included in the budget will cause the LUA to incur an unexpected deficit in its actual operations. Then the school board must eliminate the deficit with additional revenues or reduced expenditures in the succeeding year. In this instance the following budget must be adopted.

Actual Fund Balance	$(200,000)

Estimated Revenue	4,200,000
Estimated Expenditures	4,000,000
Difference	$ -0-

Or

Actual Fund Balance	$(200,000)
Estimated Revenues (no change)4,000,000	
Estimated Expenditures	3,800,000
Difference	$ -0-

In this instance, a portion of fund balance is budgeted as a source of funds in order to eliminate the deficit. The school board's budgetary policy should allow for all four options, however, the third option should be limited to a fund balance in excess of any required fund balance reserves as a result of a financial policy (see later discussion regarding the amount of fund balance). A school board's balanced budget policy should contain these requirements.

> "The budget must be balanced for all budgeted funds. Total anticipated revenues should equal total estimated expenditures. In the event anticipated revenues are insufficient to fund anticipated essential expenditures, a portion of the unassigned fund balance from previous years must be used to fund the shortfall. In the event there is insufficient unassigned fund balance from previous years to fund anticipated expenditures, then such expenditures must be reduced to equal anticipated revenues plus available unassigned fund balance. In the event it is known at the time the budget must be adopted that extraordinary expenditures in the current year will cause a deficit at the beginning of the year, such deficit must be eliminated by either additional revenues or reduced expenditures."

What Budgetary Basis of Accounting Should LUAs Use?

The budgetary basis of accounting is the basis of accounting LUAs use to prepare their budgets. That is, the budgetary basis of accounting consistent with the accounting basis determines when revenues are recognized in the budget and when expenditures/expenses are charged against the budgetary appropriations. In some states, statutes prescribe the budgetary basis of accounting (e.g., the budgetary basis must be consistent with generally accepted accounting principles (GAAP). However in Georgia, state statutes do not prescribe the budgetary basis of accounting for LUAs. Therefore an LUA may determine its own budgetary basis. It is recommended that the school board adopts a policy prescribing the budgetary basis of accounting.

Annual financial reporting is much simplified if the LUA adopts a budget consistent with GAAP.

Remember, the budgetary basis does not necessarily relate to the data that is included on the financial information submitted to the GA DOE. The three most common bases of accounting that LUAs use include cash basis, modified accrual basis (i.e., a GAAP basis) and the modified accrual basis plus outstanding encumbrances.

Cash Basis Budgets. LUAs using cash basis budgeting recognize revenue when they receive cash and record costs when they issue checks. There are two advantages of using the cash basis, it's easy to understand (it operates just like a person's checkbook) and there will be cash available (at least by year-end) to pay for the expenditures.

However, as a general rule, cash basis accounting is not recommended because it allows LUA officials to decide when to charge costs against the budget. If LUA officials don't want to charge costs to the current year's budget, they can defer payment of invoices until the next budget year (i.e., assuming vendors allow this practice). The budgetary basis shouldn't allow LUA officials to determine the amount of fund balance by deciding whether to pay outstanding invoices in the subsequent year rather than in the current year.

The other issue with this method is the required reconciliation between the cash basis fund balance (i.e., probably the amount of cash in the bank) and the GAAP basis fund balance. Since LUAs must prepare GAAP-based financial statements, this reconciliation is required and may cause LUA accountants some difficulty. Generally, cash basis budgeting is considered an antiquated budgetary method.

GAAP Based Budgets. LUAs using the GAAP basis of accounting for governmental fund types (i.e., the modified accrual basis of accounting) would recognize revenues in the budget when the revenue source is considered measurable and available. Measurable means the amount of revenue can be determined, and available means that the revenue has been collected or will be collected soon enough after the end of the year to pay liabilities outstanding at year end.

Expenditures under the GAAP budgetary basis are recognized when:

- the transaction is measurable (i.e., the LUA can determine the amount of the expenditure, usually that is when the invoice is received)

- the liability has been incurred (i.e., the goods or services have been received)

- the liability has or will be liquidated from current revenues (i.e., the LUA pays the invoice in the current year or shortly thereafter)

Chapters I-7, I-9, and I-10 provide a detailed discussion of the modified accrual basis of accounting.
This budgetary basis of accounting really is an extension of cash basis accounting. It includes all invoices paid in the current year that relate to the current year (i.e., cash basis) plus any outstanding invoices at year-end (i.e., accounts payable). The following illustrates this basis:

Invoices paid in current year and applicable to the current year	(cash basis budget)	$150,000
Add: Invoices outstanding at year-end applicable to the current		

year	(GAAP basis budget)	30,000
Total allowable expenditures charged against current year's budget		$180,000

LUAs using the GAAP budgetary basis for internal service and enterprise funds would record revenues when earned and expenses when incurred. The primary advantage of using a GAAP budgetary basis of accounting is that the LUA maintains a single set of accounting records and at year end there are no major adjustments to the accounting records to change from a non-GAAP budgetary basis to the GAAP basis.

Some LUAs adopt budgets on a GAAP basis, except QBE salaries and benefits are budgeted on a cash basis. This method is considered a variation of both the cash basis and modified accrual budgetary bases. The treatment of QBE salaries and benefits is covered in detail in the section on budgeting of specific revenue sources and expenditures later in this chapter.

GAAP Based Budgets plus Outstanding Encumbrances. In order to understand this budgetary basis of accounting, an encumbrance must be defined. The theoretical definition is "an obligation of an appropriation." In other words, the encumbered portion of the budget is "spoken for." Purchase orders and contracts result in encumbrances. If the LUA does not use purchase orders, the LUA has nothing to encumber and cannot use this method of budgeting.

Encumbered fund balance amounts should be included within the committed or assigned portion of fund balance of the balance sheet.

Under this budgetary basis, not only are cash payments and outstanding accounts payable charged against the budget, but all outstanding encumbrances applicable to the current year are charged against the budget, without regard to whether they are paid in the current year or the goods or services have been provided in the current year. The following illustrates this method:

Invoices paid in current year and applicable to the current year	(cash basis budget)	$150,000
Add: Invoices outstanding at year-end applicable to the current year	(GAAP basis budget)	30,000
Add: Encumbrances outstanding at year-end applicable to the current year	(GAAP basis plus encumbrances budget)	25,000

Total allowable charges against current year's budget	$205,000

This method is particularly helpful in dealing with outstanding orders made by school principals or departments (e.g., the maintenance department). For example, if a maintenance vehicle is budgeted in the current year, ordered in the current year, but not received by year-end, this order may not be charged against the current year's budget under the first two budget methods described above. The cost of the vehicle would have to be re-appropriated in the subsequent year. However under the third method, the cost of the vehicle can be charged against the current year's budget with no action required by the school board in the subsequent year.

Which budgetary basis of accounting that an LUA uses should be determined by its school board, however, the budget policy should address this issue. Before choosing a budgetary basis, the "estimating expenditures" section of this chapter should be read.

A sample budgetary basis financial policy follows:

"All budgets will be adopted on a basis of accounting consistent with generally accepted accounting principles except for encumbrances or where prohibited by Georgia law. Revenues are budgeted when they become measurable and available and expenditures are budgeted when they become measurable and a liability has been incurred which will be liquidated with current resources. All outstanding encumbrances are charged to the budget appropriation in the year initially encumbered."

Do Appropriations Lapse At Year-end?

When the school board adopts a budget, it becomes an appropriation and the legal authority for LUA management to incur expenditures on behalf of the school board. But what happens if the adopted budget (appropriation) is not expended at year-end?

Before answering this question, one needs to identify the status of appropriations at year-end. At year-end, appropriations either are encumbered or unencumbered. Encumbered appropriations are those appropriations against which LUAs have issued purchase orders or contracts (see Chapter I-8 for additional discussion of encumbrances). Unencumbered appropriations are those appropriations for which no expenditures or encumbrances have been charged. In Georgia, all unencumbered LUA appropriations lapse at year-end.

The LUA's financial policy must address the status of encumbered appropriations. Some LUAs allow encumbrances to carry forward. In a balanced budget, i.e., revenues equal expenditures, this means that at the beginning of the next year, the line-items in the subsequent year's budget will be increased by the amount of the outstanding encumbrances. An equal amount of fund balance must be added to budgeted revenue to offset the amount of encumbrances added to budgeted expenditures, otherwise the budgeted expenditures would exceed budgeted revenues.

However, if an LUA chooses to lapse all appropriations (i.e., both encumbered and unencumbered) at year-end and re-establish outstanding encumbrances in the next year, necessary funding for these encumbrances will be required. If the orders are for small amounts, generally they are just charged to the next year's budget. However, if the outstanding encumbrances will be converted to expenditures in the next year and they are large amounts, the next year's budget must be amended (i.e., increased) to fund these encumbrances. The budget amendment will simply increase the line-items that the encumbrances relate to and the budgeted revenues will be increased by adding an equal amount from assigned or committed fund balance. This amendment is appropriate since the funds budgeted in the prior year to fund these items became part of the fund balance at year-end (i.e., the appropriation lapsed) (See the "Budget Amendments" section of this chapter).

It must be emphasized that all appropriations from all sources (local, state, federal) not obligated in accordance with GAAP become part of the unassigned fund balance except those funds that must either be refunded to the grantor (e.g., the GA DOE or other grantor) or reserved if legally required or permissible, committed by the board of education, or assigned.

A sample appropriations policy follows:

"All unencumbered appropriations lapse at year end. However, the appropriation authority for encumbrances carries forward to the next year."

Should Contingencies Be Budgeted?

A contingency budget is one that allocates funds for unforeseen, emergency type expenditures that were not anticipated when the budget was prepared and adopted. In an LUA, it is impossible to anticipate all expenditures that could occur during any given fiscal year. Therefore, some method to allow for contingencies must be available to LUAs. Generally, there are three alternatives available to LUAs.

First, LUAs may budget a line-item for contingencies. This line-item usually is included in the school board's budget (in the budget submitted to the GA DOE, this amount should be budgeted in the appropriate fund, function 2300, object 890) and cannot be spent unless the school board authorizes its use. If the school board authorizes the use of these funds, the applicable expenditure is not charged to the contingency line-item; rather a transfer is made from the line-item to the applicable expenditure line-item where the funds are required. One potential drawback to this alternative is that the contingency line-item must be funded with revenues (i.e., to keep the budget in balance).

Alternatively, LUAs may maintain a fund balance adequate to cover emergencies (see discussion below regarding the amount of fund balance). In a balanced budget, i.e., revenues equal expenditures, any beginning fund balance not budgeted for use in the current year can be used for emergency type contingency items not included in the original budget. When these funds are needed, a budget amendment would be required, increasing the line-item expenditures and adding an equal amount to revenue from beginning fund balance to balance the budget.

Finally, the third alternative is a combination of the first two. An LUA budgets a line-item for contingencies and funds the line-item with fund balance. In other words, a line-item for contingencies is included in the budget consistent with the first alternative, however, fund balance is used to finance the contingencies, rather than additional revenues. This alternative is the same as the second alternative except the budget need not be formally amended (i.e., just the approval of a transfer is necessary) since the line-item for contingencies already is budgeted.

The amount of an LUA's contingency budget will vary widely. As a general rule, line-item contingencies are rarely in excess of 5% of the appropriated budgets. A number of unanticipated expenditures may be required in the LUA during the fiscal year and 5% probably isn't adequate,

although 1%-5% of the appropriated budget is most common.
A sample financial policy covering contingencies follows:

"The general fund will contain a line-item for contingencies for unforeseen operating expenditures. The amount of the contingency will be no more than 5% of budgeted local revenues or $_____ whichever is less. An equal amount of fund balance will be budgeted to fund the contingency."

How Much Fund Balance Should Be Maintained?

Pursuant to O.C.G.A. § 20-2-167, LUAs may establish two types of fund balance reserves. This Code section indicates LUAs may establish a reserve account intended to cover unanticipated expenditures, or a reserve account for capital accumulation funds for expenditure in future budget years only if the purpose for which such amounts will be expended and the anticipated date of expenditure of such amounts are clearly and specifically identified. NOTE: This statute applies to the general fund only, and RESAs are not covered by it.

Before this statute can be explained, fund balance must be defined. Governmental accounting limits the use of the term fund balance.

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions, establishes the various types of Fund Balances.* Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

1) Nonspendable fund balance – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

2) Restricted fund balance – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

3) Committed fund balance – amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future construction projects).

4) Assigned fund balance – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Education or by a designee to whom the Board of Education delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

5) Unassigned fund balance – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Nonspendable fund balance should include:

- Inventories (see chapter I-12)
- Advances to other funds (see chapter I-13)
- Prepaid expenditures

Restricted fund balance should include amounts restricted to:

- Debt service (usually debt service funds)
- State capital outlay projects (usually capital projects funds) and Educational Special Purpose Local Option Sales Tax (ESPLOST) balances
- Unobligated grant balances (usually special revenue funds)
- Questioned costs (usually special revenue funds)
- Endowment principal (usually permanent funds)

Pursuant to O.C.G.A. § 20-2-167, the board of education may commit a portion of unassigned fund balance. While the statute uses the term "reserve" it is actually a commitment of fund balance.

An LUA may establish one or more capital accumulation reserves if the following are identified clearly and specifically:

- The purpose for which such amounts may be expended and
- The anticipated date(s) of expenditure.

The law does not place a limit on the amount of this reserve.

The remaining committed, assigned, and unassigned fund balances (classified in the statutes as a single reserve fund or reserve account) is intended to cover deficiencies in revenue or unanticipated expenditures (i.e., very similar to the amount available for contingencies). The O.C.G.A. § 20-2-167 limits this part of fund balance to 15% of the subsequent fiscal year total budget for those funds included in the General Fund in the annual audit.

Determining the allowable amount of unreserved fund balance:

Next year's budgeted general fund expenditures	$3,000,000	
Allowable percent		15%
Allowable unreserved fund balance		$ 450,000

A sample fund balance financial policy follows:

“The general fund committed, assigned, unassigned fund balances is limited to 15% of the next year's budgeted general fund expenditures.”

The Government Finance Officers Association recommends that governments reserve, at a minimum, two month’s general fund operating expenditures. See http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund for the entire recommended practice.

What Level of Budgetary Control Should be Maintained?

Another way to state this question is, "At what account level does an LUA overspend its board-approved budgeting control authority?" Or "When must the LUA request the local board to amend the budget? The function level?" The local board's budgetary policy should address this issue.

First, it is important to distinguish between budget transfers and budget amendments. Budget transfers and amendments both change the original budget. However, an amendment is required to be approved by the school board, but a budget transfer can be made by designated LUA administrators within an approved board policy.

Budget transfers between budget appropriations may be required for several reasons:

- Transfers from the contingency account.
- Transfers resources from one department or school to another to reflect a realignment of priorities or objectives.
- Transfers among objects of expenditures to adjust estimates to meet actual operating results.

Budget amendments might be required as a result of the following –

- Increases resulting from unanticipated revenue sources.
- Decreases resulting from insufficient revenue sources.

To ensure that sound financial management practices are observed, it is essential that local school boards adopt a policy setting forth the level of budgetary control. Before finalizing a policy regarding the legal level of control, an LUA should consider the GAAP reporting requirements. GAAP requires that an LUA present a budget to actual comparison for the general fund and each special revenue fund that has a legally adopted annual budget. This comparison must be presented at the legal level of control. Therefore if the legal level of control is the function, the budget to actual statement must be presented at the function level. If the legal level is the detailed object level within the function, the budget to actual statement would need to be presented at this level.

Adopting a level of budgetary control doesn't mean that school boards shouldn't review the proposed budget at a detailed level. Just as the level at which the budget must be amended is a decision to be made by the school board, so is the level of the proposed budget review a decision to be made by the school board. It should be noted that if the school board adopts the budget at a level more detailed than the functional level, this lower level becomes the legal level for purposes of overspending the budget. For example, if the school board adopts the budget at the object-level, (i.e., no other resolution is approved), the legal level becomes the major object classification within the function by fund.

If the legal level is function or fund or department, school boards need policies authorizing personnel to transfer budget amounts between line items within these areas. Sometimes, the LUA superintendent is authorized to make these transfers; however, usually the transfer authority is given both to the LUA's assistant superintendents for instruction and business or other person authorized by the board. Subsequent school board action is not required to approve these transfers.

The following sample policy must be adopted by the school board and be worded to reflect the level of budgetary control adopted by the board.

"The budget shall be adopted at the legal level of budgetary control which is the (insert level) (i.e., expenditures may not exceed the total appropriation for any (insert level without the board's approval). The board must approve any changes between the appropriations by (insert level). However, the superintendent, assistant superintendent for instruction and the assistant superintendent for business or other person authorized by the board shall have the authority to transfer appropriations within (insert level)."

ORGANIZATION OF THE BUDGETARY PROCESS

The budget process can vary widely within different LUAs. As indicated earlier, there is no "one right way" to prepare a budget. Alternative budget processes are discussed in this section.

Centralized or Decentralized Budget Process

There are a variety of ways to develop an LUA budget. The process may be centralized or de-centralized.
A centralized budgetary approach generally has no budget input from department directors, supervisors and school principals. The central office staff, usually the LUA superintendent and the accountant, will prepare the LUA's budget, based upon last year's financial data. This system only can be effective in very small LUAs where the superintendent handles most administrative matters, and usually there are no department directors or supervisors and just one or two principals.

Alternatively, the approach to budgeting may be de-centralized. When using this approach, the department directors, supervisors and school principals all actively participate in the budget process. Their level of participation will vary depending upon how budget expenditures are requested. The personnel budget usually is developed separately from the non-personnel budget. As the budget officer calls for budget estimates for non-personnel costs, either a "top down" or a "bottom up" approach is used. With the "top down" approach, each principal of a school is allocated a dollar amount to spend for supplies and equipment per "full-time equivalent" pupil. In other words, the dollar amount is determined from the "top" of the administrative hierarchy. Often this budget allocation is based upon the "dollar allocation" included in the QBE formula (e.g., $98.21 per FTE for the grades 9 - 12 QBE program). If the LUA has limited resources, the "top-down" method is preferable.

Appendix K of the FMGLUA handbook discusses expenditure controls related to the State Quality Basic Education Funding appropriation formula. It should be noted that the majority of school districts in the state have opted for flexibility contracts that waive the expenditure control requirements set forth in O.C.G.A. §20-2-167 and other code sections.

On the negative side, the "top-down" method forces higher-level managers to judge the validity of financing demands before they have information on the needs and likely performance of the various programs. The fixed ceiling encourages principals to request the maximum amount allowed by the ceiling. These estimates do not permit comparative evaluation of programs to determine whether some resources could be allocated more efficiently.

A second "top down" allocation will require department directors to spend a certain percentage of the prior year’s expenditures (e.g., 95% or 105%). However, with the QBE allocations, this method is not very effective in Georgia.

The "bottom up" approach (also known as open-ended budgeting) requires each department director, supervisor and school principal to request needed resources and then the budget administrators determine the level of funding. Under this approach, budget requests usually exceed resources available, resulting in reductions of budget requests. However, this approach encourages budget requestors to be creative, since there are no initial budget limitations.

However, this method presents two problems. Higher level managers have less knowledge about specific program activities, therefore, cannot assess the effect of spending cuts if funding levels must be lowered. A single estimate does not provide information on which to judge the relative value of programs within and across budget lines. With the school principals, this method is not recommended since each QBE program allocation should be spent on the related QBE program.

A third option is to require the budget units to submit, along with a single budget estimate, a priority listing of activities that can be eliminated if funding is unavailable. However, priority listings do not permit the budget decision makers to compare the relative value of lower-priority items among different budget units.

The Administrative Role

The administrative role in the budgetary process involves three primary responsibilities:

1. Preparing budget proposals for consideration by the school board.

2. Explaining and clarifying current fiscal conditions, fiscal prospects and budgetary proposals to the school board.

3. Implementing the budget enacted by the school board and monitoring performance to ensure that programmatic and fiscal objectives are met.

A single administrator should be designated as the budget officer. In some LUAs, this person is the superintendent. However in many LUAs, the superintendent delegates this responsibility to the LUA's chief school business official. The budget officer may serve simply as a coordinator of budget materials and be responsible for the following tasks:

- Developing the budget calendar
- Designing worksheets and forms to submit budget requests
- Issuing instructions to departmental personnel and school principals for completion of budget worksheets

- Reviewing finished worksheets and forms for accuracy and completeness
- Preparing or assembling revenue estimates
- Presenting budgetary materials to the school board for review
- Coordinating budget preparation and scheduling budget review meetings

In this role, the budget officer does not;

- evaluate departmental or school requests,
- make budgetary recommendations, and

- seek to balance proposed expenditures with estimated revenues.

Rather, the role is to ensure that the activities listed in the budget calendar are accomplished and that budget materials are accurate, complete, and presented in a common and understandable format.

Alternatively, and more common, the budget officer may perform a more significant role and become involved in all the programmatic and financial issues relating to the budget, in addition to the coordinating function. These expanded activities could include:

- issuing guidelines to departments regarding acceptable levels of service increase or decrease and expected cost limitations,
- evaluating departmental requests and adjusting them to policy guidelines,
- balancing expenditure requests with available revenues, and
- making recommendations for budget action to the school board.

If the budget officer is also the LUA superintendent, generally he or she is in a position to complete these activities. If the chief school business official is serving as the budget officer, normally the above activities will be completed by a variety of LUA administrators including the LUA superintendent, any deputy and assistant superintendents responsible for instruction, the personnel department, etc., department directors and school principals.

The budget officer assumes responsibility for direct supervision over budget administration including the following.

- Ensuring that budget centers (e.g., an elementary school) do not exceed budget limits.
- Maintaining centralized position control to ensure that a person is hired only into an authorized position at a salary no greater than the amount budgeted (Often, the personnel department assumes this role).
- Reviewing and approving all requests to transfer appropriations from one budget item to another.
- Maintaining and updating the budget procedures manual.
- Preparing reports on budgetary performance for the use by the school board and budget managers.
- Monitoring departmental performance to determine potential trouble spots.

Some specific advantages of this approach to budget administration include the following:

- Priorities for services can be determined best from a central vantage point.

- Budget preparation is facilitated through standardization of procedures and forms.
- Effective control of LUA resources can be achieved more easily since the in-and-out flow of these resources is handled through one official.
- Fiscal problems can be detected sooner because an official is designated to be on the constant lookout for them.
- Budget implementation is facilitated by the use of standard forms for all budget actions.

The steps necessary to complete the budget process include the following.

1. Develop the budget process calendar.

2. Establish budget policy.
3. Design worksheets and forms for budget requests.
4. Estimate revenue sources.
5. Issue instructions to department personnel and school principals.
6. Complete budget expenditure request worksheets and forms.
7. Review and justify budget requests.
8. Formalize budget document.
9. Present budget to school board.
10. Present tentative budget on the school district's public website.
11. Hold two (2) public meetings to discuss the budget, prior to adopting the final budget. NOTE: The law is not specific regarding whether the meetings should take place before or after the tentative budget. However, you want to ensure that the public has had an opportunity to review and comment on the budget before final adoption.
12. Formally adopt budget. Display adopted budget on school district's website.
13. Administer budget.

The balance of this chapter presents information regarding most of these steps.

Developing a Budget Calendar

To ensure that the goal of approving the budget prior to the beginning of the fiscal year is met, a budget calendar that establishes all important dates in the preparation of the budget should be developed. The calendar should indicate the periods during which:

- budget worksheets, instructions, and guidelines will be distributed to departments and schools,
- revenue estimates will be prepared,
- budget requests will be compiled into a single budget document with necessary summary schedules,
- the budget will be presented to the school board,
- budget meetings and work sessions will be held,
- the public meetings held prior to the adoption of the final budget will be advertised in the legal news organ. The location of the budgets presented on the LEA's public website will be included in the advertisement for the public meeting,
- the tentative budget will be adopted and presented on the LEA's public website,
- the date of the final adoption of the budget will be published on the LEA's public website.
- the new fiscal year will begin (i.e., July 1).

Exhibit IV-32-6 is a budget calendar for a larger LUA.

EXHIBIT IV-32-6
BUDGET CALENDAR

BLANK COUNTY SCHOOL DISTRICT

BUDGET CALENDAR

The budget preparation process extends for a period of approximately ten months beginning in November. All governmental fund types are budgeted by the district on a fiscal year basis. The fiscal year (July1 through June 30) budget must be submitted to the local Board of Education prior to June 30th for final adoption.

After review by the Superintendent and Administration, the proposed budget is presented to the Board of Education in a series of work sessions, two of which are advertised public meetings, and tentatively adopted by the Board. The public meetings must be advertised in the local legal news organ. The advertisement for the public meetings should reference the website location of the budget documents presented on the LEA's external website. Additionally, three public hearings are required when the effective mill rate is estimated to increase. These public hearings can be held in conjunction with the required two public meetings if held before the final adoption of the initial budget. The tentative budget is then presented on the public website of the LEA. After the tentative Budget is adopted by the Board, a period of two weeks must transpire before the Board of Education can take official action to legally adopt the budget. During this two week period, copies of the proposed budget are made available for public inspection in the Superintendent's Office and on the public website of the LEA. The budget is prepared in accordance with regulations issued by the Georgia Department of Education. No public funds may legally be expended before official adoption of the budget by the Local Board of Education.

After final adoption, the Local Board of Education may legally amend the budget at any time during the fiscal year. The LEA prepares the governmental funds budget on the modified accrual basis whereby revenues are generally recognized when measurable and available and expenditures are recognized when incurred. Appropriations not spent or encumbered lapse at year end. Federal and State grants (excluding QBE), sales taxes, and property taxes with related interest and penalties received within sixty days after year-end, are recognized as revenues prior to receipt for budgetary purposes.
The annual budget calendar is as follows:

BUDGET CALENDAR

November The Budget Director reviews the previous year's budget preparation process and procedures, and makes any change recommendations to the Superintendent and Administration. Copies of the last three FTE counts are secured. The Budget Director distributes student enrollment projections and personnel allotments which form the basis of the continuation budget. The budget calendar for the ensuing fiscal year is established.

December The Budget Director meets with department heads, principals, teachers, and school councils for the purpose of soliciting budgetary input for the ensuing fiscal year. Division administrators determine individual schedules.

January Continuation of activities from December. At a work session of the Board of the Education, budgetary parameters and system-wide goals are established to assist the Superintendent and Administration in the preparation of the ensuing budget. Subsequent to this work session, budget development packages are distributed to individuals with budgetary responsibilities including the parameters established by the Board of Education. Financial Services prepares the continuation budget for the ensuing year. The Budget Director conducts extensive workshops for budget administrators and other interested personnel.

February Departments prepare line-item requests by QBE program, based on the needs of the individual departments, including justification for unusual requests, and forward to the appropriate Division heads for review. School improvement plans should be utilized to support curriculum requests.

March Completed budget development packages, including necessary documentation, are submitted to the Budget Director from the Department heads. The Budget Director begins the process of compiling and consolidating the numerous budget requests in the budget database. Salary increases are established based on the recommendation of the Governor, and action by the General Assembly. Any local salary increases are also included in the Personnel Services portion of the proposed budget.

April The Superintendent and Administration review the draft of the proposed budget, including the projected year end fund balances, and an overview of the proposed budget including detailed revenue and expenditure projections, including all requests from Department heads. After an extensive review by the Superintendent and Administration, any proposed expenditures resulting in an unbalanced budget are eliminated should additional revenue sources not be secured and the fund balance is insufficient. Information concerning projected tax digest growth is properly advertised for a first hearing, and the first required public hearing to satisfy the requirements of O.C.G.A 48-5-32.1 is conducted.

May Information concerning projected tax digest growth for the second and third hearings is advertised separately. The second and third public hearings addressing projected tax digest growth are conducted. Necessary work sessions are conducted with the Board of Education, and a Tentative Budget is adopted by the Board of Education two weeks prior to final adoption. Newspaper advertisement of the meeting for adoption is published. Advertise the "Current Tax Digest and 5 Year History of Levy", as required by O.C.G.A. 48-5-32. NOTE: If there are no public hearings related to the increase in the effective millage rate, the Local Board of Education is still required to hold 2 public meetings before adopting the final budget (per HB 65, passed during 2016 legislative session).

June The Board of Education formally adopts the budget for the ensuing fiscal year at a public meeting as advertised after the tentative budget is adopted.

July Allotments are distributed by the Budget Director to the Division heads.

August The Board of Education formally adopts a resolution setting the millage rate to fund the current year budget, based on certification of the digest by the GA DOR.

September The initial budget as adopted by the local Board of Education is submitted electronically to the GA DOE.

Estimating Revenues

Before actually estimating revenues for the next year's budget, the ending fund balance (or deficit) for the current year should be projected. This is important since, as discussed earlier in this chapter, any available fund balance may be used in the next year to balance the budget. To estimate the year-end fund balance, the following applies:

July 1 fund balance beginning of this year		$150,000
Add:		
Year-to-date revenues	$1,600,000	
Estimated revenues, balance of year	420,000	2,020,000
Estimated available		2,170,000
Less:		
Year to date expenditures	$1,520,000	
Estimated expenditures, balance of year	410,000	1,930,000
Total Estimated Expenditures		
Estimated fund balance, June 30 end of year		$ 240,000

One of the first steps that must be taken to prepare a budget is to make a reasonable estimate of the amount of resources an LUA will have to spend. To make reliable estimates, a complete understanding of the principal revenue sources upon which an LUA relies is necessary. Different revenue sources extract resources from the economy based upon different economic entities. In general governments (e.g., cities or counties) some revenues are based on existing assets (e.g., property taxes), some on income (e.g., income taxes), some on economic transactions (e.g., sales taxes), some on privileges (business licenses), and some on the public sale of goods and services (e.g., charges for water usage).

In Georgia LUAs, property taxes and the QBE allotment are the primary revenue sources. The forecasting of revenues for each source is an important step in the budget process and might include the following general methodologies.

There are expert forecasts made by LUA officials who are most experienced in a particular revenue area. (A discussion of specific Georgia LUA revenues follows later in this chapter). Secondly, trend techniques simply are predictions based upon past historical trends. Graphical analysis is a good way to visualize such trends.

A common trend technique in projecting revenue is simple linear correlation analysis. This technique identifies the degree of relationship or association between an independent and dependent variable. For example in a county water fund, lower annual rainfall may cause higher annual water usage and subsequent higher water revenues.

A third method uses deterministic techniques which is similar to trend techniques, except there are factors other than time which determine projections. For example, the Georgia QBE formula reimburses LUAs based upon pupil enrollment, therefore if more pupils enroll, more revenues are generated.

The final method is econometric forecasting which uses a combination of economics and statistical techniques. Multiple regression analysis is used in such forecasting.

As a general rule, most revenue sources should be estimated at the actual projected amount or somewhat more conservatively. In no instance should revenues be overestimated just to balance the budget.

Property Taxes

In Georgia LUAs, the methods to project revenues will vary with the revenue source. Normally, property tax revenues should be the last revenue source to be determined since often the amount of property taxes is used to balance the budget. The two variables in this estimation are the amount of property taxes needed and the amount of assessed value.

The following illustrates this calculation for a general fund:

The amount of resources needed	$500,000
Less estimated:	
QBE allocation	(250,000)
Other non-property tax revenue	(50,000)
Amount needed from property taxes	$200,000

Divided by the tax digest $20,000,000 = Millage rate .010 or 10 mills

Georgia tax rates are expressed in terms of mills (i.e., one mill equals $1.00 of property taxes for every $1,000 of assessed value). LUAs can levy two millage rates, one for maintenance and operation and one for debt service. In Georgia, the tax rate for LUAs is limited to 20 mills for maintenance and operations. This legal limit can be exceeded only upon passage of a local referendum. There is no legal limit for the debt service millage rate.

The above method will work as long as the calculated millage rate does not exceed 20 mills,

However, often the following is how the estimated tax revenues are determined.

Property digest		$25,000,000
Desired millage rate		11.00
Tax revenues		$ 275,000
Add: QBE allocation		$250,000
Other non-tax revenue	50,000	300,000
Total revenues available to spend		$ 575,000

In the first example above, for each mill levied, $25,000 of property taxes is received. The higher the assessed value, the lower the tax rate. When estimating property tax revenue, factors to be considered include:

- Is assessed value 40% of market value?
- Collection rates.
- County collection fees.
- Tax protests.

The primary variable in estimating property tax revenues is the assessed valuation. Georgia law requires counties to assess both real and personal property at 40% of market value. When the LUA prepares its budget, the tax digest normally is unknown; therefore, the LUA budget officials must estimate the digest before they can establish the millage rate. Usually, discussions with their county's tax assessor's office can provide the LUA with information regarding the projected tax digest.

Obviously, growth is a major component of the projected changes in the tax digest. For example, if a large shopping mall is added to the tax digest, the change may be dramatic. Reviewing prior year changes in the tax digest is important, but using trend analysis normally is not recommended to estimate the tax digest, unless it has remained stable over a number of years.

Even though a dollar amount is needed from property taxes, an LUA must levy a millage rate rather than the required dollar amount. This millage rate may cause higher or lower taxes than needed if the actual tax digest is different than projected.

Another consideration when estimating the property tax rate is the tax collection rate. On the average, most Georgia counties collect at least 95 - 98% of the tax levied. Therefore if an LUA needs $500,000 in property taxes and the average collection rate is 98%, the LUA should use $510,204 (i.e., $500,000 divided by 98%) in determining their millage rate. Therefore, 98% of $510,204 will equal the desired $500,000.

Some counties charge LUAs a percentage of the taxes collected. When estimating property tax revenue, this charge is treated as a reduction of the revenue rather than an expenditure. This maximum collection fee is 2.5% of the taxes collected, but is negotiable in some counties. For example, if the LUA needs $500,000 from property taxes and the collection rate is 1%, the LUA should use $505,050 (i.e., $500,000 divided by 99%) in determining their millage rate. Therefore, 99% of $505,050 will equal the desired $500,000.

If an LUA has uncollectible property taxes of 2% and pays a 1% collection fee as indicated above, the following amount should be used in determining the millage rate:

Original amount needed	$500,000
Amount for uncollectibles ($510,204 less $500,000)	10,204
Amount for collection fee ($505,050 less $500,000)	5,050
Amount to be used to determine millage	$515,254

The final consideration is tax protests. As counties continue to reassess property often taxpayers become upset with higher assessments and begin protesting their taxes. If a large number of taxpayers protest their tax assessments, this action may result in a definite slowdown of property tax collections which may result in some of the taxes not being recognized as revenue in the budget year. As a result of taxpayer protests, Georgia law requires each county levying and recommending authority to provide certain disclosures to taxpayers prior to the establishment of the annual millage rate for ad valorem tax purposes.

The first disclosure, referenced in O.C.G.A. § 48-5-32, requires each levying and recommending authority to annually publish the assessed taxable value of all property, by class and in total, the proposed millage rate for the levying and recommending authorities' purposes for the current calendar year, and the assessed taxable values and millage rates for each of the immediately preceding five calendar years. The advertisement must also indicate the percentage increase and total dollar increase for each year advertised.

The second disclosure, referenced in O.C.G.A. § 48-5-32.1 requires each levying and recommending authority to compute a "rollback" millage rate, which is the previous year's millage rate minus the millage equivalent of the total net assessed value added by reassessments of existing real property. The law further provides that, if the levying and recommending authority proposes to levy a millage rate in excess of the computed "rollback" rate, certain advertisements and 3 public hearings must be held before the adoption of the final millage rate. Specifics regarding the required advertisements may be found at: http://dor.georgia.gov/compliance-guide-advertising-digest-history-and-public-hearings-increase-property-taxes.

Property taxes should be budgeted in account 1110, Ad Valorem Taxes. The Ad Valorem Taxes Contra Account for Tax Collection Fee should be accounted for in Revenue Source Code 1192, in Contra Program Code 4083, Tax Collection Fee.

Real Estate Transfer Tax

LUAs receive a portion of the real estate transfer tax collected by each county for real property sold within the county. The total tax equals 1% of the selling price of each parcel of real estate. Normally, LUAs receive payments from their county on a monthly basis. This revenue source is difficult to estimate. However, reviewing the current real estate market as well as past trends should provide a basis to make a conservative estimate of projected revenues.

The real estate transfer tax should be budgeted in revenue account 1121, Other Sales Taxes.

Railroad Equipment Tax

LUAs receive a portion of the railroad equipment tax levied on railroad equipment companies operating in each county in accordance with O.C.G.A. 48-5-519. For estimating revenues in the budget, an LUA can only use past experience and information from the Georgia Department of Revenue, which remits these taxes to the LUA.

The revenue should be credited to account 1190, Other Taxes.

Tuition

If an LUA receives pupils from other LUAs, the tuition should be estimated as revenue in the appropriate 1300 revenue account. The revenue estimate includes only two variables, the number of students and the annual tuition charge. O.C.G.A 20-2-133(a) specifies that the tuition charge shall not exceed the per pupil amount of local tax funds. For QBE purposes, the QBE funds follow the pupil.

Earnings on Investments

Three variables are used to estimate the amount of earnings on investments: the amount of cash available for investment, the length of time it may be invested and the interest rate (i.e., the rate of return). Most LUAs estimate interest earnings very conservatively. Interest earnings should be budgeted in revenue account 1500, Earnings on Investments or Deposits.

QBE Program Grant

The QBE program grant (i.e., the actual cash received) for each fiscal year is based upon two months' salary of the current year's rate (e.g., FY 2018) and ten months salary at the projected year's rate (e.g., FY 2019 rate). The determination of the amount to budget for the QBE grant program will vary depending upon the budget basis the LUA uses. In addition, consideration should be given to the mid-term adjustment (which is discussed separately later in this chapter).

Many LUAs budget for the QBE program grant on a cash basis. In this instance, the amount of the budget would include the following data as presented on the allotment sheet distributed to LUAs in the spring of each year:

QBE formula earnings		$61,532,048
Less:		
Current year local fair share	$10,727,108	
Audit adjustments	14,536	(10,741,644)
Actual QBE program grant to be received		$50,790,404

However, to budget this amount appropriately, the following accounts should be used:

3120 (QBE earnings)	$61,532,048
3124 (QBE austerity reduction)	(10,552,342)
3140 (QBE local fair share)	(10,727,108)
3140 (audit adjustments)	(14,536)
Net amount to be received	$ 40,238,062

Note that the austerity reduction and local fair share is budgeted as negative revenue (i.e., a debit) in accounts 3124 and 3140, QBE Contra Account.

The Educational Equalization Funding Grant also is included on the allotment sheet as the last entry. This amount should be budgeted in account 3200, Equalization (Parity).

If the LUA is budgeting on a GAAP basis, the amount of QBE program earnings included on the allotment sheet must be adjusted to reflect the state reimbursement for the next year's (i.e., the year the budget is being prepared for) July and August certified personnel salaries and benefits. This amount must be accrued since the service has been provided and the amount is owed. Obviously, if the GAAP basis is used, the July and August salaries and benefits of certified personnel also must be accrued in the accounting records.

To determine the amount of QBE revenue to budget, the LUA should use the following formula:

Take 2/12 of the minimum state salary for the current fiscal year multiplied by retirement and health insurance percentage divided by base FTE for each specific QBE program. This base cost is then multiplied by the average FTE counts times the weight per program times the training and experience percent. From the QBE allotment sheet, take the QBE formula earnings for salary and subtract beginning accrual and add ending accrual.

The calculation of the July and August salaries and benefits of certified personnel should be available in mid-June of the current fiscal year in the Financial Review Reports Menu website.

Mid-term Adjustment

The QBE mid-term adjustment should be considered when budgeting the QBE revenue. Many LUAs do not budget the mid-term adjustment and use any increases as a cushion against unanticipated reductions in other revenue sources.

If there is an estimated decrease in the FTE count from the prior year, there should be no change in the QBE earnings with the mid-term adjustment and the budget need not reflect the mid-term adjustment. However, if there is an estimated increase in the FTE count from the prior year, this increase should be reflected in the budget.

Categorical Grants

The following categorical grants are included on the allotment sheet for ease in budgeting:

Pupil transportation

Sparsity

Nursing Services

These grants and others not on the allotment sheet should be budgeted in revenue account 3125, State Categorical Grants.

Nursing Services

Evaluating Revenue Alternatives

It may be desirable to conduct in-depth revenue analysis periodically (suggested annually), in conjunction with the budgetary process, which could be used to set tax and fee policies. First an inventory should be made of the various tax and revenue sources available to the LUA. Then, an evaluation could be made of these revenues. LUAs could prepare revenue manuals which provide documentation for each revenue source and it might include the following:

- Legal authorization.
- Description.
- Revenue source (i.e., where it came from).
- Responsible department for projection and collection.
- Fee schedule.
- Method for collection.
- Authorized exemptions.
- Revenue budget history.
- Revenue collection history.
- Revenue trends and analysis.
- Service cost comparison.
- Previous rates and fees.
- Revenue projection methodology.

Estimating Expenditures

Projected enrollments are the driving force for projecting expenditures. All school costs revolve around the number of full-time equivalent pupils. In Georgia, many LUAs have increasing enrollments which result in increasing the number of teachers and the budgets for supplies and equipment. Exhibit IV-32-8 illustrates a projected enrollment for a Georgia LUA.

EXHIBIT IV-32-8
PROJECTED ENROLLMENT

Sample School District
Enrollment Projections
For Fiscal Year 2019

Grades	2019	2020	2021	2006	2022	2023	2024	2025	2026	2000
Kindergarten	347	359	358	346	357	360	363	366	369	372
1st Grade	328	303	328	348	343	350	353	356	359	362
2nd Grade	301	298	292	310	346	336	343	346	349	352
3rd Grade	290	295	300	299	306	343	333	339	342	346
4th Grade	322	287	289	293	290	302	338	328	335	338
5th Grade	292	324	288	285	306	295	307	344	334	341
6th Grade	324	289	308	298	298	306	295	307	344	334
7th Grade	307	321	284	307	326	304	312	301	313	351
8th Grade	285	296	313	261	289	315	293	301	291	302

9th Grade	305	298	282	316	261	291	317	295	303	293
10th Grade	276	246	241	230	267	211	236	257	239	246
11th Grade	274	252	228	219	216	247	195	218	237	221
12th Grade	254	242	227	208	217	201	230	182	203	221
Self Contained	24	24	16	18	11	15	15	15	15	15

If a waiver by the State Board of Education or through the charter system flexibility has not been granted to the local board of education, O.C.G.A. 20-2-182, GA DOE Rule 160-5-1-.08 (Maximum Class Size), and GA DOE Rule 160-5-1-.22 (Personnel Required) should be considered when calculating the number of required teachers. The enrollment divided by the required pupil-teacher ratio equals the number of required teachers. Generally, the school board authorizes the number of certified staffing (i.e., teachers) positions. Exhibit IV-32-9 provides a sample professional staff allotment sheet.

EXHIBIT IV-32-9
PROFESSIONAL STAFF ALLOTMENT SHEET

School/Center	Kindergarten EIP	Kindergarten	Grades 1-3 EIP	Grades 1-3	Grades 4-5	Grades 6-8 (M/S Program)	Grades 6-8	Grades 9-12	Vocational Laboratory	Special Education	Gifted	Remedial	Art
Alpha Elementary	1	4	3	4	8					2	1	2	1
Beta Elementary	1	2	1	2	4					3		3	1
Chi Elementary	1	4	3	4	8					2	1	2	1
Delta Elementary	1	4	3	4	8					2	1	2	1
Baker Middle						36			3	2	2		1
Charlie Middle						37			3	2	2		1
Hope Alternative													
Blank County High								72	22	8	8	5	
Totals	4	14	10	14	28	73	0	72	28	21	15	14	6

School/Center	Music	Physical Education	Alternative Education	ESOL	Speech Therapist	Title 1	Title VIB	Counselors/Grad Coaches	Media Specialists	Principals	Assistant Principals	Total
Alpha Elementary	1	1				2		1	1	1	1	34

Beta Elementary	1	1		1	1	2		1	1	1	1	27
Chi Elementary	1	1			1	1	1	1	1	1	1	35
Delta Elementary	1	1		1		2	2	1	1	1	1	37
Baker Middle	1	3						2	1	1	1	53
Charlie Middle	1	3						2	1	1	1	54
Hope Alternative			6					1		1		8
Blank County High								4	2	1	4	126
Totals	6	10	6	2	2	7	3	13	8	8	10	374

Most LUAs allocate an amount for supplies and equipment based upon each school's enrollment.

One of the most important aspects of budgeting in Georgia LUAs is the appropriate amount of expenditures are budgeted in each of the appropriate QBE programs. Review Chapter II-7 for a discussion of the program requirements.

As LUAs budget expenditures, one important rule to remember is "no matter how the budgeted amount was determined, be sure to document the method and variables used." When comparing actual results with the adopted budget, this procedure will allow LUA officials to determine "what changed and why." The answers to these questions will allow for improved budgeting in the future.

Budgeting for QBE Programs

As Chapter II-7 explains, LUAs must budget and spend the majority of a QBE program allocation (e.g., 90% of a specific QBE program) in the specific QBE program, unless flexibility has been provided through a charter system or strategic waiver contract. As LUA personnel prepare operating budgets, care must be taken to insure that the budget includes at least the minimum amount of the QBE allocation in each QBE program area. That is, the total of personnel costs and non-personnel costs must total at least 90% of the program allocation.

The personnel budgets alone (i.e., not considering supplies and equipment) almost always exceed the minimum QBE program requirements in many LUAs. Therefore these LUAs have not had to worry about budgeting the appropriate amount for non-personnel costs in specific QBE programs.

Budgeting Staff

Of all the LUA costs, staffing is the most expensive since personnel costs constitute more than 85% of the total general fund budget in most LUAs. The school district management may choose to set their budget policy using the cash basis or GAAP basis as earlier discussed. The following paragraphs regarding budgeting staff are based on GAAP basis budgeting. It is recommended that salaries are budgeted on a GAAP basis, as well as non-salary costs (i.e., when the liability has been incurred).

Teacher Salaries. The budget should include twelve months of the most current salary contract (i.e., the ten payments of the new contract actually made in the current budget year and the two payments to be made in the subsequent budget year). As noted in the revenue section of this chapter, GAAP requires that if the July and August payments are accrued at June 30, the QBE allocation used to fund a portion of these salaries must be accrued for financial statement purposes. Obviously, if the budget includes the new contract (i.e., September 1 - August 31), the actual expenditures compared to this budget must include the salary accrual for the July and August payments.

Regular teacher salaries must be budgeted by QBE program. Budgeting for teacher salaries should consider the state salary increases if using the state salary scale. This amount should be based upon prior year history and the most current salary schedule.

Another budget issue to consider is whether to budget the actual salaries for each individual teacher by name or to budget the average LUA teachers salary for each budgeted position. Some larger LUAs will budget their estimated average salary for each of the authorized teacher positions in each QBE program. When using this budgetary method, a subsequent budget transfer may be necessary if a number of teachers charged to a single QBE program have salaries in excess of the LUA average (i.e., resulting in an over expenditure of a QBE program salary line-item).

The budget for vacant teaching positions could be based on the average LUA salary or the salary for a T-4 teaching certificate (i.e., the minimum teacher's salary). Budgets for unfilled new positions should be consistent with the budget methodology used for vacant positions. Teacher changes occurring during the year usually are not considered in the budget process. Replacements may be hired either at the same, or at lower or higher salaries. These differences usually are immaterial and are not considered in determining the salary budget.

In most LUAs, a teacher's salary may consist of four components:

- the minimum salary from the state salary schedule
- the LUA general supplement (if any)
- a supplement for extended days (as applicable)
- a supplement for extra assignments

For example, to budget the salary for a teacher with a T-4 certificate, step 7, who works a seventh period (i.e., extended day) the following computation is applicable based upon the salary schedule located at GaDOE QBE Schedules.

T-4 step from state salary	$39,125	
Local Supplement		1,800
		$40,925
Hours in instructional year (8 hours @ 190 days)		1,520
Hourly rate = $40,925 1,520 =		$26.92
One hour per day @ 180 days ($26.92 180 days)		$4,846

The budgeting of substitutes is more complicated. Normally, past history provides a basis to develop the projected budget. A ratio of number of substitute days to number of certified teachers is developed. This calculation provides the projected total number of substitute days. This amount times the daily substitute rate (e.g., $50 per day) provides the total substitute teacher budget. However, budgeting for substitute teachers by QBE program category is nearly impossible. Substitutes should be budgeted as an average for each school, and allocated to each QBE program code as appropriate based on actual need.

Non-teaching salaries. The number of lunchroom personnel might be determined based upon:

- the number of labor hours per meal.

- the number of meals per person (e.g., 85 meals per person).

Custodial personnel might be based upon various ratios such as:

- one custodian for each five teachers.

- the number of square feet cleaned.

The number of bus drivers needed will vary based upon the number of routes to be driven. In addition, some drivers will drive multiple routes. Generally, the number of driving hours based upon an average per hour rate will be used in developing this personnel budget.

Usually actual salaries for lunchroom, custodial and transportation personnel are budgeted on the GAAP basis.

Employees with twelve month contracts, such as principals, coordinators, central office staff etc., should be budgeted on a GAAP basis since their contract periods usually coincide with the LUA's fiscal year.

LUAs often prepare a table of authorized non-teaching positions (see Exhibit IV-32-11).

EXHIBIT IV-32-11
TABLE OF AUTHORIZED NON-TEACHING POSITIONS

SAMPLE COUNTY SCHOOL DISTRICT

NON-TEACHING INSTRUCTIONAL PERSONNEL SUMMARY FOR FISCAL YEAR 2019

School/Center	Media Aides	Kindergarten Aides	Food Service	Custodians	Courier	Bldgs/Grds	Maintenance/Operations	Secretaries	Clerical	Mechanics	Special Education Aides	Bus Drivers	Bus Monitors	Title 1 Aides	Title VIB Aides	Total
Alpha Elementary	1	4	6	4				2			2			2		21
Beta Elementary	1	2	6	2				2			3			2		18
Chi Elementary	1	4	7	4				2			2			1	1	22
Delta Elementary	1	4	7	4				2			2			2	2	24
Baker Middle	1		11	8				4			3					27
Charlie Middle	1		11	8				4			3					27
Hope Alternative				1				2			3				3	9
Blank County High	2		14	16		1		8	1		6				8	56
Transportation Department								2		4		46	12			64
Maintenance Department						8	6	1								15
Central Services Center				1	1			5	6							13
Total	8	14	62	48	1	9	6	34	7	4	24	46	12	7	14	296

Employee Benefits - A general rule to follow in budgeting employee benefits is that the benefits follow the employee. For example, if a teacher works in three different QBE program areas, this teacher's benefits should be distributed to the QBE programs in the same ratio as the salary is distributed.

Also, the benefits for 10 month employees should be accrued on the GAAP basis in the same manner as the salaries based on the contract period (e.g., social security, Medicare, health insurance and teachers retirement).

Many LUA employees are covered by social security. Since the LUA's cost is based upon a percentage of salaries paid, the calculation is straight forward. However, if the contribution rate increases at January 1, two calculations are required, one for the salaries paid from July 1 - December 31 and one for the salaries paid from January 1 - June 30.

All LUA employees are covered for Medicare.

Teacher retirement is applicable to most LUA personnel. The LUA's contribution rate is determined by the Georgia Teachers Retirement System (TRS) and can be applied directly against the salary budget. The rate for each fiscal year is published by TRS.

LUA personnel are covered by the State Health Benefit Plan coverage. The LUA's contribution rate is $945 per member/per month for certified and classified personnel as of January 1, 2018. The rates for each fiscal year are published by the Department of Community Health.

Budgeting Non-personnel Items

One common problem for budgeting and charging the costs of non-personnel items, particularly supplies and capital outlay, relates to timing. Many LUAs purchase items prior to July 1 for the ensuing year. Often ordering is required prior to the beginning of the new fiscal year (i.e., the year for which the budget is prepared) in order to receive the orders in time for school to begin. However, if ordered supplies or capital outlay is received prior to the beginning of the budget year for which it will be used, the LUA has incurred a liability and these costs should be reported as expenditures in the year ordered. However, in most instances, the budget for these items is provided in the subsequent year. Hence, the desirable accounting for items ordered for next year but received this year is to report those items received as prepaid items (i.e., as an asset), rather than as expenditures. The accounting entry is as follows:

Account No.			DR	CR
Prepaid Assets (other current assets)	181		$30,000	
Accounts payable		421		$30,000

Chapter I-12 of the FMGLUA provides a detailed discussion of prepaid items and inventories.

Textbooks, school supplies and school buses can be accounted for and reported as above.

An alternative for LUAs to record prepaid expenditures (i.e., supplies and equipment) is by using a central stores internal service fund. To use this fund type, it is recommended that some type of central warehouse be used. Anytime during the year (i.e., assuming cash is available) an LUA may purchase school supplies and these purchases will not affect the current year's budget. The cost of these supplies is charged against the budget when the items are withdrawn from the warehouse. As long as the subsequent year's supplies are not withdrawn until after July 1, they will be charged against the appropriate year's budget. Chapter I-19 provides a detailed discussion of internal service fund accounting.

Non-personnel costs may be more difficult to estimate than personnel costs. Often they are computed using ratios, as adjusted by recent experience. Much information for the request can be located in prior years' budget materials. Five estimation techniques frequently are used in these computations:

- Volume times unit price.
- Workload times average unit cost.
- Work force ratios.
- Ratios to another object class.
- Adjustments to prior year costs.

The *volume times unit price method*, an attractive approach when a particular quantity and single average price are applicable to a relatively high-ticket capital asset. Items such as computers or automobiles may be estimated and other homogeneous categories making up a large part of a cost in an object class.

Unit cost, the second approach, is taken from recent cost experience adjusted for inflation and/or productivity changes. For instance, food expenses for a training class could be estimated by such a method (300 trainee days at $20 per trainee day, for a request of $6,000).

Work force ratios may be used by relating them to the work force. For example, office supplies for principals' offices could be related to the size of staff stationed there. In principal's offices, the number of clerical staff, the number of teachers, or the number of pupils often determine the amount of other budgeted items.

Other ratios may be used when there is some relationship between certain categories and other resources used in the LUA. As an example, a parts inventory for busses may be linked to the number of busses in the fleet.

Prior year costs, the final method, best suited for small, heterogeneous cost categories, makes estimates by adjustments to prior year lump sums. Prior cost is adjusted to reflect anticipated changes in quantities in the budget year. This method may be necessary when other means are not feasible or economical, but it lacks the precision of other techniques.

No formula or ratio can be applied automatically without hazard. Cost ratios and other relationships may change if operating methods are altered, if prices of inputs change, or if production technologies change.

In determining the budget requirements for materials and supplies, a number of general items should be taken into account as a matter of routine.

- The Present Inventory - In relation to annual requirements for materials and supplies, the inventory trends of selected items should he reviewed to determine whether needs are being overstated. Policies governing inventory should be reviewed in the light of current conditions to determine whether it will be necessary or desirable to modify the quantities required to meet the needs for the succeeding year.

- Price Levels - If the LUA's purchasing department has established unit prices to be used for computing dollar costs of certain materials, the extension of needed quantities is easy. If, however, central pricing is not the practice, or if the school or department uses items not covered by the central pricing system, it is necessary to determine a reasonable and defensible unit price for the supplies being requested. If the purchase is a recurring one, reference to the recent unit prices charged will be sufficient as a base; if the item is new or unique, estimates from a number of reputable suppliers should suffice. On a long-term basis, unit prices for many supplies increase due to inflation.

- Changing Patterns in the Use of Supplies - Examination of the use of various types of supplies over a period of years may reflect radical changes in the dollar amounts needed to accomplish a given number of work units. Thus, if the quality of paint used for painting classrooms is improved through some technical advance, the amount required will be reduced per square foot of painting - unless there is a compensating increase in the amount of painting. Some years ago, most motor vehicles required complete lubrication every 2,500 miles. However, improvements in the materials used in movable parts and the lubricants themselves now make it possible to operate some vehicles for 3 - 5,000 miles without a full lubrication or motor oil change. Obviously, the quantity of lubricating oils required to be on hand and used in relation to mileage is less than at a previous time. These types of changes provide a caveat to school personnel and departmental personnel in the projection of unit costs. Such costs must be carefully substantiated in order to provide a realistic, as well as a scientific, method of projection.

- Changing Requirements in Relation to Methods of Producing Results - Closely akin to the foregoing is the matter of changes in requirements for materials arising from fundamental changes in work methods. For example, when a school library changes from the traditional hand charge-out and filing systems to a computer system, there is a marked change in the types and quantities of supplies required. These changes in work techniques must be accompanied by studies of the changes in requirements for supplies in order to make the improvements practicable. Alert school and departmental management will see to it that suitable inquiry is made into needs for materials in the light of changing conditions.

- Responsibility to Provide Balance Between Manpower and Materials - It is the responsibility of the principal or department director to see to it that a proper balance is maintained between personnel and materials. For example, in some LUA maintenance departments, a misguided policy of maintaining strict control over materials results in personnel having to wait for maintenance materials. Some of this waste is unavoidable; however, most of it is avoidable. Detection of avoidable waste is the direct responsibility of management within the department.

Most school principals budget the amount of school supplies required based upon requests from teachers. The cost of these items usually comes from one of three sources:

- Price lists provided by the LUA's purchasing department.
- Price lists provided by vendors.
- Last year's prices increased to reflect inflation.

The budget for office supplies for both the principal's offices and the central office can be determined in the above manner. In larger LUAs, postage costs ordinarily are budgeted separately for each school or department of the LUA.

A comprehensive list of services to be purchased under contractual arrangements for LUAs varies widely. The types of professional and technical services which can be secured on a contractual basis are extremely broad. The extent to which these may be used will depend, in part, on the range of services being rendered by the local LUA. The kinds of professional services most frequently secured by contractual arrangements are:

- Architectural and engineering.
- Legal.
- Management consulting, research, and survey.
- Appraisal.
- Medical and dental.
- Training.

In some circumstances, especially in smaller LUAs or for highly specialized services, it is much more desirable to acquire these services on a contractual basis than to employ such personnel. For example, it may be desirable to contract on a part-time basis for certain types of student medical services for which full-time employees cannot be recruited or afforded. These alternatives must all be taken into account by the LUA budget officer during budget preparation.

Determining the actual amounts to include in the budget for professional and technical services is very difficult. Past history and planned activities are the best tools to use. Historical costs are about the only way to estimate legal fees unless the LUA is in the middle of very costly litigation which might result in extraordinary budget requirements. The budget for consultants usually can be estimated based upon the planned activities of the LUAs. Architectural and engineering costs usually are based upon a certain percentage of a construction project (e.g., 7%).

Into this category of contractual services fall those maintenance and repair services relating to owned office equipment, instructional equipment, and electronic data processing equipment. Although some LUAs provide their own maintenance, a careful analysis of the costs frequently reveals that a portion of the maintenance and repair services can be more economically performed by contract.

If the LUA contracts for maintenance through contract agreements, the budget for these items is straight-forward. If maintenance agreements are not used, LUAs must look at past history and their capital policies regarding replacing equipment.

If property is to be leased over a substantial period of time, it is desirable for LUA officials to determine whether lease or purchase is likely to be the most economical manner of acquiring its use. Comparisons between the true cost of rental versus ownership call for very careful analysis, including costs of maintenance, depreciation, interest, taxes, obsolescence, convenience and efficiency, employee morale, and other factors. Generally a transition from lease to purchase or from ownership to lease should be accompanied by a formal analysis by the LUA.

Utility services which are secured by most local LUAs through contractual arrangements generally include telephone, technology services, data lines, electricity, water, and gas. There are numerous factors to be taken into consideration by the budget maker in determining the cost for such services. Generally, whenever substantial capital outlays are projected for installation of a new system or renovation of an old one, studies should be made by or for the budget maker to project the costs of replacing the old and installing the new as well as the relative cost for continued operation of the other system. Also a time schedule for the elimination and replacement of outdated systems should be devised (i.e., a capital improvement plan).

Trend data based upon the number of stations served and the amount of use by each unit of the LUA is helpful in determining whether such trends bear a reasonable relationship to the changes in the work performed by such units of the LUA.

Travel often is included in the staff development budget and part of the staff development QBE program. LUA travel can relate to travel between LUA buildings and schools, regional and national meetings, conferences, and training seminars. If possible, specific trips should be used to develop the travel budget. All LUA travel must conform to the travel regulations as issued by the State Accounting Office and the Office of Planning and Budget.

Determining the estimated cost of capital equipment is very similar to that of consumable supplies discussed above. However, the purchase of capital equipment should be incorporated within the LUAs capital improvement program. Chapter IV-3 discusses capital improvement programs and capital budgets.

THE BUDGET DOCUMENT

As LUAs prepare drafts of budgets and these budgets are reviewed, a variety of formats are used including numerous computer printouts. However, the final approved budget may vary.

The table of contents of a quality budget document could include the following:

- Part I - Introduction.
  - Budget Message.
  - Organizational chart.
  - Budget policy.
  - Budget calendar.
  - Goals and objectives.
- Part II - Financial Summary.
  - Fund Financial Summary.
  - Function/Activity/Program Summary.
  - Revenue summary.
  - Expenditure summary.
- Part III - Detailed Financial Data.
  - Function/Activity/Program Summary.
- Part IV - Appendices.
  - Glossary of budget terms.
  - Summary of authorized personnel positions.
  - Index.

There are four characteristics of a quality budget document.

- The budget should be a policy document.
- The budget should be a financial plan.

- The budget should be an operations guide.
- The budget should be a communication device.

The Budget as a Policy Document

For the LUA budget to be considered a policy document, the following information should be included:

- A statement of budgetary financial and/or programmatic policies.
    - A statement explaining the relationship of the budget and the Board of Education's Strategic Plan

- An explanation of the budget process.
- Any policy changes should be explained.
- A description of how policies will be implemented (i.e., new policies) and monitored.

The Budget as a Financial Plan

Probably the best definition of an operating budget is that it is a "financial plan." To best portray this definition, the budget document should include:

- An explanation of the organization of the financial structure and operations of the LUA.
- All operating funds and all resources.
- Projections of the LUA's financial condition (i.e., fund balance) at the end of the budget year.
- An explanation of any conditions, or projected events that require changes in operations in order to ensure financial stability or solvency (e.g., a reduction in the amount of QBE program aid).
- Projections of current year financial activity and a basis for historical comparisons (e.g., last year, next year).
- Both an operating and a capital element (see Chapter IV-3 for a discussion of capital budgets).
- A consolidated picture of all operations and financing activity, in condensed or aggregated form.
- A way to measure and account for budget performance.
- A discussion of debt management issues, particularly those that affect current and future operations.
- An explanation of the budgetary basis used (see discussion earlier in this chapter).

The Budget as an Operations Guide

Since the budget drives LUA operations, the budget document should reflect these operations.

It might include:

- An explanation of the relationship between organizational units (e.g., schools) and programs.
- An organizational chart, a description of work force organization (e.g., a personnel count comparison) and sufficient data regarding past operations to provide a basis for comparison.
- An explanation of how capital spending decisions will affect operations and operating expenditures.

- Specific objectives and performance measures/targets.
- A description of the general directions given to department directors, supervisors and school principals for preparation of their budgets.

The Budget as a Communications Device

The budget document and the budget process are excellent opportunities to involve the citizens in the LUA decision making process. Some of the ways the budget document can be used as a communications device include:

- Its availability to the public in some draft form prior to school board adoption (see discussion later in this chapter regarding the required budget adoption process).
- Summary information suitable for use by the media and the public.
- A transmittal letter or a budget message that outlines key policies and strategies.
- A table of contents and/or an index.
- A glossary of budgetary terms.
- Simple charts and graphs to highlight key relationships.
- The sources of revenue and key revenue trends.
- An explanation of the procedure to be used for amending the budget (see discussion later in this chapter).
- Statistical and supplemental date as an appendix.

PRESENTING AND ADOPTING THE BUDGET DOCUMENT

The process to present the budget to the LUA school board and the formal legal adoption should include certain steps:

- Conduct informal budget meetings with board of education. The board is required to hold two public meetings regarding the proposed budget prior to final approval. These meetings can either be held before voting on the tentative budget or after, as long as two public meetings are held prior to final adoption. The meeting details are required to be published in the local legal news organ.
- The board of education tentatively adopts the budget
- Publish the tentative budget on the LEA's public website at least two weeks before formal adoption, to allow public input.
- Revise budget as necessary at next regularly scheduled meeting or special called meeting if necessary
- Conduct necessary hearings if the "roll-back" millage rate will not be adopted
- Adopt budget
- Submit copy of budget to the GA DOE no later than September 30th.

Informal Budget Hearings

After the LUA administrators, department directors, supervisors and school principals have drafted a balanced budget, the superintendent should present the budget to the school board. Normally, the school board will meet in an open, informal public work session. These sessions are extremely important since they allow the school board members an opportunity to review the budget in as much detail as they consider necessary. Some school boards feel a need to review every line-item in the budget, where some school boards only review the "big picture." All school board members should be reminded that if they feel a need to review the details of the budget, these budget work sessions are time for this review.

Two Public Hearings

Before any budget is adopted by the school board, the district must hold two public meetings to discuss the budget and receive public input. These public meetings can be held either before or after the adoption of the tentative budget, as long as two public meetings are held prior to the adoption of the final budget. The two public meetings cannot be held within the same week, and are required to be advertised in the local legal news organ.

Tentative Budget Adoption

At least two weeks prior to the proposed budget adoption date, the school board should tentatively adopt the proposed budget. This adoption can be made in a simple resolution with a copy of the tentative budget attached to the resolution.

Publish Tentative and Final Budgets

After the school board has adopted a tentative budget, the budget must be published on the LEA's public website. The tentative budget is to remain on the website until adoption of the final intial budget. The final initial budget is also required to be published on the LEA's public website. At a minimum, the published tentative budget must be presented by revenue category and expenditure function by governmental fund type. The presentation must also include a notice of the date, time, and place at which final adoption will be considered. Exhibit IV-32-12 is an example of the publication of the tentative budget.

EXHIBIT IV-32-12
ILLUSTRATION OF TENTATIVE
BUDGET ADVERTISEMENT

Tentative Budget
Pine Tree Local Unit of Administration
July 1, 2018 - June 30, 2019
(Amounts rounded to $1,000)
GOVERNMENTAL FUND TYPES

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Fund
Estimated Revenues:				
Local taxes	$92,886 19,000	$ -	$ -	$ 18,005
Other local sources	127,308	4,137	61,756	18
State sources	238	3,059	5,798	---
Federal sources	---	1,003	---	
Other sources		2,040	591	---
	239,432			----
Total Estimated Revenues		10,239	68,145	
				18,023
Estimated Expenditures:	158,840			
Instruction	6,071	10,769		
Pupil Services	5,813	941	1,679	---
Improvement of Instruction	6,029	106	---	---
Educational Media	2,570	16	22	---

General Administration	13,771	359	---	---
School Administration	4,323	59	36	---
Business Services		---	---	---
Maintenance and	27,597		61	
Operation of Plant	12,455	406		---
Student Transportation	4,258	104	---	---
Central Support Services	634	---	4	---
School & Community			2,609	---
Nutrition	1,135	---		---
Facilities Acquisition	3,300		2	
and Construction	---	---	84,158	---
Other Support Services		---	153	---
Debt Service				16,549
	246,796			
		12,767	88,724	
Total Expenditures				16,549
	(7,364)			
Excess of Revenues Over		(2,548)	(20,579)	
(Under) Expenditures				1,474
	34,344			
Estimated Fund Balance,		2,548	21,248	
July 1				10,422
	$ 26,980			
Estimated Fund Balance,		$ ---	$ 669	
June 30				$ 11,896

The budget will be considered for final adoption by the board at 7:30 p.m., June 20xx, Room 201, county courthouse.

Though not required, some school boards may decide to present the instruction function category by QBE program. This data provides the reader with more detailed information. All governmental fund types for which the school board adopts budgets must be presented in the legal advertisement. If the budget will be adopted as a special school board meeting (i.e., a meeting other than the next regularly scheduled school board meeting), the legal advertisement must include the date, time and place of the special meeting.

Revise Budget

At the next regular school board meeting after the legal advertisement has been published, the school board may revise the tentative budget as necessary. The specific revision to the tentative budget should be made clear to the school board and any interested citizens.

Adopt Final Budget

This adoption should occur before July 1 of the fiscal year for which the budget applies (see discussion later in this chapter regarding operating without an adopted budget). The budget should be adopted in resolution form including at least the same amount of budget information as that included in the legal advertisement. That is, the minimum budget presentation must be the function within generic fund type. If the school board adopts a budget at a more detailed level, then the budget must be amended every time that detailed level is overspent (see discussion later

in this chapter regarding budget amendments).
The school board may not adjourn a board meeting when it is considering the final budget adoption. If additional time is needed to review the budget, the school board should recess the meeting and indicate in a resolution that the consideration of the final budget will continue on a certain date, time and place.

Submit Adopted Budget to GaDOE

Present the adopted, initial budget on the LEA's public website and maintain until an amended budget is adopted. The amended budget must also be presented on the LEA's public website. The adopted budget must be submitted to the GaDOE on date specified annually, generally in September.

OPERATING WITHOUT AN ADOPTED BUDGET

Normally school boards adopt budgets prior to the first day of the new fiscal year (i.e., July 1). However, there are instances when the school board is not able to adopt a budget by July 1. In these instances, there is no authorization for the LUA to spend any funds in the next fiscal year until the budget is adopted formally. Legally, the LUA cannot operate without an approved budget, i.e., appropriation. Since the LUA is a "going concern," it obviously cannot "go out of business."

In order to continue operating when the school board cannot adopt a budget prior to July 1, it must adopt a "spending resolution" which authorizes the superintendent to spend funds in the new fiscal year until the budget is adopted.

The initial resolution should be limited to one month of operations. If the budget is not adopted prior to August 1, the school board should adopt a second "spending resolution" for a second one-twelfth of the prior year's budget. A "spending resolution" is provided as a "stop-gap" measure and school boards should make all efforts to adopt their budgets prior to July 1.

The amount that the board authorizes to be expended in each "spending resolution" should not exceed one-twelfth of the prior year's final amended budget plus debt service and capital expenditures known to be due each month.

The "spending resolution" should be officially recorded in the board minutes and be available for public inspection. If a local board cannot adopt a budget in time to submit it to GA DOE for state board consideration by September 30th, it must request an extension of the due date by notifying the Financial Review Unit, Georgia Department of Education. The extension request must include a copy of each spending resolution adopted by the local board for each of the months for which no budget was adopted.

A suggested "spending resolution" is illustrated in Exhibit IV 32-13. Local boards may modify or add to the language of the resolution so long as the intent is retained.

EXHIBIT IV 32-13
SPENDING RESOLUTION

WHEREAS, the ________________________ for good and sufficient reason is unable to adopt a budget for the fiscal year beginning July 1, 20xx___, and ending June 30, 20xx__; and

WHEREAS, the public exigency is best served by authorizing the superintendent to continue to expend funds to continue operations.

NOW, THEREFORE, BE IT RESOLVED BY THE _______________________ that the superintendent may expend funds from all funds for the month of July 20xx not to exceed one-twelfth (1/12) of the final amended budget for all funds for the fiscal year ended June 30, 20xx, plus debt service and capital expenditures known to be due in July.

Adopted this 16th day of June 20xx.

ATTEST:________________________ ______________________
Superintendent/Secretary Chairperson
Board of Education

BUDGET ADMINISTRATION

The school board's review and adoption of its annual budget is its most important financial function. The LUA's department directors, supervisors and school principals spend many hours preparing budget requests. Internal budget reviews occur where department directors and supervisors must defend their budget requests to the superintendent.

Once the superintendent has approved the budget requests and the school board has adopted the budget, the process of administrating the budget begins.

The process of controlling an LUA's budget is called "budget administration."

Budget administration, an important phase of the budgetary process, following the adoption of the budget has these objectives:

- The achievement of budget objectives in an orderly and efficient manner.
- The management of resources to obtain budgetary objectives.
- The collection and accounting for revenues in conformity with legal and other requirements.
- The incurring of expenditures in conformity with appropriations and school board intent.
- The provision of adequate stewardship and accounting over LUA resources and how they are used.

<u>Budget Execution</u>

Often a distinction is made between budget administration and budget execution. Budget administration is the act of monitoring actual performance in accordance with the budget and legal requirements. Budget execution is the process of managing budgetary inputs and outputs to obtain budgetary objectives. Budget execution includes the development and institution of the following budgetary controls.

- Financial and accounting controls.
- Management review and controls.
- Program analysis and evaluation.

Financial and Accounting Controls

An LUA can initiate various financial and accounting controls which will assist in controlling their budget spending. This section explains of a variety of these controls.

Purchase Orders. For an encumbrance system to function, LUAs must use purchase orders. In addition, an effective purchase order system is the primary vehicle to assist in controlling an LUA's budget. In all LUAs, regardless of size, purchase orders should be used for most purchases and there should be some centralized control of the purchase orders. Some large LUAs hire full-time purchasing directors to control the issuance of purchase orders. In other LUAs, various department directors, school principals or their staff calls the central office to receive authorization for a purchase (i.e., a purchase order number) before making the purchase. However, the effectiveness of a purchase order system is defeated if purchases are made before actually receiving the approval for the purchase. Chapter IV-4 presents a detailed discussion for LUA purchasing.

Encumbrance System. An encumbrance is a term unique to governmental accounting and financial reporting. The accounting and budgeting literature defines encumbrances as "obligations of appropriations." Examples of documents that result in encumbrances include purchase orders and contracts. Once an LUA issues a purchase order or signs a contract, the LUA has obligated a portion of a specific appropriation for a specific budget item. Without the use of an encumbrance accounting system, it is very difficult for an LUA to control its spending, unless the LUA is extremely small. The amount of the encumbrance is posted to the ledger (i.e., the expenditure account) and the available budget balance is reduced. After the purchase is received or the contract is complete, the encumbrance is removed from the ledger and the expenditure is recorded. Chapter I-8 explains accounting for encumbrances.

Budgetary Reporting. In order for LUA personnel to control their budgets, periodic budgetary reports must be prepared for use by department directors, school principals and school board members. A report that includes columns for the current year’s budget, the year-to-date expenditures, the outstanding encumbrances and the budget balance provides this control. If the financial report does not include the outstanding encumbrances, the balance would not reflect any outstanding purchase orders or contracts issued and would over-state available budget. School boards through budget and financial policies should ensure that their LUA administrators present monthly budgetary financial reports on a timely basis for their review. If a particular line item is close to being overspent, the school board should ask the LUA administrator why and whether there is a potential problem. Chapter II-1 provides a detailed discussion of interim financial statements.

Allotment Systems. An allotment as a spending authorization of a portion of the appropriations is an important part of a budgetary accounting system. Allotments control the percentage of the annual appropriation (i.e., the budgeted expenditures) which a department director or school principal may spend within a specific period of the fiscal year (e.g., a month or a quarter). In many LUAs, department directors and principals worry about spending budgets, and have little concern or responsibility for the revenues to finance these expenditures. However, if the revenues are not earned, cash may not be available and expenditures can't be paid. For example, the maintenance department director has an annual approved budget of $300,000, $200,000 for salaries and $100,000 for supplies and equipment. In many LUAs the director can spend the non-salary portion of the $100,000 in the first month. However, an allotment system would allot only a portion of the non-salary budget (i.e., $100,000) to the first quarter, such as, $20,000.

The second quarter's allotment also might be $20,000. However, if after six months of the fiscal year the LUA determines that 100% of the revenues will be available, the allotments for the third and fourth quarters would be $30,000, resulting in 100% of the original budget being allotted. The use of an allotment system allows the LUA to reduce the annual appropriation during the year if actual revenues are not consistent with the projected revenues.

An allotment system is one method to control LUA spending, but might not be too popular with department directors and principals who may resist having spending controls placed on them. However, budgetary control and financial stability can be achieved through the use of an allotment system. It coordinates expenditures with cash flows. Allotments keep expenditures within the limits of actual revenues, thus avoiding a potential fund balance deficit at year end.

Often, however, an allotment cannot be used in schools since a large portion of their non-salary budget must be spent early in the fiscal year.

Management Review and Control

In additional to accounting and financial controls, management controls also can assist with budget execution.

Controlling Personnel Positions. If controls are established to help control spending, a very positive step will have been made towards budgetary control and administration. Since personnel are the primary and major cost to LUAs, control of all authorized positions should be established and followed by both the LUA's administration and the school board. When the budget is adopted, each school and department should have an authorized number of personnel positions. Additional positions can be authorized only by the school board. Obviously, circumstances can change after the budget is adopted, however, if each department director and principal is required to establish any positions needs at budget time, the budget can be controlled much easier.

Establishing a Centralized Purchasing System. As indicated earlier, the control of purchasing is a key element in controlling an LUA's budget. Purchasing should be centralized within a single office (e.g., the business office) or person (e.g., a purchasing agent). In addition, a school board should adopt policies and the LUA should develop conforming written procedures to establish control over emergency purchases, confirming orders and petty cash payments. Chapter IV-4 presents a detailed discussion of LUA purchasing.

Travel Regulations. Another type of management control relates to business-related travel. Travel controls provide the procedure for the prior authorization of travel and set forth regulations covering the mode of travel and authorized costs.

A travel request form may be used to gather pertinent data about the trip before travel commences.

Usually trips are approved in advance by an authorized LUA official to assure that they are appropriate LUA business and there is an adequate travel and training budget to cover the costs of the trip. Often these regulations limit the mode of transportation and hotel accommodations and provide a per diem for meals. Statewide Travel Regulations provides the travel rules and regulations that LUAs are required to follow.

Inventory Control System. Another aspect of management control is an inventory system for both fixed assets (e.g., land, buildings and equipment) and consumable supplies (e.g., office supplies, pipe, sand). Capital asset records provide LUA management with information to determine insurance values, replacement costs, excess (surplus) assets, control and accountability, and maintenance costs. An important reason to maintain these records is to control the purchase of new equipment. Chapter IV-7 provides a detailed discussion of fixed asset systems.

Maintaining supply inventories provides adequate control over the ordering and distribution of supplies. In addition, at least an annual physical inventory count should be made. Chapter III-4 provides a discussion of inventories.

Program Analysis and Evaluation

Program analysis and evaluation techniques are available for monitoring budgets. Management analysis can provide for a continuing analysis of work methods and organization as a means of identifying the cost of activities performed, identifying functions where costs are out of line, reviewing the causes of high costs, and comparing performance against standards which LUAs have developed. Program evaluation is a systematic examination of specific activities to provide information to citizens and patrons on the short and long-term effects of the LUA's education programs.

The chief focus of program evaluation is measuring the program's impact or effects. Program evaluation involves identifying specific program objectives, specifying criteria for progress toward these objectives and identifying the population segments that are likely to be affected by the program.

Summary

The operating budget process is an essential component of the financial management process. There is no single model to use for budget preparation. It is important for an LUA to understand the advantages to each approach and use whichever one that will work well for them. It is essential the estimated revenues and appropriations be carefully considered during the budget process. Once a budget is adopted, budget administration plays a key role in ensuring compliance with the resolution.

Chapter IV – 3 Preparing A Capital Improvement Program

NATURE AND PURPOSE

A capital improvement program (CIP) is a multi-year planning instrument used by local units of administration (LUAs) to identify needed capital projects and to coordinate financing and timing improvements in a way that maximizes the return to the public. A CIP is a plan indicating:

- Which capital assets to purchase, lease, construct, renovate or repair, presented in priority order.
- The estimated cost of each project.
- Planned length of project.
- The planned year in which the project would begin.
- The financing method to fund the expenditures.

Because capital assets are expensive, often they are deleted from budget requests in order to balance the budget. These capital expenditures are deferred to subsequent years' budgets or funded with the Special Purpose Local Option Sales Tax. School board members typically focus on the annual budget. If a capital improvement plan is not developed, school board members will not have the information needed to consider long-term budgetary needs and to plan for renewal and replacement of capital assets. Fortunately, in Georgia, LUAs are required to develop and submit to the Georgia Department of Education (DOE) a "Local Facilities Plan." This plan includes the LUA's facility requirements for the subsequent five years. A CIP along with this facilities plan will improve a LUA's capital asset purchase and replacement program.

Benefits of a CIP

- Provides an orderly comprehensive replacement of capital facilities, land improvements, equipment, and software – A CIP plan will provide a listing of all projects anticipated for completion so coordination and proper planning can occur. The listing will include available financing and time frames for completion. Since all projects are included in one document, it is easier to coordinate the time at which each project should be completed.
- Ensures continuity of planned projects – School board members may change because of expiring terms. A CIP will allow projects to continue through this transition period and allow new board members to evaluate priorities set by the previous board in making future decisions.

- Assists with long-range fiscal planning – A CIP will assist LUAs in preparing long-term financial plans that include capital financing requirements for future years. The CIP should be considered in allocating annual resources to ensure needed maintenance and replacement occurs when needed.

- Provides adequate project planning and timing – The CIP will assist LUA's in coordinating multiple projects thereby avoiding costly duplications and potential mistakes.

- Enhances the LUA's bond rating – Investors and bond rating agencies stress the value of a CIP for a LUA seeking to borrow funds. The absence of rational, long-term planning can weigh heavily against the credit rating issued by the rating agency. The result can be a higher interest rate on bond issues sold by LUAs.

- Provides the LUA a public relations tool – Most capital improvement planning processes include opportunities for public input. Typically, such exposure is received favorably by civic groups, who view the process as an important link between LUAs and their constituencies. The press particularly appreciates opportunities to receive background information in an orderly fashion. Many school board members find that by providing opportunities for public input early in the capital planning process, they can minimize later opposition to specific projects.

This chapter provides an overview of how a LUA can develop a CIP.

DEVELOPING CIP FINANCIAL POLICIES

The first step in developing a CIP is for the school board to adopt a capital improvement policy. The policy should include the following -

- Definition of a capital project
- Length of a CIP
- Criteria to prioritize the capital projects
- CIP funding each year

Defining Capital Projects

Capital expenditures are different from operating expenditures due to their estimated useful lives and cost.

- Estimated Useful Life

According to Governmental Accounting Standards Board Statement 34, an asset must have a useful life of at least one year to be considered a capital asset. The Governmental Finance Officers Association (GFOA) has recommended a minimum two-year life to be considered capital.

- Cost

An LUA should set a threshold above which the purchase of an asset will be considered capital. The level of the threshold depends primarily on the size of the LUA. In larger LUAs, a CIP may not include a purchase unless it costs $10,000 or more. In addition, the threshold may vary depending on the category of asset purchased. For example, an LUA may indicate buildings greater than $50,000 be considered capital assets. GFOA recommended and GADOE required practice is a minimum threshold of $5,000.

A sample LUA's policy defining capital assets follows:

> "For the capital improvement program, all land, land improvements, software and building projects costing $5,000 or more are classified as capital assets."

Length of the CIP

Before discussing the length of a CIP, the terms "capital improvement program" and "capital budget" must be defined. The CIP typically is a plan for capital expenditures projected for some period of time into the future. The capital budget is the first year (i.e., the most current year) of the CIP and normally is incorporated into the annual operating budget, which provides the resources for the specific facilities, improvements, software, and equipment. The relationship of the CIP and the capital budget is important. The CIP identifies the capital needs, and the capital budget indicates the capital projects that will be completed in the current year's budget.

Upon school board approval, those capital projects or costs in the first year of the CIP typically become the capital portion of the operating budget for the next year. While the CIP is the plan for future capital assets, the capital budget is the current year's expenditures for capital outlay authorized in the operating budget. The capital budget comes forward from the CIP and is approved by the school board as part of the operating budget. The resources appropriated for these capital outlays appear in the capital outlay section of the operating budget.

Although a CIP legitimately may include any number of years, the most commonly used time period for a CIP is six years, the current year (i.e., that portion incorporated into the capital budget) plus five years projected into the future. Experience has shown that this is the most realistic and manageable time period to use. Five years projected into the future gives a realistic opportunity to adequately plan and prepare for most capital needs as they arise. period of time much longer than six years (there are some capital improvements plans as many as 20 years into the future) has proven to be less valid and useful as a planning tool.

Cost estimates for a project to be funded 20 years in the future most likely will be less accurate and therefore less useful than an estimate of cost for a project to be funded in five years.

A period of time much shorter than the suggested five years would tend to negate many of the advantages of having a CIP. For example, two or three years could be too short a time period to recognize the need for, much less plan and build, a major capital facility. Often, the planning and design phase of such a project is two or three years in itself.

An annual review of the CIP guarantees that a regular re-assessment of LUA capital needs will be accomplished. Additions to and deletions from the CIP may be made during this formal review process to ensure that the CIP best reflects the LUA's current capital needs. Even if no changes in the CIP are made, annual review at least confirms that those items in the CIP are still legitimate capital needs of the LUA. Each department director, supervisor and school principal should participate actively in the review process. Usually, a simple update of capital needs is made.

A sample financial policy defining the length of the CIP follows:

> "A capital improvement program (CIP) will be developed for a period of six years. As resources are available, the most current year of the CIP will be incorporated into the current year's operating budget. The CIP will be reviewed and updated annually."

Establishing Criteria for Prioritizing Capital Projects

The prioritization of requested capital projects is one of the more difficult tasks a LUA has in relation to the completion of the CIP. After the department directors, supervisors and school principals indicate their capital needs by cost and fiscal year, the total cost is determined, and it is compared to the resources available. As part of this process, consideration should be given to the impact of the capital project on the operating budget, including additional positions required.

Unfortunately, most of the time adequate funding is not available for all requested projects. Therefore, the requested capital items must be prioritized to determine which receive funding in the current year and which are deferred to subsequent years.

Decision makers will be faced with many "apples versus oranges" kinds of decisions. For example, should the LUA purchase a computer for the instructional program, or should the LUA blacktop the playgrounds at three elementary schools? Is it better to build a central warehouse to store school supplies and food or replace a heating system in the high school? The issue is, which project has the highest priority? The choice is subjective, and there is no objective formula available. When faced with these kinds of choices, the LUA's school board should adopt a policy for evaluating and making those choices. The policy should address evaluation criteria in the priority setting process.

Evaluation criteria are intended to focus the school board's judgment in a consistent, rational way. They are not intended to replace basic decision-making; rather, the intent is to provide a consistent, rational basis for deciding which projects to fund.

The issue of who develops the evaluation criteria is not clear. Ideally, the criteria policy should be established by the school board. This criteria then can be refined by the LUA's administration. The criteria used by each LUA will vary based upon each LUA's needs.

Examples of evaluation criteria in the CIP prioritization process could include any of the following:

- Mandatory project (e.g., an additional school building must be built as a result of litigation)

- Security issues

- Maintenance project (e.g., a project that is necessary to preserve an asset)

- Project improves efficiency (e.g., a new printer which saves 50% of the operator's time)

- Project provides a new service (e.g., building renovations for an after-school program)

- Policy area project (e.g., an LUA's policy is to transport all pupils, regardless of distance to their schools - thus a purchase of two buses will enable the LUA to meet this policy)

- Extent of usage (e.g., so all students in a school building can use a specific piece of equipment)

- Project's expected useful life (e.g., if the equipment lasts longer, it could receive a higher priority)

- Effect of project on operation and maintenance costs (e.g., a new lighting system might provide better lighting at reduced electric costs)

- Availability of state/federal grants (e.g., some equipment might be grant funded)

- Elimination of hazards (e.g., add sidewalks on school grounds to provide a safe way for students)

- Facility use (e.g., a new building will be used by citizens and students)

- Prior commitments (e.g., if the LUA has signed a construction contract and only one-third of the contract is complete)

Often, a numerical point system is used to determine which project receives the higher priority.

A sample project evaluation criteria policy follows:

"Projects and/or capital asset purchases will receive a higher priority if they meet some or most of the following criteria:

- Mandatory project
- Security issues
- Maintenance project
- Project improves efficiency
- Project provides a new service
- Policy area project
- Extent of usage
- Project's expected useful life
- Effect of project on operation and maintenance costs
- Availability of state/federal grants
- Availability of local funds
- Elimination of hazards
- Facility use
- Prior commitments"

Allocating Resources to the Capital Budget

Some school boards have adopted policies which specify what percentage of the operating budget to allocate for capital assets. The allocation does not include those resources necessary to build additional school buildings or major additions or renovations to buildings, all of which normally are financed from resources available both from the State of Georgia, locally approved general obligation bonds, and special purpose local option sales tax.

To determine an applicable amount to allocate to a capital budget, review the percentage of general fund expenditures that have been incurred in prior years (e.g., for the last five years). As prior experience is reviewed, care must be taken to ensure that unusual capital expenditures (e.g., large increases in student enrollment or the purchase of equipment for a new building which was opened) have not occurred, thereby distorting the percentages.

There is no "right answer" to how much of the budget should be allocated to the purchase of capital assets because in each LUA circumstances can differ. A sample capital budget allocation policy follows:

> "The school board will attempt to allocate approximately 8% of their annual general fund budget for additional and replacement capital assets."

In addition, the school board could specify a portion of the millage rate be dedicated to construction in order to accumulate necessary funds.

DEVELOPING A CIP

Some contend that the CIP is as much a process as a product, and with any process, there are several steps necessary. The most important steps in a typical CIP process are listed and discussed below.

10. An activity calendar should be prepared listing the required activities, the personnel responsible and dates to complete the activities. Included in this step should be communication to the citizens and press that a plan is being established.

2. Assign responsibility to LUA personnel.

3. Establish CIP policy.

4. Develop data gathering forms.

5. Establish criteria to prioritize projects.

6. Solicit project requests and proposals from departments and schools.

7. Evaluate and prioritize projects and capital assets requested from departments and schools.

8. Develop funding plan.

9. Solicit public input.

10. School board adoption.

<u>Step 1</u> – Prepare a CIP Calendar

A very useful document to develop and monitor the CIP process is a CIP calendar. A CIP calendar is simply a chronological listing of the tasks which need to be completed in the CIP process. The calendar should include LUA personnel responsible for completing those tasks. At any point in the CIP process, the CIP coordinator can determine whether or not the process is on schedule.

As most LUA administrators realize, laxity by any participant during the process tends to create subsequent problems. For example, if some school principals are late in submitting their capital requests, it can become progressively more difficult to complete the other steps in the process. Accordingly, many LUA administrators refuse to honor requests for consideration that are not submitted within the required time frame.

The easiest way to develop a CIP preparation timetable is to begin with the end of the process and work backwards. Thus, after the date for school board adoption is selected, then the time necessary for public hearings is calculated, and finally, a date is selected for the beginning of public hearings. Continuing backwards, the school board might need two or three weeks to receive and study the CIP document; before this step, the LUA superintendent might be allowed two months to review internally generated materials, arrive at a balance and prepare the document. Before this step, hearings might be held at the department and school level and so on.

<u>Step 2</u> – Assign Staff to Project

Practice and experience have proven that a centralized organization for staffing the CIP process works best. That is, one single unit of the LUA (e.g., or in the case of smaller LUAs, a single individual such as the LUA superintendent), should have the responsibility for coordinating the entire CIP preparation process. It should be remembered that this assignment need not include any decision-making or resource-allocating responsibilities; rather, there are technical and procedural tasks that need to be completed.

<u>Step 3</u> – Establish CIP Policy

As we discussed above, the school board should adopt CIP policies covering a variety of issues. In addition, these policies should be reviewed annually, or as new school board members take office to ensure that the policies are consistent with the views of the current school board.

<u>Step 4</u> – Develop Data Gathering Forms

The purpose of CIP forms is to collect the information necessary to encourage and facilitate systematic thought and rational decision making in the CIP process.

Most LUAs find that in developing their capital planning efforts, initial forms used during the first two or three years should be simple. If additional information is required, these needs can be met through supplemental forms, and ultimately by revision in subsequent years' capital documents.

Experience has proven that the following elements consistently appear in most CIP forms and therefore merit consideration by the LUA in deciding which data to include on the forms:

- Project name, description and location
- Submitting department or school
- Estimated project costs, with sufficient data to support the estimate (e.g., linear feet, square feet, etc.)
- Estimated cost and financing presented by year
- Financing sources should be identified
- A site location map (as applicable)

<u>Step 5</u> – Establish Criteria to Prioritize Projects

As we discussed earlier, the school board should establish the criteria necessary to evaluate the requested projects.

<u>Step 6</u> – Solicit Project Requests and Proposals

The solicitation of requests for project proposals for inclusion in the CIP might begin with a staff meeting. Often the personnel responsible for the operating budget are the same personnel that are responsible for the CIP. These personnel could include department directors, supervisors and school principals. During this meeting, the personnel responsible for the CIP distribute the CIP forms and explain the process and the timetable. At this meeting, everyone can receive instructions at the same time and questions and concerns can be covered with everyone involved in the CIP process.

Instructions from the LUA superintendent which encourage realistic capital spending and prudent investment of the LUA's resources likely will encourage responsible requests for funding. Some of the topics which could be addressed at such a meeting could include the following:

- General financial and long-term outlook
- Policies that affect operations and capital planning
- Current work-in-progress
- This year's timetable
- Problems encountered last year and how they will be addressed
- Explanation of forms and instructions
- Description of a properly completed request packet
- Where to go for help

Step 7 – Evaluate Requested Projects

One of the first issues is to determine who should evaluate the requested projects. In some smaller LUAs, the school board might participate in this project. In other LUAs, a committee could be formed to review each of the requested projects as they relate to the established criteria. Finally in other LUAs, each committee member will take one of the criteria and evaluate capital requests only against that criterion.

Usually, the criteria are assigned numeric values which allow for an objective rating. Obviously, this rating process would be a "first cut" and additional reviews might be necessary.

Step 8 - Develop Funding Plan

After the higher priority projects have been determined, the CIP coordinating unit should evaluate the LUA's ability to finance requested projects.

The CIP only will be effective as the plan for financing the proposed projects. The LUA's ability to finance a CIP generally depends on the level of recurring future operating expenditures, the current level of bonded indebtedness, the LUA's legal debt limitand the LUA's ability to pass a Special Local Option Sales Tax (SPLOST).

Many projects proposed in the CIP will have an on-going impact on the LUA's operating budget. As discussed above, the amount of the operating budget allocated to capital assets will affect the amount of capital projects that can be completed. Obviously, larger construction and renovation projects need to be funded from sources other than the operating budget.
Analysis of the debt structure of a government is one of the most important parts of a financial analysis in a CIP process. The most obvious major funding source is that of

general obligation bonds. In addition, developing a program with capital outlay funding from the DOE is an appropriate vehicle to finance major portions of the CIP.

Step 9 - Public Input

Opportunities for public input can be provided at various stages of the capital programming process. At some point, the entire CIP, including its timing, could be subjected to public review. LUA staff members and the school board should pay special attention to the documentation and presentation needs of the public. The following opportunities for public review and input might be considered:

- Accept public input at the outset of the process. Ask department heads, supervisors and school principals to attend a public hearing before completing their forms so that ideas from the public are incorporated in their submissions.

- Provide for public review of the proposals as submitted to the school board by the LUA superintendent or other responsible CIP official.

- Schedule public review after school board consideration and before final adoption.

Step 10 - School Board Adoption

After the CIP is presented to the school board and reviewed in public, the procedures should provide for a method of adoption. Characteristically, the multi-year CIPs are adopted as planning instruments, and the capital budget is adopted separately as a specific authorization as part of the operating budget. Depending on how the CIP is integrated within the operating budget, the capital budget usually constitutes approval to proceed in procurement and other administrative actions necessary to implement the first year of the capital program.

FUNDING ALTERNATIVES FOR CIP PROJECTS

There are many financing alternatives available to LUAs to finance CIP projects. Some of the most common are highlighted below.

Pay-As-You-Go

Under the pay-as-you-go method of financing, capital projects are financed with current revenues. The LUA elects to pay cash for the capital project instead of borrowing against future revenues. The amount available to spend under the pay-as-you-go method is the amount of the operating or capital estimated revenue that can be set aside each year for capital improvements. For SPLOST projects, the budget will be based on the projected sales tax revenues. This method works well where capital needs

are relatively small and constant and no major construction renovations or additions are included in the SPLOST referendum or requested through the State.
Some of the advantages of pay-as-you-go financing are:

- Pay-as-you-go financing saves interest costs. On long term bonds, the LUA can pay back two dollars or more for every dollar borrowed over the life of the bonds.

- Capacity to borrow is protected. Borrowing capacity is "saved" for larger capital items which would be beyond the capacity of a single year's capability.

- By avoiding bond issues, considerable costs associated with bond issues are avoided.

Some of the practical and theoretical disadvantages of pay-as-you-go financing are:

- Since inflation is driving construction costs steadily upward, it could be less costly to borrow and pay at present price levels than to wait and accumulate sufficient funds for the project and pay a greater amount at a later date.

- In a LUA where capital projects are undertaken on an infrequent basis, the pay-as-you-go approach may place a heavy cash flow burden on the project year(s) by creating uneven, fluctuating expenditure patterns. These patterns could be avoided with long term debt financing and its traditional level debt service payments.

- Theoretically, an asset which has a long useful life (e.g., a school building) is best paid for by the users of that asset over its expected useful life.

Pay-as-you-go financing places a premium on advance planning. The CIP requires not only careful scheduling of capital improvements, but it also requires prudent matching of financing in order to optimize resource availability.

General Obligation Bonds

One of the major alternatives to pay-as-you-go financing is to borrow the money to finance the project. A common form of LUA borrowing to finance capital projects is to issue general obligation bonds.

A general obligation (G.O.) bond is a full faith and credit obligation of the issuing LUA (i.e., the full taxing power of the LUA guarantees this debt). The source of repayment for G.O. bonded debt is a portion of the millage rate earmarked for this repayment. This collateral (i.e., the full faith and credit of the LUA) results in greater security and stability for G.O. bonds. G.O. bonds normally result in the lowest interest rates available.

In order for a LUA to issue this type of debt, there must be a referendum, or vote, in which a majority of the voters must approve the bond issue. The disadvantage to this type of financing is that many voters are hesitant to vote themselves a tax increase.

Lease Agreements

In Georgia, LUAs may enter into lease-purchase agreements which at the end of the lease-term, the leased capital assets become property of the LUA. The Georgia School Boards Association, Inc. sponsors a "Direct Lease Financing Program."

In addition, GASB has expanded capital asset recognition to include right to use assets obtained through lease transactions. Unlike the lease purchase where the LUA obtains ownership of the asset at the end of the agreement, right to use leases do not transfer ownership. The contract conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time extending beyond 12 months in an exchange-like transaction.

The LUA, in considering a leased alternative, should satisfy itself that their cash flow will be sufficient to make the agreed lease payments over the term of the lease. This can be accomplished by ensuring there is sufficient capacity between the current millage rate versus the maximum. The lease payments become a binding obligation on the LUA. By using this alternative, and not issuing bonds, bonding capacity is "saved" for other capital projects.

State and Federal Grants

The possibility of obtaining state/or federal assistance in funding capital projects should be explored thoroughly. Since most state and federal grants require a LUA to match the grant funds or pay a portion of the project, care should be exercised in the acceptance and use of federal and state grant funds. As discussed earlier in this chapter, the capital outlay grants provided by the DOE are the most feasible alternative because the LUA, only has to fund a small percentage of the project cost.

Special Purpose Local Option Sales Tax

The Georgia Constitution, Article VIII, Section VI, Paragraph IV states the following.

a) "The board of education of each school district in a county in which no independent school district is located may by resolution and the board of education of each county school district and the board of education of each independent school district located within such county may by concurrent resolutions impose, levy, and collect a sales and use tax for educational purposes of such school districts conditioned upon approval by a majority of the qualified voters residing within the limits of the local taxing jurisdiction voting in a referendum thereon. This tax shall be at the rate of 1 percent and shall be imposed for a period of time not to exceed five years, but in all other respects, except as otherwise provided in this Paragraph, shall correspond to and be levied in the same manner as the tax provided for by Article 3 of Chapter 8 of Title 48 of the Official Code of Georgia Annotated, relating to the special county 1 percent sales and use tax, as now or hereafter amended. Proceedings for the reimposition of such tax shall be in the same manner as proceedings for the initial imposition of the tax, but the newly authorized tax shall not be imposed until the expiration of the tax then in effect.

b) The purpose or purposes for which the proceeds of the tax are to be used and may be expended include:

   1) Capital outlay projects for educational purposes;

   2) The retirement of previously incurred general obligation debt with respect only to capital outlay projects of the school system; provided, however, that the tax authorized under this Paragraph shall only be expended for the purpose authorized under this subparagraph (b)(2) if all ad valorem property taxes levied or scheduled to be levied prior to the maturity of any such then outstanding general obligation debt to be retired by the proceeds of the tax imposed under this Paragraph shall be reduced by a total amount equal to the total amount of proceeds of the tax imposed under this Paragraph to be applied to retire such bonded indebtedness. In the event of failure to comply with the requirements of this subparagraph (b)(2), as certified by the Department of Revenue, no further funds shall be expended under this subparagraph (b)(2) by such county or independent board of education and all such funds shall be maintained in a separate, restricted account and held solely for the expenditure for future capital outlay projects for educational purposes; or

   3) A combination of the foregoing.”

Most school districts utilize the SPLOST tax to fund the majority of the capital improvements.

Other Considerations

Once capital projects are underway, it is important to provide board members and all staff involved with periodic reports of progress. The reports should include actual to budget comparisons for expenditures, the percentage of the project completed, explanations for any changes in scope, and concerns regarding timing of completions.

When budgeting, consideration should be given to possible cost overruns and proposed means of financing. Often this is addressed by including additional reserves in the project budget.

SUMMARY

Proper planning is essential for the lease, acquisition, construction, or replacement of capital assets. All levels of personnel should be included in the process from the school board, administration, and school principals.   Planning includes evaluating potential projects using established criteria to prioritize timing. Financing of the projects should consider whether grant revenue or tax revenues will be used or if issuing bonds is the best alternative. Once the capital projects listing has been approved, periodic reports of progress are essential for everyone involved.

Chapter IV – 4 Purchasing

NATURE AND PURPOSE

Local Units of Administration (LUA) purchasing may be defined as the process LUAs use to procure goods and services. The primary purpose of the LUA's purchasing department is to gain more value for each non-salary budget dollar expended. Important purposes of the purchasing function are anticipation of goods and service needs, standardization of these goods and services to promote better pricing and streamlining the purchasing process. Anticipation of needs makes it possible to consolidate requirements so that larger unit purchases can be made at one time. This usually results in lower unit prices and saves time and effort by clerical personnel. A key element in all purchasing is to "encourage competition."

Standardization of commodities and school supplies can pave the way for annual contracts. Better products can be obtained at lower cost than when each school or department demands a slight variation in the same commodity. Standardization permits storage of supplies so that they are readily available and usually results in more suppliers bidding for LUA purchases.

Two primary objectives of a quality purchasing system are "economy" and "efficiency." Obtaining services, supplies and equipment at the lowest cost is important in this day and age of tighter operating budgets. Secondly, purchasing the goods and services that meet the specific needs of LUA personnel will assist them in completing their jobs in the most efficient manner.

However, some purchasing pitfalls that reduce the likelihood of achieving the above objectives include:

- The lack of adopted purchasing policies.
- The lack of good written purchasing rules, regulations and procedures.
- The lack of purchasing ethics.
- The use of influence regarding the choice of vendors.

In addition to the purchasing function, other responsibilities often assigned to LUA purchasing personnel include:

- Maintaining a central stores/warehouse.
- Maintaining capital asset inventories (see Chapter IV-7).
- Maintaining and repairing equipment
- Disposing of obsolete equipment.
- Processing accounts payable.
- Operating a print shop.
- Maintaining a records retention system (see Chapter V-3).

DEVELOPING PURCHASING FINANCIAL POLICIES

As Chapter IV-1 indicates, financial policies are the guidelines that school boards should establish and follow when making financial decisions about the future of their LUAs. The school board should concern itself with overall procurement policies. School board members can be most effective when they establish purchasing policies which include the scope and direction of LUA procurement.

Purchasing policy issues that school boards must consider include:

- Should the purchasing system be centralized?
- Should written purchasing rules and regulations be developed?
- Which purchases must be bid formally?
- Should local bidder preference be authorized?
- Should the LUA use Georgia governmental, educational, or consortium purchasing contracts?
- Who should award bid contracts?
- Who should be authorized to use financial transaction cards, and what can those cards be used to purchase?

Each of these policy issues are discussed below.

Should the Purchasing System be Centralized?

Although the Georgia Department of Education (GA DOE) does not require that LUAs operate centralized purchasing systems, LUAs are encouraged to adopt centralized purchasing to the extent that it has enough personnel and other resources. Accordingly, LUAs must decide whether to use a decentralized or centralized purchasing system. School boards need to approve a financial policy addressing the type of purchasing system the LUA should use.

With a decentralized purchasing system, each school principal, department director or supervisor (e.g., maintenance supervisor) purchases goods and services from the vendors of their choice. A decentralized purchasing system deprives a LUA of economy of scale in its purchasing, thus reducing its purchasing power and control of this important operation.

Ideally, LUAs should centralize their purchasing system as explained below.

Centralized purchasing occurs when all LUA purchasing is centralized with a single person or office. The argument that purchasing is decentralized because "that is the way it's always been done" is not a valid argument in the current environment. The school board should adopt financial policies which require a centralized purchasing system.

Every centralized purchasing system should have a purchasing agent or director.

Remember, to centralize a system, adequate personnel must be made available to complete this task or it will fail. Normally, the purchasing responsibility is assigned to the business function of the LUA.

Advantages of a centralized purchasing system are presented below:

- Lower unit costs should be obtained through bulk purchases resulting from consolidation of the requirements of the schools and other user departments.

- Small orders and emergency purchases will be reduced to a minimum under an efficiently operated centralized purchasing system by consolidating and scheduling purchases.

- Reduction in overhead costs through reduction of personnel, or a reduction in time allocated to purchasing could be achieved through the elimination or consolidation of the purchasing personnel in many separate departments. This reduction only will occur in larger LUAs.

- The volume of paper work should be reduced as a result of fewer purchase orders, bids, invoices, checks and related accounting documents.

- Procedures and processes will be standardized because of centralized control, resulting in savings of time and labor with increased efficiency.

- Standards and specifications should be reduced or unified to a large degree since a centralized purchasing system usually will require standardization of goods and services. This is particularly true in schools since most schools have similar supply and equipment needs.

- Delayed deliveries and rush orders should be minimized because of centralized control.

- Systematic schedules can be developed because bids and orders will be processed in a normal, orderly fashion.

- Increased efficiency should result from centralized supervision over inspection by sampling and testing of deliveries; storage, issuance, and distribution of supplies; interdepartmental transfers; and trade-in or sale of surplus or obsolete equipment.

- Closer accounting control over expenditures should bring savings through the consolidation of purchasing budgets and cooperation between the purchasing and budget offices.

- Buying techniques should be improved and favoritism discouraged through a consolidated grouping of trained buyers with knowledge of supply sources, requirements, market trends, prices, manufacturing processes and past purchasing records. In larger LUAs, buyers will be full-time personnel.

- Problems with suppliers should be simplified by a reduction in the number of orders and deliveries, by less paper work and bookkeeping, and by the convenience of having the purchasing activities in one location so that sales personnel can conduct their business on a "one-stop" basis with experienced purchasing personnel.

- Uniform prices should be obtained for identical items.

Generally, it is estimated that centralized purchasing should result in average savings of between 10% and 35% over a decentralized system.

A centralized purchasing function does not ignore school principals, teachers, department directors and supervisors in the purchasing process. Requisition for goods and services still would originate in schools. There would be better cooperation between the purchasing person and the school and department personnel who likely have more knowledge about the product or service being purchased. It is suggested that the LUA purchasing function involve these personnel in the following steps:

- Preparation of bid specifications;
- Selection of eligible bidders;
- Evaluation and award of bids to vendors;
- Supporting recommendations to the school board.

A sample policy regarding centralized purchasing follows:

"The local unit of administration (LUA) will maintain a centralized purchasing system where all LUA purchases will be coordinated by the purchasing department."

Should Written Purchasing Rules and Regulations be Developed?

Because of the importance of purchasing rules and regulations, the school board should adopt a policy requiring the preparation and updating of these rules and regulations. Written rules and regulations provide the basis for a sound, efficient centralized purchasing system. In addition, it provides the vendors with a working knowledge of how the LUA purchasing process works.

It is suggested that two sets of purchasing rules and regulations be developed. First, a set should be developed for internal LUA personnel use. These rules and regulations would document the purchasing process and provide an excellent document for use by new LUA personnel. This document also will answer most of the day-to-day purchasing questions for purchasing personnel, school principals, department directors and supervisors. The board policy should include the rules and regulations governing the use of financial transaction cards such as credit cards and p-cards. The policies should adhere to requirements set forth in OCGA §36-8-24, as discussed further in this document.

Secondly, it is suggested that a separate document be prepared for use by vendors. Every formal bid that is mailed to bidders should indicate that the bidder (i.e., the vendor) has read the vendor rules and regulations and agrees to adhere to these rules and regulations. This document would not include internal LUA purchasing procedures, but would emphasize LUA policies relating to vendors, such as how to become a LUA bidder, how bids are awarded, how to submit bid samples and grounds for rejection of bids.

The contents of each of these types of rules and regulations are discussed later in this chapter.

A sample policy regarding purchasing rules and regulations follows:

"The purchasing department will maintain purchasing rules and regulations for internal use and will maintain and distribute to all eligible vendors purchasing rules and regulations written specifically for these vendors."

Which Purchases Must be Bid Formally?

A bid is considered a formal bid when competitive sealed bids are requested which are legally advertised, and there is a public bid opening. Georgia Code Section 20-2-520 requires LUAs to publicly advertise and award through an open and competitive process construction contracts over $100,000. The best approach to use in determining when to bid selected items is to establish various levels of purchasing thresholds. A purchasing threshold is defined as the total estimated cost of the purchase in excess of an established dollar amount, resulting in some formal purchasing action (e.g., a formal bid). The amounts included in the thresholds may vary depending on the size of the LUA. The LUA should consider the size of the budget in setting thresholds. Thresholds established for a mid-sized LUA might be as follows.

- Purchases over $10,000 - All purchases with an estimated total cost of $10,000 or more require formal competitive sealed bids. (i.e., advertised with a public bid opening)

- Purchases $5,000 to $10,000 - All purchases with an estimated total cost between $5,000 and $10,000 require informal (non-advertised) sealed bids.

- Purchases $5,000 to $2,500 - all purchases with an estimated total cost between $5,000 and $2,500 require written quotations from at least three prospective bidders.

- Purchases $2,500 to $500 - all purchases with an estimated total cost between $2,500 and $500 require quotations (either in person, telephone, fax or written) from at least three prospective bidders.

- Purchases less than $500- for all purchases with an estimated cost up to $500, buyers are to use their professional judgment as to source of supply and the number of quotations to solicit.

Should Local Bidder Preference be Authorized?

As mentioned earlier in this chapter, encouraging competition is an important factor in maintaining a quality purchasing system. Unfortunately, this principle conflicts with local bidder preference. Local bidder preference is defined as giving preference in awarding a purchase contract to bidders who are taxpayers of the community. If local bidder preference exists, this fact should be adopted in a LUA policy and all bidders should be aware of the policy (i.e., usually it is included in the adopted rules and regulations distributed to the vendors).

Generally, bids should be awarded to the bidder whose bid:

- Meets the specifications and other requirements of the invitation to bid.
- Is the lowest, most responsive, and best bid, considering price, responsibility of bidder and all other relevant factors.
- In the case of a proposal in which specifications are weighted more heavily than price, the vendor whose proposal best meet the goods or services requirements.

In addition to the above principles regarding the awarding of bids, an argument can be made that purchasing locally will help the local economy by providing revenues to local businesses (i.e., taxpayers) and providing employment opportunities to citizens as a result of this additional business. If local businesses do not earn adequate revenues, they may go out of business, thereby potentially reducing the value of both real and personal property which reduces LUA tax revenues.

Those that oppose local bidder preference indicate that if the LUA pays more for a good or service because the bidder is local, in essence, the LUA is subsidizing one taxpayer (i.e., the business receiving the bid award) from all other taxpayers. In other words, the LUA is paying more than it would if it would purchase the good or service from the low bidder (i.e., an out-of-town bidder). In the long run, normally the LUA loses financially when a local bidder preference policy exists.

One LUA uses the following local bidder preference policy which allows them to buy locally at no additional cost. The LUA purchasing office is given authority by the school board, after all sealed bids are opened, to negotiate with the next low LUA bidder (assuming that an out-of-town bidder submitted the lowest best bid) when a bid by the local bidder is not more than 3% higher than that of the low out-of-town bidder. Acceptance must be made in writing with 48 hours by the LUA bidder. Negotiations may be utilized in procurement up to $20,000. An example of how this policy would work follows:

Bidder "A" an out of town LUA bidder bids	$10,000
Bidder "B" a LUA bidder bids	$10,250
Bidder "C" a LUA bidder bids	$10,400

Bidder "B" will be contacted and given 48 hours to meet the bid of Bidder "A" since the local bidder's bid is within 3% of the out of town bidder. If Bidder "B" agrees to meet the bid price of Bidder "A" by written confirmation, the school board may award the contract to Bidder "B." If Bidder "B" declines to accept the award, Bidder "A" would be awarded the bid since Bidder "C's" (a second local bidder) bid is not within 3% of the low out-of-town bid. If a LUA decides to adopt this type of policy, it is suggested that the policy be reviewed by legal counsel prior to adoption.

If a LUA chooses not to offer a local bidder preference, no financial policy would be necessary. However, if a school board desires to offer local bidder preference, a sample policy (using the above example) follows:

"If all other relevant factors are met, the purchasing department is authorized to negotiate with a local bidder to reduce its bid to that of the lowest bid received from an out-of-county bidder if the local bid is within 3% of the lowest bid. Negotiation is limited to purchases up to $25,000."

Another option would be to give preference to a local bidder in the event of a tie.

Using Georgia Statewide Purchasing Contracts

There are various options available to LUAs to purchase quality products at low costs through Georgia State Contracts issued by the Department of Administrative Services (D.O.A.S.) or the Georgia Technology Authority (G.T.A.), United States General Services Administration (G.S.A.), Western States Contracting Alliance (W.S.C.A.), and U. S. Communities. If the LUA wishes to take advantage of these options, an exception may be included in the purchasing policy exempting a purchase from the requirement to bid if obtained through other government sources.

Three primary sources exist:

- The Georgia Department of Administrative Services (DOAS) http://www.doas.georgia.gov
- Georgia Correctional Industries http://www.gci-ga.com
- Georgia Industries for the Blind http://www.vocrehabga.org/

The DOAS provides a listing on their website of products and services that may be obtained by state and local government under statewide contracts. In addition, DOAS offers a free web-based advertising system for publicizing government contract opportunities. The Registry's popularity among its users ensures that contract opportunities are quickly and widely disseminated to the vendor community.

The Georgia Correctional Industries provides a listing of their products on their website. They also offer sales representatives by county. Products available include furniture, garments, signage, chemicals, and print services. Orders may be submitted by phone, fax, or mail.

The Georgia Industries for the Blind sells janitorial supplies, office supplies, plastic cutlery, and safety products. They also do screen printing. Orders are taken via phone, mail, or email.

Who Should Award Bid Contracts?

After a decision is made regarding the award of a formal invitation to bid, the question regarding who should award the bid needs to be answered. In smaller LUAs which award very few formal bids, usually the school board will award the bid through formal action. However, in larger LUAs, often the purchasing department can award the bid with no subsequent formal action required by the school board. In these instances, the school board may receive notification of the award as information.

Normally, most of the items included in formal invitations to bid originally were approved by the school board during the budget adoption process. Therefore, the school board should not need to discuss detailed information regarding the bid award, since a similar discussion should have occurred during the budget adoption process. A second drawback to having the school board approve each invitation to bid is that the purchasing process is slowed down waiting for board meetings.

If a school board decides not to award each invitation to bid, no policy is necessary. However, some school boards may award all formal bids in excess of a specific dollar total. A sample financial policy regarding school board approval of bids follows:

"The purchasing director is delegated the responsibility to award all formal "invitations to bid" totaling less than $50,000. In these instances, subsequent notification to the school board is required. Only the board shall award all formal "invitations to bid" that total $50,000 or more."

Who should be authorized to use financial transaction cards, and what can those cards be used to purchase?

State laws relating to LUA purchasing allow the LUA to issue Financial Transaction Cards (Purchasing Cards or P-Cards) to designated officials and/or elected officials if approved by a public vote. State Law governing the use of Financial Transaction cards dictate what the LUA policy will include and provides specific penalties for unauthorized use of the Financial Transaction Cards.

A school board should develop and approve a policy to follow in authorizing and the use of financial transaction cards. Requirements for the policy and procedures are detailed further in this chapter.

GEORGIA LAW RELATING TO PURCHASING

State laws relating to LUA purchasing are very limited. O.C.G.A. § 20-2-500 of Georgia statutes authorizes the GA DOE to promulgate rules and regulations for LUA contracts or purchases over $100 for or on behalf of students.

O.C.G.A. § 20-2-506 authorizes LUAs to enter into multiyear lease, purchase, or lease purchase contracts of all kinds for the acquisition of goods, materials, real and personal property services, and supplies, provided that any such contract shall contain certain provisions. Chapter IV-5 explains these provisions.

The 2009 Session of the General Assembly enacted legislation requiring LUAs, in purchases over $100,000, to give preference to supplies, materials, equipment, agricultural products, and school buses produced in Georgia. Instructional materials and beverages for immediate consumption are excluded from the provisions of the legislation. The LUA must consider, in the bidder's estimate, of the multiplier effect on the gross state domestic product and the effect on the decision to purchase Georgia manufactured or produced goods, as opposed to out-of-state manufactured or produced goods. This estimate must be in writing as a part of the bidder's submitted bid. The legislation specifically prohibits the division of a contract or purchase of these items over $100,000 to circumvent this requirement. Quality shall not be sacrificed to satisfy the preference of an in-state bidder.

The 2015 Session of the General Assembly enacted legislation imposing restrictions on the use of purchasing or credit cards. O.C.G.A. §36-80-24 prohibits LUA's from issuing purchasing or credit cards to elected officials unless approved by a public vote and promulgated specific policies governing the use of such cards. Specific penalties were also established for violating the approved use of the purchasing or credit cards.

The 2019 Session of the Georgia General Assembly amended legislation to provide for the advertisement of certain bid or proposal opportunities. O.C.G.A. §36-80-27 states the following: "If a bid or proposal opportunity is extended by a county, municipal corporation, or <u>local board of education for goods, services, or both, valued at $100,000.00 or more, such bid or proposal opportunity shall be advertised by such respective local governmental entity in the Georgia Procurement Registry</u>, as established in subsection (b) of Code Section 50-5-69, at no cost to the local governmental entity. Such bid or proposal opportunity shall be advertised on such registry for the same period of time, as set by ordinance or policy, if any, as the county, municipality, or local board of education advertises bid or proposal opportunities in the official legal organ or other media normally utilized by the local governing entity. Each advertisement shall include such details and specifications as will enable the public to know the extent and character of the bid or proposal opportunity. The link is located on the DOAS website: https://ssl.doas.state.ga.us/PRSapp/PR_login.jsp

Further, the GaDOE State Board of Education has updated State Board Rule 160-5-4-.18 to include the requirements for construction-related bids. The Facilities Division also includes a worksheet to complete to indicate the assurance of advertising on the Procurement Registry website: https://www.gadoe.org/Finance-and-Business-Operations/Facilities-Services/Pages/Facilities-Services-Resources.aspx

FEDERAL GUIDELINES RELATED TO PURCHASING

When developing purchasing policies and procedures, newly issued Uniform Grant Guidance which became effective for school districts for Fiscal Year 2016 (procurement was delayed until Fiscal Year 2017), details guidelines which must be included in these procurement and purchasing policies. Additionally, these guidelines will become part of the federal monitoring for LUA's. The Uniform Grant Guidance (UGG) requires procedures that address:

- Written Conflicts of Interest Policy - §200.318(c)
- Written Procurement Procedures - §200.319(c)
- Written Method for Conducting Technical Evaluations of Proposals and Selecting Recipients - §200.320(d)(3)
- Documented Open Competition
- Vendor Selection and Cost/Price Analysis - §200.320
- Solicitation of bids and protest procedures
- Contract provisions and administration
- Conflicts of Interest
- Separation of Duties

Micro-Purchases: The purchase of supplies or services not exceeding $10,000 do not need competitive quotes; however, the price must be reasonable.

Small purchase procedures are defined as purchases or the procurement of services, supplies or other property greater than $10,000 and up to $250,000. Price or rate quotes must be obtained from an adequate number of qualified sources.
More detailed information on Federal purchasing guidelines can be found in the Uniform Grant Guidance. Additionally, the Federal Programs Handbook contains updated information related to purchasing supplies and services with federal funds.

PURCHASING RULES AND REGULATIONS

As discussed above, purchasing rules and regulations are critical for LUAs to have a high-quality purchasing program. Generally, there are three types of purchasing rules and regulations:

- Those designed primarily for the vendor use.
- Those designed exclusively for internal use.
- Those designed for both internal and vendor use.

Purchasing Rules and Regulations for Vendor Use

Purchasing rules and regulations designed for vendors not only provide vendors with an overview of the LUA purchasing process but also protects the LUA from vendors who indicate that they were not aware of certain purchasing procedures. Normally, any vendor on the bidder's list should receive a copy and must indicate, when they complete the bidder's list application that they read, understand and will adhere to its contents. A sample table of contents for vendor purchasing rules and regulations follows:

- Introduction.
- Eligibility to bid.
- Solicitation of bids.
- Submission of bids.
- Handling of bids and quotations.
- Awarding of invitations to bid.
- Performance by successful bidder.
- Deliveries
- Other procedures.

Purchasing Rules and Regulations for Internal Use

Purchasing rules and regulations prepared for internal use provide an excellent tool to document the LUA's purchasing system. A sample table of contents follows:

- Introduction.
- Purchasing objectives.
- Purchasing policies.
- Duties and functions of the purchasing department.
- Duties and functions of the user schools and departments.
- Authorization and use of purchasing and credit cards.
- Purchasing cycle flow chart.
- Purchase requisitions.
- Bids and contract procedures.
    - Posting on the Georgia Procurement Registry

- Quotation procedures.

- Emergency purchases.
- Petty cash purchases.
- Purchase orders.
    - Request for voucher check.
- Receiving merchandise.
- Vendor performance evaluation.
- Purchasing ethics.

THE PURCHASING PROCESS

The purchasing process will vary between LUAs depending upon their size and sophistication. However, most of the following steps are required in the purchasing cycle:

- Requisitions for items are received from the schools and user departments.

- Budget availability is determined.

- When formal bidding is required, decisions must be made regarding:

    - Which items must be bid?
    - Who may bid?- Bid specifications.
    - Bid openings.
    - Bid evaluation.
    - Bid award.

- With informal bidding (e.g., quotations), decisions must be made regarding.

    - Which items must be quoted?
    - Who will receive quotations?
    - Quotation awards.

- With purchase orders, consider:

    - When must they be issued?
    - Who issues them?
    - What information should they include?

- When receiving merchandise or services:

    - Who receives the merchandise/acknowledges receipt of services?
    - How is receipt validated?

- Invoice payments require decisions regarding:

- Who validates payments?
- The flow of paperwork.

Requisitioning Goods and Services

Basically, there are two types of purchasing cycles used by LUAs as discussed below:

- **Type I**

To start the purchasing process, normally the goods or services must be requisitioned. Some LUAs incorporate the requisition process within the budget process. If the LUA is using a "top down" budget approach (see Chapter IV-2 regarding this budget approach), a school principal will receive a per pupil allotment and then submits requests for specific supplies and equipment as part of the budget process. Once the budget is approved, these requests serve as the requisition for the supplies and equipment and no further action is required by the school principal. An advantage to this approach is that all the budget requests can be summarized and included in formal bids for all schools.

- **Type II**

The other method most commonly used requires the school principal or user department to submit a "purchase requisition." Normally this form is standardized for all requestors. The following information might be included on a purchase requisition:

- Sequentially assigned number.
- Requesting department or school.
- Date of request.
- Budget code to be charged.
- Quantity required.
- Description, model number, or other specifications of required purchase.
- Desired delivery date and location.
- Estimated unit price.
- Authorized signature.

Validating Budget Availability

Obviously, no goods or services should be requisitioned unless they have been included in the annual approved budget. In most LUAs, someone checks all purchase requisitions to ensure that an adequate budget is available before the requisition is processed. Some LUAs assign the budget responsibility to the school principal or user department, therefore once the budget initially is approved, additional budget approval is not required at the central office level to proceed with the purchasing process.

Formal Bidding

One of the first bidding issues to be addressed is, which items must be bid? As discussed earlier in this chapter, several factors should be weighed in establishing a bid limit (i.e., the dollar amount of purchase when a formal bid is required). The lower the dollar threshold, the more formal bids would be required resulting in more competition. On the other hand, there is a cost associated with the soliciting of bids. It takes time and materials to go through the formal bid process. However, if the bid limit is set too low resulting in many formal bids, there can be delays in supplying schools and user departments due to the time required for the bid process. One factor in determining the formal bid threshold should be the total dollar volume of purchases. If the LUA is large and makes substantial purchases, the bid threshold should be fairly high to ensure timeliness of receipt of goods and to avoid excessive associated costs. If the purchase volume is small, the bid threshold should be lower.

Under no circumstances should local LUAs split a purchase order into two or more smaller orders in order to avoid a bid limit. This practice occurs sometimes when the bid limit is too low. The bid limit normally applies to the total cost of purchase or could apply to unit cost of the purchase.
Who May Bid?

LUAs should require vendors to pre-qualify for formal bidding eligibility. Pre-qualifying bidders reduces the likelihood that the LUA will be sending bids to bidders who really have no interest in bidding. If bidders are required to pre-qualify, it should indicate that they have a sincere interest in doing business with the LUA.

Normally to pre-qualify, a vendor must complete an application and the LUA should search the federal and state debarment lists to ensure the vendor is not listed. Some of the important elements that should be included on the application follow:

- Business name and address.
- Federal identification number.
- Persons authorized to sign bid.
- Whether the vendor has a business license within the city or county.
- Bank reference.
- Minimum financial data.
- A statement indicating that all applicable real and personal property taxes are paid.

    - Should the LUA have a Policy on Equal Opportunity, the affidavit of compliance by the vendor should be included in the application

    - Should the LUA have limited purchasing staff, an option could be to have the vendor certify non-collusion and debarment through certificates

    - The vendor should submit compliance with the Georgia Security and Information Compliance Act of 2006

- Proof of the following policies listing the LUA as an additional insured, should be included, if applicable; general liability, professional liability, property damage, automobile liability, umbrella excess insurance, environmental impact liability and/or pollution liability.

- The LUA should include a hold harmless agreement against LUA employees and the LUA.

After a vendor is eligible and is added to the pre-qualified bidder's list, a procedure should be established to remove vendors from the list for a variety of reasons such as:

- Past delivery of goods or services which did not comply with the specifications of the vendor's contract with the LUA.

- Failure to make delivery within the time specified in the contract or order from the LUA.

- Failure to keep offer firm for length of time specified by vendor in bid.

- Failure to provide performance bond when required by invitation to bid.

- Delinquency in payment of taxes.

- Evidence of prior collusion with other bidders or prospective bidders to restrain competitive bidding.

- Providing information in an application for inclusion on the bidders' list that later is found to be false or materially misleading.

- Any substitution of an item, even though of the same quality, without securing the written consent of the LUA.

- Bankruptcy or other evidence of insolvency of the vendor.

- Failure to respond to bids.

Preparing Bid Specifications

An essential requirement of a centralized purchasing program is that goods be standardized and purchased in accordance with carefully developed specifications. Standardization takes advantage of lower prices that result from buying in bulk. It also lowers the administrative cost of purchasing by reducing the total number of purchases made. Purchasing officials should attempt to minimize the number of different kinds of items which must be purchased.

To begin the development process for specifications, conduct a careful study of the types of materials and equipment in use and the services which they support. Frequently it is found that different sizes and qualities of the same item are being used. For example, envelopes are items that often are not standardized. Some differences may be justified, but others are not defensible when the unit cost reduction, resulting from standardization, is considered. Other materials which lend themselves to standardization include stationery, gasoline, cleaning compounds, paper towels, hand tools, instructional supplies, computers and office supplies.

LUA purchasing agents should take the initiative in establishing a standardization program. However, standardization should not be forcibly imposed upon schools or departments. Instead, it is more effective to encourage school principals, teachers, and department heads to reach agreement about what items should be standardized.

If bid specifications are written clearly, the bid evaluation process can be reduced almost to a clerical process. It is essential for the bid specifications to be clear and accurate. Specifications should include a clear and complete description of the essential qualities which products should have if they are to meet the acceptable purchase requirements of the LUA. A vendor must meet or exceed specification requirements if his/her goods or services are to be considered for purchase. Specifications may be in the form of written descriptions, drawings, commercial designations, industry standards, or other descriptive references. They become an integral part of the purchase order or contract.

Specifications should not require materials of a higher quality than is needed. Also, they must prescribe the methods of inspection and testing which will govern the acceptance or rejection of ordered materials or equipment.

Well-written specifications are essential if the twin objectives of economy and efficiency are to be achieved. Quality specifications help to ensure that maximum value is being obtained for the public funds spent Additional benefits include

- All qualified suppliers, large or small, can compete on an equal basis.

- Disputes centering upon whether a delivered product is what was ordered are minimized.

- It is much easier to make cost-saving cooperative purchases with other LUAs if commonly accepted specifications are used.

Responsibility for preparing specifications varies depending upon the particular resources of a LUA. Large LUAs depend upon school principals, teachers, department directors, the purchasing department and consultants to prepare and maintain specifications. Involving the user departments or schools in the development of specifications helps minimize subsequent problems in purchasing process.

LUAs should use the assistance of agencies which specialize in preparing and maintaining specifications. The State of Georgia, DOAS, Purchasing Division, offers prepared specifications for a wide range of supplies and equipment for the items on State contract. Most are posted with the State Contract list. If the specifications are not listed, contact the contract person listed on the particular bid for that information. In addition, the General Services Administration publishes an Index of Federal Specifications and Standards which can be used to obtain specifications. This index covers a more comprehensive number of goods than the State's list.

Specifications can be obtained by contacting DOAS's Specifications Section which keeps the federal specifications on file.

LUAs capable of preparing their own specifications should remember certain points:

- Use specification writing assistance whenever available.
- Keep specifications clear and accurate.
- Update specifications regularly to reflect changes in technology.
- Avoid the use of unfair specifications which preclude or reduce competition.

Bid Openings

At the bid opening, the purchasing director should open all bids received by required deadline and read the vendor name and bid amount aloud. This information should be recorded on a bid tabulation sheet.

Under no circumstances should the purchasing director or the person abstracting the bids answer any questions about the award of the bid at the bid opening.

Disposition of Late Bids

Late bids should be retained unopened until after the award of invitation to bid. Subsequently, the bid, unopened, should be returned to the bidder by certified mail indicating that the bid was received too late.

Bid Evaluation

It is strongly suggested that school principals, teachers and/or department users become involved in the bid evaluation. The product user should have the most knowledge about whether a specific bid meets the bid specifications. Obviously, these same personnel should have been involved in determining the bid specifications.

Check each bid carefully and thoroughly to be sure that the evaluators are aware of its contents. Sometimes, bid samples are required and used to evaluate bids (e.g., copy paper, colored markers, floor wax).

Bid Rejection

In addition to not meeting the basic bid specifications, some grounds for the rejection of bids include the following:

- Non-responsive bids.
- Incomplete bids.
- Collusive bids.
  - Late bid submission
  - Disqualified vendors

Award of Bid

The bid award should be made to the vendor providing the "best bid." The best bid means the bid with the lowest cost and highest value (including cash discounts) that meets the specifications. Considerations other than cost might include:

- Vendor experience if services are bid
  - Warranty period

- Convenience - it might be easier to purchase gasoline from a supplier who is located near the bus garage.

- Administrative ease - if one low cost item on a bid is awarded to a single vendor with all other items awarded to another vendor, it might be less costly to award the total bid to the second bidder eliminating the need to prepare an additional purchase order.

These other considerations should be included either in the invitation to bid or preferably in the purchasing rules and regulations. In other words, all bidders should understand the rules of the purchasing LUA.

Should local bidders be given any preferences in the award of the bid? This question is discussed earlier in this chapter. Generally, if local bidders are awarded bids for which they are not low bidder, this policy may result in a greater cost to the LUA and potentially can reduce the amount of competition if non-local bidders decide not to bid in the future.

Informal Bidding

Informal bidding should be used for those purchases with estimated costs less than the formal bid threshold. With informal bidding, many of the same procedures discussed above are used. Informal bidding may use the same procedures as formal bids; however, the bids are not advertised nor is there a public bid opening.

Informal bids often are termed "quotations." These may be written, telephone, email or faxed quotes. Any of these procurement processes are appropriate.

Emergency Purchases

Sometimes LUA have emergency purchases. An emergency purchase is warranted only in a true emergency situation. Emergency situations are those in which operations of the schools or departments would be seriously hampered, or when the protection or preservation of LUA public properties would not be possible by submitting a requisition in the usual manner. Failure to plan properly is not justification for an emergency purchase. Emergency purchases can be costly because they are made hurriedly, often on a non-competitive basis. Every effort should be made to keep purchases of this type to an absolute minimum.

Usually with emergency purchases, special procedures might apply. For example, for emergency purchases during working hours, the school or department should notify the purchasing office which will authorize the purchase verbally. If the emergency occurs outside of working hours, the purchasing director or designated person (e.g., the LUA superintendent) should be contacted for approval. If no one is available, the purchaser should use his/her best judgment regarding the emergency purchase with subsequent formal approval.

The Georgia Department of Administrative Services provides guidance on emergency purchases in the Georgia Procurement Manual:

1.3.5. Emergency Purchases
In accordance with (O.C.G.A.) Section 50-5-71, State Purchasing Division has granted the authority to state entities to purchase urgently needed items arising from unforeseen causes, including, but not limited to, extreme weather conditions or official declared emergencies.

Emergency purchases are an exception to the Order of Precedence. An emergency procurement is handled outside of the normal competitive process for purchases greater than $24,999.99 because of the urgency of the circumstances, such as the immediate welfare of the general public. Therefore, State Purchasing Division approval is not required in advance of the emergency purchase. Poor planning or the pending expiration of funds does not constitute a valid justification for an emergency purchase. It is always good business practice and considered to be in the best interest of the state of Georgia to make any procurement as competitive as time permits. The state entity is authorized to handle the emergency purchase *whether or not the dollar amount of the emergency purchase falls within the state entity's delegated purchasing authority.*

Purchase Orders

Once bids are awarded or purchases authorized, a purchase order should be issued. In LUAs, purchase orders serve two primary purposes:

- The order for goods or services.
- A document which will result in the encumbering of the budget appropriation line item.

In a centralized purchasing system, all purchase orders should be issued by the purchasing department. Some LUAs issue purchase orders for all purchases such as utilities, travel, etc. This use allows for the appropriate encumbering of budgeted resources.

Generally, the contents of a purchase order include:

- Requisition number.
- Purchase order number.
- Terms of payment.
- Name and address of vendor.
- Shipping destination.
- Account number to be charged.
- Quantity.
- Unit of purchase.
- Item requested.
- Unit cost.
- Total cost.
- Authorized signature.

The distribution of a purchase order varies widely from LUA to LUA. The purchase order may be submitted to the vendor as evidence of the order. In addition, a copy is typically maintained either physically and/or electronically to match against the packing slip and invoice.

Receiving Orders

The process of receiving, inspecting and testing the contents of an order can become a sophisticated process, or a simple one. Inspection and testing of delivered materials or equipment usually occurs at the time of delivery. Receiving departments should exercise care to ensure that the quantity and quality of the delivered goods are as

ordered. LUAs spend many hours in formal bidding, so it is important to carefully check to ensure that the items received are as ordered. In the case of certain types of items, the user department may not have the technical knowledge or facilities to perform adequate testing. Another problem occurs in LUAs when deliveries are made to schools during the summer when only the custodian is available to determine if the correct order was received. Those larger LUAs with a central warehouse eliminate this problem if all goods and services are delivered to the warehouse.
One of the roles of the purchasing agent is to assist with inspection and testing on a spot basis, and to develop a systematic program to ensure that school and department personnel are trained properly in this function.

If goods are received as ordered, school or department personnel complete a receiving report to certify their receipt. The receiving report may be a copy of the purchase order or the packing slip received with the item. In any event, proof of receipt should be signed by an authorized individual. The receiving report is forwarded to purchasing and then to accounting, or directly to accounting. It is critical that the receiving report be processed as promptly as possible. Some vendors offer a discount if paid within a certain time period (e.g., ten days). Payment cannot be made until the receiving report is audited and checked against the purchase order and invoice.

Invoice Payments

Normally when the receiving report is received in the accounts payable section of the finance office, it is matched up with a copy of the purchase order and the invoice. Then the invoice is processed for payment. Some LUAs have the school board approve all invoice payments. Others write checks periodically without approval of the school board.

JOINT PURCHASING WITH OTHER LUAs

Cooperative purchasing can be defined as the joint-purchasing of common goods or services by more than one unit of LUA. LUAs can choose several ways to cooperatively purchase goods and services.

1. In a joint association between two or more LUAs, a larger LUA can provide purchasing resources to one or more smaller LUAs at no increased cost to the larger LUA.

2. Smaller LUAs can join to purchase more and better services, the increased cost being distributed proportionately among them.

3. A new legal entity, such as a regional purchasing council or association, can be created to serve member LUAs. In Georgia a purchasing consortium known as the Cooperative Purchasing Agency provides procurement services to LUAs served by Regional Education Service Agencies (RESAs) located in north Georgia. Member LUAs receive substantial savings from the bulk purchasing

power of the cooperative.

Among the advantages of cooperative purchasing are:

It enables LUAs to buy at sizeable quantity discounts not otherwise available to single LUAs. Not only does a combined purchasing organization save the taxpayers' money, but also it pays for itself, usually within the first few months of operation.

- Joint buying provides LUAs with the means for hiring a full-time professional purchasing agent, which small LUAs can seldom afford individually, to administer their purchasing programs. A joint purchasing group which includes a large LUA with an established professional staff could simply expand the existing purchasing function without hiring an additional agent (i.e., the large LUA profits by increased savings and joint support for the staff).

- Combining the purchasing functions of LUAs increases staff and clerical resources and provides greater flexibility in adjusting to fluctuations in workload. Additional personnel from participating units can supplement the central staff during peak periods, eliminating lay-offs or short-term hires, and resulting in more productivity and smoother workflow. A centralized administrative staff also can deal more effectively with unexpected major snags such as partial deliveries, improper adherence to specifications, difficulties in inventory accounting and budget procedures, and tracking back orders.

- A cooperative purchasing arrangement also provides LUAs with procedures and resources to handle both short and long-term planning. For example, a cooperative purchasing agency provides the fiscal and administrative framework for defining objectives for a capital improvements program, implementing perpetual inventory control systems, transferring operations to a data processing system, and coordinating purchases that might be made with a nonmember agency such as a city or hospital.

- A combined purchasing operation can relieve the pressures on over-worked LUA personnel caused by public purchasing requirements and the restrictions set on LUA officials. For example, LUAs often require that every purchase order over a specified amount be subject to competitive bidding, but staffs frequently do not have personnel to administer this key function adequately. Lack of time, materials, and knowledge result in expensive delays in servicing operating departments.

PURCHASING OR CREDIT CARDS

OCGA §16-9-30 discusses the illegal use of financial transaction cards. The code section explicitly includes school systems in the definition of government. OCGA §16-9-37 further indicates the authorization of the use of the financial transaction cards must be in writing. Code Section 16-9-37 states "Any person who has been issued or entrusted with a financial transaction card by a government for specifically limited and specifically authorized purposes, provided such limitations are in writing, and who uses the financial transaction card in a manner and for purposes not authorized shall be punished…"

OCGA §36-80-24 prohibits the use of financial transaction cards by elected officials of local school systems unless the following parameters are met:

- Purchases are solely for items or services directly related for public duties
- Purchases are in accordance with guidelines adopted by the local school system.
- Documents related to such purchases by elected officials shall be available for public inspection

OCGA §36-80-24 further states no school system shall issue government purchasing or credit cards to elected officials on or after January 1, 2016 until the governing authority of the local school system, by public vote, has authorized such issuance and has promulgated specific policies regarding the use of such cards for elected officials.

The LUA Policy for use of financial transaction cards shall include the following:

- Designation of officials authorized to be issued card
- Requirement for authorized users to sign and accept agreement for use of card
- Transaction limit
- Description of what purchases will be authorized
- Description of what purchases will not be authorized
- Designation of the purchasing or credit card administrator
- Process for auditing and reviewing purchases
- Procedures for addressing violations

PURCHASING ETHICS

LUA officials must avoid all situations in which their public actions may be affected by or come into conflict with their personal interests. LUA officials also would be wise to avoid situations that, even though legally permissible, appear to place them in a conflict of interest situation.

Public confidence in the integrity of the LUA purchasing practices is very important. As a general rule, LUAs should not accept any gifts from vendors.

In no instances, should LUA personnel purchase items through the LUA, to take advantage of lower costs or to avoid the Georgia sales tax. Some LUA personnel may be tempted to purchase goods or services through the LUA and then reimburse the LUA for these costs. This practice is considered unacceptable.

SUMMARY

The purchasing process in LUAs is very important. There are many groups interested in the process and each has a stake. These groups include the purchasing department, the school board, the user department or school, the vendor and the general public. All efforts should be made to formalize and professionalize the purchasing function.

Chapter IV – 5 Debt Issuance and Administration

NATURE AND PURPOSE

Often, Local Units of Administration (LUAs) actively participate in the debt market. LUAs use debt to finance cash flow deficiencies or to finance large capital needs such as the construction of a new school building. This chapter provides an overview of the debt that LUAs may issue, including reference to Georgia statutes. In addition, the bond sale process is explained.

CLASSIFICATION OF DEBT

To gain a general overview of debt administration, it is important to review the debt classifications. When LUAs issue debt, it is classified first as either short-term or long-term.

- Short-term debt usually matures in less than one year from date of issuance.

- Long-term debt has a maturity of more than one year after date of issuance.

Short-term Debt

LUAs may issue short-term debt in various types of instruments as follows:

Tax anticipation notes (TANs) are notes LUAs issue in anticipation of future tax receipts, normally for ad valorem taxes. TANs are due and payable when the LUAs collect the taxes, but must be repaid by December 31 of the year the note(s) are issued. The collateral for the TANs are future property tax receipts. LUAs normally only issue TANs to solve their cash flow problems.

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Bond anticipation notes (BANs) are notes LUAs issue, usually for capital projects, which they retire from the proceeds of long-term bonded debt (e.g., general obligation bonds). The collateral for the BANs is the authority to sell bonds in the future. Normally LUAs sell BANs when they want to start a construction project after approval of the referendum but before the bonds actually are sold.

Revenue anticipation notes (RANs) are notes LUAs issue in anticipation of receiving revenues at a future date. The revenues are the collateral for the RANs. Georgia LUAs rarely issue RANs.

Notes payable are notes, either secured or unsecured. Often LUAs issue notes to cover short-term cash flow deficits.

Long-term Debt

The most common form of long-term debt that local LUAs incur is bonds. Bonds are defined as:

> Written promises to pay a specified sum of money, called the face value or principal amount, at a specified date or dates in the future, called maturity dates, together with periodic interest at specified rates.

The primary difference between bonds and notes is that bonds are issued for a longer period of time and require greater legal formality.

Bonds are classified into different categories according to time of maturity, source of payment and type of issuer.

Time of Maturity

Generally, on the basis of maturity, LUAs classify long-term bonds as either term bonds or serial bonds.

> Term bonds come due in a single maturity. However, the LUA usually agrees to make periodic payments into a sinking fund (i.e., a debt service fund) for mandatory redemption of term bonds before maturity or for payment at maturity. Over the years, the issuance of term bonds by LUAs has diminished substantially; however, Federal and corporate bonds still are issued largely as term bonds.

> Serial bonds are of an issue in which some bonds mature in each year over a period of years. Usually each year an LUA repays a portion of principal outstanding and makes interest payments. Often LUAs make interest payments semi-annually and principal payments annually.

Source of Repayment

With respect to source of repayment, LUAs also classify bonds as general obligation (GO) or limited liability (i.e., revenue bonds).

> GO bonds are bonds which are secured by the full faith and credit of the issuer. That is, GO bonds are secured by a pledge of the issuer's ad valorem taxing power or Education Local Options Sales Tax collections (i.e., the collateral). Ad valorem taxes necessary to pay debt service on GO bonds typically are not subject to the 20 mill property tax limit. The advantages of issuing GO debt include:

1. Strongest pledge of the LUA which usually produces lower interest rates than limited liability bonds.

2. The administrative aspects of preparing to borrow are simpler and normally less costly.

3. Because of relative simplicity, these bonds lend themselves more readily to public, rather than private negotiated sales which may reduce the interest cost.

4. The required vote of the LUA's constituents confirms the judgment of the LUA's policymakers to undertake the proposed improvement.

The disadvantages of GO debt include:

1. The necessity for voter approval which may delay capital financing.

2. The reduction of overall borrowing capacity because of the legal debt margin (the legal debt margin is discussed later in this chapter).

Revenue bonds are bonds in which specific revenues (i.e., most often user charges) of the issuing LUA guarantee the repayment (i.e., the collateral). Enterprise revenue bonds are the most common type of revenue bonds. These bonds finance projects which generate revenue to repay the debt (e.g., a county government will issue water and sewer bonds). Normally LUAs do not sell revenue bonds. Occasionally an LUA might sell revenue bonds to build a football stadium. These bonds are secured by the revenues generated by the athletic events. The LUA's taxing power does not back these bonds.

Other Bond Features

Bonds have other features which need to be considered.

A callable bond is a bond which permits or requires the LUA to redeem the obligation before the stated maturity date at a specified price, usually at or above par by giving notice of redemption in a manner specified in the bond contract. Bonds with less than a ten year maturity usually don’t have a call provision. A bond contract may include a call option for the following reasons:

- Voluntary reduction of outstanding debt
- Achievement of a reduction of interest costs through refunding (bond refundings are discussed later in this chapter)
- Defeasing existing contractual obligations in relation to outstanding debt
- Voluntary reorganization of the debt (i.e., changing the maturity schedule)

A demand bond is a long-term bond which includes a feature whereby the bondholder periodically may return the security back to the LUA at a predetermined price.

A <u>zero coupon bond</u> is a bond in which no interest is paid on a given bond between the date of its issue and the date of its maturity. The bond is issued at a deep discount from par (e.g., a bond with a face value of $100,000 may generate bond proceeds of $65,000), appreciating to its face value at maturity.

REGISTERED BONDS

LUAs register most bonds they issue today. However, prior to 1983, only about three percent of all outstanding municipal bonds were held in registered form (i.e., there were fewer bonds issued). The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requires that LUAs issue all securities with maturities in excess of one year in fully registered form. Immediately before this registration became mandatory, many LUAs rushed to the bond market to issue <u>bearer bonds</u>. A bearer bond is a bond which is payable to the bearer (i.e., holder of the bond). Today, in order for LUAs to retain their federal tax-exempt status, their bond issues must be issued in registered form rather than bearer form.

LUA borrowers may satisfy this registration requirement either through the issuance of registered certificates in the purchaser's name or through a book-entry system consistent with federal regulations prescribed by the Secretary of the U.S. Treasury. Under the first option, an obligation is in registered form if its ultimate ownership is registered as to both principal and interest and if a transfer between owners is effected by the surrender of the old certificate, updating of the record or registry of owners, and issuance of a new certificate to the new owner by either the issuer or its agent. Under the book-entry approach, the requirement is satisfied if ownership of the obligation is transferable only through entries made on the books maintained by the LUA, its agent, or an entity holding a security in nominee or "street" name for an investor, which provides for the determination of the ultimate beneficial owner. Registration affords protection against payment being made to unauthorized holders of such bonds, as the owner's name actually is placed on the bond itself.

TEFRA provides only three exemptions to the registration requirement: 1) securities with maturities of one year or less from the issue date; 2) securities that are "not of a type offered to the public;" and 3) securities that fit within a particular category of bonds sold only to foreign investors and payable outside of the United States. Generally, only the first two exemptions are applicable to LUA obligations.

GEORGIA LAW RELATING TO DEBT

Georgia LUAs have the authority to contract or incur indebtedness only as authorized by the Georgia Constitution and other applicable laws. Before borrowing, a LUA should know the limits on its power to issue debt, as well as the types of borrowing not subject to debt limitations.

Short-Term Debt Limitations

Article IX, Section V, Paragraph V of the Georgia Constitution authorizes an LUA to issue short-term debt in the form of short-term tax anticipation notes (TANs) to pay operating costs. The conditions for such temporary loans include the following. In addition, the article sets forth the following procedures and conditions for short-term debt.

- The amount of debt may not exceed 75% of the total gross income from property taxes the LUA collected in the preceding year.
- Such loans are payable on or before December 31 of the calendar year in which they are made.
- No such loans may be obtained when there is a loan outstanding which was obtained in any prior year.
- The amount of the indebtedness in any one calendar year may not exceed the total anticipated revenue in that calendar year.

Long-Term Debt Limitations

Article IX, Section V, Paragraph I of the Constitution of the State of Georgia provides:

> The debt incurred by any Georgia county, municipality, or other political subdivision of this state, including debt incurred on behalf of any special district, shall never exceed 10 percent of the assessed value of all taxable property within such county, municipality, or political subdivision.
>
> The exception to this rule is any LUAs which are authorized by law on June 30, 1983, to incur debt in excess of 10 percent of the assessed value of all taxable property therein shall continue to be authorized to incur such debt.

This amount of general obligation (GO) debt is classified as an LUA's legal debt margin. As indicated above, generally the amount of debt is limited to 10% of the assessed valuation.

Georgia law requires that counties assess taxable property at 40% of its market value. A sample computation of a legal debt margin follows:

Assessed value of taxable property		$1,106,625,969
Debt Limit - 10% of assessed value	$ 110,662,597	
Less general obligation bonds outstanding		22,435,000

Remaining legal debt margin $ 88,227,597

This article also indicates:

> No such county, municipality, or other political subdivision shall incur any new debt without the assent of a majority of the qualified voters of such county, municipality, or political subdivision voting in an election held for that purpose as provided by law.

Temporary loans (i.e., short-term debt) are not subject to the legal debt margin. In addition, not included in an LUA's 10% limitation is indebtedness of the county, any cities within the boundaries of the LUA and any public authorities.

The Constitution does not set forth specific projects which an LUA may finance with general obligation bonds, and consequently they may issue these bonds for any projects for which an LUA can expend public funds. Normally, LUAs use this method to construct school buildings.

Article IX, Section V, Paragraph VI of the Constitution provides that before incurring bonded indebtedness the LUA must provide for the assessment and levy of an annual tax sufficient to pay the principal of and interest on the debt within 30 years from incurring the bonded indebtedness. The proceeds of the tax, together with any other monies held for paying the bonds, must be held in a sinking fund (i.e., a debt service fund) to be used exclusively for paying the principal of, and interest on, the bonds.

LUA Leasing

Over the years lease agreements have presented problems for LUAs. While rental agreements or leases themselves generally are not considered to constitute debts which violate the debt limitations placed upon LUAs by the Constitution, the contract can exceed the allowable provisions under which one school board may bind subsequent school boards in legislative matters (pursuant to O.C.G.A. Section 20-2-506). Also, lease purchase agreements, when construed to be nothing more than installment sales contracts, can be interpreted by the courts to impose upon the LUA an unauthorized debt. Therefore, during the 1990 session the General Assembly added a new provision to the law, O.C.G.A. Section 20-2-506, which alleviates some of the problems associated with leases by LUAs. This act authorizes LUAs to enter into multi-year agreements, including lease agreements and lease purchase agreements, for the acquisition of goods, materials, real and personal property, services and supplies, provided that such agreements contain provisions which:

- require an annual renewal;
- may provide for automatic renewal unless positive action is taken by the LUA to terminate such contract;
- state the total obligation for each year that the contract is subject to renewal;

- provide for the automatic termination of the agreement upon the failure of the school board to appropriate funds for its renewal (i.e., a fiscal funding clause in the contract);

- prohibit an LUA from entering a lease purchase agreement for any project that was rejected by the voters within the past four calendar years.

GSBA Lease Purchase Financing Program. The Georgia School Board Association (GSBA) created a lease program to give LUAs the same advantages businesses enjoy with lease-purchase financing. Through the program, LUAs can acquire essential capital equipment and facilities through renewable lease-purchase agreements. Then GSBA will sell certificates of participation (COPs) to investors through a public offering.

The funds generated from the sale of the COPs are deposited with a trustee bank who is assigned the responsibility of disbursing funds to acquire equipment or construct facilities as defined by lease purchase contracts between the GSBA and participating LUAs. The LUAs then make payments to the trustee. These payments are used to make the principal and interest payments on the COPs.

Title is held by GSBA for the term of the lease, when the equipment or facilities are transferred to LUA ownership. LUAs are cautioned that property acquired by lease cannot be improved until title has passed. Interest to be paid on the COPs is built into the lease payments. The lease(s) are subject to annual appropriation and may be terminated by the LUA at the end of each calendar year. If the appropriation is not made and the lease is terminated the trustee takes possession of the equipment and/or facility, or the participant has the option to prepay the principal balance due.

There are several cost advantages to a lease purchase financing versus other methods currently available to counties.

- The fixed rate lease locks in fixed attractive tax exempt interest rates for the useful life of the equipment purchased or facility constructed.

- Smaller financings of under $1.0 million which normally cannot support the financing cost of a bond issue, are able to benefit from the economies of scale and take advantage of lower tax-exempt rates available from a publicly offered bond issue.

- GSBA, as program sponsor, has obtained a special not-for-profit tax status with the Internal Revenue Service for the benefit of its participating members and thus provides participants with large and small capital needs equal access to an efficient lease purchase financing mechanism.

DEBT FINANCIAL POLICIES

The LUA school board should adopt financial policies relating to debt. Debt policies allow a school board to view their present approach to debt administration from an overall, long-range vantage point. Debt policies for all school boards need not be the same. Debt policies should address issues such as wealth, conservatism, need, and past practices of the LUA.

As a school board both adopts and applies a debt policy, with its environment and purpose in mind, the following factors should be considered:

- Legal constraints on capacity and financing alternatives.
- The urgency of needs and economic cost of delay.
- Willingness and financial ability of the community to pay for such improvements.
- Proper balance between internal and external financing.
- Determination as to whether current or future residents should pay for specific additions or improvements.
- Current interest rates and other market considerations.
- The impact on the reliability and integrity of vital systems.
- Availabilities of other resources and the alternative uses of those resources.
- The financial return on the investment.
- The financial condition of the LUA and local control over revenues and expenditures, and their stability.
- The nature of the projects to be financed - planned programmatic or non-recurring improvements.
- The role and function of LUA served by the expenditure.

Primary debt policies relate to when to issue debt, the type of debt to be issued and how much debt will be issued.

When to Issue Debt?

When should an LUA borrow money? Obviously the first answer is, "when the LUA needs it." For example, because of the Georgia tax calendar many LUAs do not receive their property taxes until a major portion of their fiscal year has passed. In order to solve short-term cash flow problems, basically there are two alternatives available. Should LUAs borrow by issuing short-term debt (e.g., TANs) or should LUAs accumulate an adequate fund balance to cover their cash flow problems until property taxes are received? The following sample debt policy addresses this issue:

> "The LUA will limit its short-term borrowing to cover cash flow shortages through the issuance of tax anticipation notes."

In addition, many LUAs just do not have the available cash necessary to purchase costly equipment or make major building additions or renovations. For these LUAs the only alternatives available are issuing general obligation bonds or entering into capital leases.

Some LUAs view the issuance of long-term debt as a mechanism to equalize the costs of buildings and improvements (i.e., long-lived assets) between present and future constituencies. Long-term debt only might be issued when a significantly large proportion (e.g., 75%) of the LUA's taxpayers, citizens and/or students should benefit from projects financed or when it can be determined that future citizens will receive a benefit from the capital improvement financed with long-term debt. It can be argued that the beneficiaries from capital expenditures should pay for them. Since the beneficiaries are likely to be users who benefit from the services long after the initial investment, deferment of payment by the use of long-term debt can be considered appropriate. In other words, if the asset will last 20 years, the financing might occur over 20 years, resulting in the cost being spread over the projected useful life of the asset.

A sample policy relating to long-term debt follows:

> "The issuance of long-term debt is limited to capital improvements or projects that cannot be financed from current resources. For purposes of this policy, current resources are defined as that portion of fund balance in excess of the required reserves. Every effort will be made to limit the payback period of the bonds to the estimated useful life of the capital projects or improvements."

What Type of Debt is Issued?

LUAs have very little flexibility regarding the type of debt that they might issue. As indicated earlier in this chapter, bonds can be classified either as general obligation or as revenue. LUAs generally only issue general obligation bonds because specific revenues are required to support the retirement of revenue bonds.

When an LUA is purchasing equipment and wishes to finance this purchase, the only feasible option is through a capital lease as explained above. Sometimes when a new building is constructed through the sale of general obligation bonds, the required equipment also is included in the bond issue.

Another policy might address the issue of when to use capital leases rather than outright purchases. For example,

> "Capital leases are used to finance equipment purchases anytime the cost of the equipment purchases exceeds 12% of the general fund budget."

How Much Debt is Issued?

As indicated earlier in this chapter, the amount of general obligation debt is limited by Georgia Statutes to 10% of the assessed taxable property of the issuing LUA. However, some school boards adopt debt policies which include other types of more restrictive limitations. For example, a school board may chose to limit the debt to a percentage less than the legal limit (e.g., 9%). A policy might limit the amount of an LUA's debt to a certain percentage of assessed value for their debt including any overlapping debt (i.e., debt issued by other LUAs which geographically overlap the issuing LUA). Additional debt policies could be developed relating to the amount of:

- non-enterprise revenues
- debt per capita (e.g., general obligation debt shall not exceed $500 per capita)
- debt as a percentage of expenditures (e.g., debt not to exceed 10% of total general LUA expenditures)

Another policy might require the LUA to make a down payment of at least a certain percentage (e.g., 10%) of the project costs from current revenues.

Other Debt Related Policies

There are various other types of policies that an LUA might consider relating to debt. For example:

- The LUA will maintain good communications with bond rating agencies and will try to improve or maintain its current level bond rating annually.
- The LUA will try to keep the average maturity of general obligation bonds at or below a certain number of years.
- An LUA could maintain a debt service fund which is equivalent to the amount of general obligation debt maturing in the subsequent year.
- Annual budget appropriations shall include debt service payments and reserve requirements for all debt currently outstanding.
- Long-term borrowing should be incorporated into the LUA's capital improvement plan.

BOND RATINGS

When an LUA is planning to sell a large amount of general obligation bonds, the LUA will request a rating on the creditworthiness of the securities to be issued. Bond ratings are evaluations of credit quality of an issuer with respect to a particular debt obligation (e.g., a bond). The ratings measure the probability of the timely repayment of principal and interest on LUA's bonds. Ultimately, the repayment of debt depends on both the LUA's ability and willingness to make repayment. To judge ability to pay, what really is measured is the degree of control that the LUA can exert to call forth and manage its resources so that its obligations can be met in full when due.

Through the assignment of a letter grade by a bond rating agency, a rating is intended to measure the probability of timely repayment of principal and interest on an LUA bond. The bond rating is not a recommendation to purchase, sell, or hold a particular security, as it does not comment on the array of other factors, such as market price and the personal risk preference of the investor, that go into the investment decision-making process. The rating performs the function of a credit risk evaluation.

The major focus of the rating process is the determination of relative degrees of control or measurement of ability to pay. The other component of credit analysis, the one that is less easily measured, is willingness to pay. Bond rating agencies look upon tax and expenditure limitation initiatives, voter rejection of millage increases and bond issues, or the unwillingness of LUA officials to make the often difficult decisions to assure budgets balance as symptoms of a possible unwillingness to pay. It is important to note, however, that no one single factor in the bond rating process can be considered as most important.

Bond Rating Agencies

Moody's Investors Services, Standard & Poor's Corporation and Fitch Investors Service are the principal rating agencies for LUA debt. For a fee, each of the agencies provides ratings of the bonds being offered for sale based on information supplied with the issue supplemented by their own research.

Cost of Bond Ratings

The cost of bond ratings varies but the cost has a direct relationship to the size of the bond issue. In 2007, the estimated cost of bond ratings for long term fixed rate bonds based on the Moody's rating agency standard fees follows:

Size of General Bond Issue	Estimated Cost (Moody's)
Less that $1 million	$4,375
$1 million to $9.9 million	$5,300 –$ 8,275

$10 million to $19.9 million	$9,500-$10,600
$20 million to $34.9 million	$12,500-$14,150
$35 million to $54.9 million	$15,750-$17,550
$55 million to $74.9 million	$19,500-$21,250
$75 million to $99.9 million	$24,150-$28,350
Over $100 million	3.25 basis points to a maximum of $85,000

Bond Rating Factors

Generally there are four factors that agencies consider in the rating of bonds:

- ECONOMIC
- DEBT
- FINANCIAL
- ADMINISTRATIVE

Economic Factors. The economy is probably the least controllable and often the most difficult factor to predict in LUA credit analysis. Local performance during recent recessionary and inflationary periods has emphasized how little any community can do to offset the effects of national economic trends.

U.S. Census statistics of population and housing characteristics and various measures of employment, unemployment and economic production provide a profile of the community's economy and the well being of its residents. Bond analysts also are interested in what the management of an LUA can do to encourage economic activity (e.g., providing a quality educational program).

Economic downturns also are reflected in higher property tax delinquencies and increasing accounts receivable. Many LUAs have shown particular sensitivity to interest rate movements either because of reduced investment earnings when rates fall or because of reduced private investment when rates rise.

Debt Factors. Control of debt position is particularly critical to any kind of credit analysis. Honoring the promise to repay and the fulfillment of all legal covenants with bondholders are the ultimate tests of an LUA's ability and willingness to pay. Legal security and other bondholders' protection provide the foundation and remain central components of debt analysis.

The economic feasibility and necessity of the project being financed must be determined. When public indebtedness becomes too burdensome, an inability or unwillingness to pay may follow (i.e., the determination of debt burden).

Capital planning for future debt is a positive consideration (see Chapter IV-3 for a discussion of capital improvement programs). Both direct overlapping and underlying debt are considered in the credit rating. Direct debt is that issued by the LUA requesting the rating. Overlapping debt is that issued by a county which overlaps (i.e., the geographic boundaries of the county overlap the geographic boundaries of a second LUA) the rated LUA (e.g., a city). Underlying debt is that issued by a city which is overlapped by a county LUA.

Financial Factors. Annual operating financial performance and resultant year-end position are the ultimate measures of management's control. The balancing of an LUA's budget is a very positive step in improving the LUA's bond rating. If annual revenues exceed annual expenditures and sufficient financial resources have been accumulated to meet unforeseen contingencies and normal liquidity requirements, the financial results are deemed satisfactory.

The level of fund balance related to annual budgets is an important comparison (Chapter IV-2 discusses the amount of fund balance an LUA might maintain). The investment of idle cash is a good measure of prudent management. Bond raters review transfers between funds cautiously.

Administrative/Governmental Factors. To be able to evaluate the ability of an LUA to control financial conditions, it is particularly important to understand the scope and powers of the LUA's administration. How the LUA is organized and what the relationship is between the school board and the LUA's superintendent are important credit analysis considerations. What service is the LUA responsible for? Answers to each of these questions are addressed by bond raters.

Intergovernmental relationships become important considerations when provisions for services to a common group of taxpayers are shared (e.g., a joint venture between the LUA and a city and a county).

Bond Insurance

Sometimes an LUA's bonds are insured, which allows them to receive AAA ratings from Moody's and Standard & Poor's. The Municipal Bond Investors Assurance Corporation ("MBIA"), Financial Guaranty Insurance Company ("FGIC") and AMBAC Financial Group ("AMBAC") each irrevocably and unconditionally guarantee payment of principal and interest on qualified new issues of municipal bonds.

A municipal bond insurance policy is a non-cancelable guarantee designed to protect the bondholder from nonpayment on the part of the issuer. In the event an LUA fails to meet a scheduled principal or interest payment, the insurer, acting as a third-party guarantor, will make that debt service payment to the holder on time and in full. The insurer has received an "up front" premium from the LUA for the guarantee, the amount of which is determined primarily by the perceived risk associated with the financing. Unfortunately, those LUAs that need the insurance the most can't buy coverage or the premium is prohibitive.

It is important to remember that in each instance the LUA is the first source of payment of principal and interest, and that the underlying credit characteristics of the issuer remain very important in terms of the market's acceptance of the debt which can vary considerably. For this reason, all insured bonds do not provide identical rates of return. Purchasers are willing to accept a lower yield in return for the reduction in risk provided by the insurance. However, there have been many instances where insured bonds have traded at higher or lower yields for similar maturities, which primarily reflect the relative importance of the fundamental credit quality of the issuer.

A much more informal way of securing bond insurance is authorized by O.C.G.A. 20-2-480. School districts may request that the GA DOE withhold sufficient funds from any appropriation entitled to the school district and apply the funds to the principal and interest payments due on the bonds for that fiscal year.

Applying for a Credit Rating

The first step in the rating process is for an LUA to submit an application to a rating agency. The type and level of documentation that is required to be submitted to the rating agency will vary depending on whether the issue is general obligation or revenue supported debt and whether the issue will require a third-party credit facility. Both Moody's and S&P have specific requirements for each type of obligation. For general obligation securities, the following represents the minimum level of information required:

- current official statement;
- annual financial reports for past three years;
- current year's budget;
- five-year proposed capital improvement program (see Chapter IV-5);
- assessed valuation data for last 5-10 years;
- description of area economy, population, and land area;
- current debt statement including overlapping debt and LUA's share;
- 10 largest employers and taxpayers; and
- a draft of the legal opinion.

The rating process will be facilitated by presenting the most current information well in advance of the actual presentation. Required documentation should be submitted at least one week in advance of a rating meeting and three weeks prior to the scheduled date of sale.

Rating Agency Presentation

The final step is the actual rating agency presentation. The LUA should take care in selecting the person who will participate in the meeting, including the financial advisor. All persons attending should assume an active role in the presentation. The number of participants will be dictated in part by the complexity of the issue, but generally should be no more than six persons. The presentation itself, exclusive of time for questions, should take about one hour. If the meeting goes beyond 75 minutes, it should be because the rating analysts have a number of questions.

Some general guidelines often suggested by financial advisors in preparation for a rating agency presentation include the following:

- It is important that the formal presentation flow logically from one area to the next. To the extent possible the participants should adhere to the agreed-upon outline, straying only when the rating agency personnel ask questions that lead into other matters.

- There should be full disclosure of the LUA's present debt, financial, economic, and management conditions. There must be a complete explanation of the bad and the good. In many ways it is advantageous to demonstrate an awareness of difficulties that exist, particularly if something is being done to correct them. In short, stress the positive and emphasize the actions being taken to improve any conditions that are less than desirable.

- Don't dwell on statutory provisions (i.e., tax and debt limitations) that are well-known to the analysts, who are assigned by region or function and are well-versed in the legal issues. What they are looking for is information on how the various tax and debt limitation measures have impacted the community and what has been done about it.

- Avoid "Chamber of Commerce" language. The analyst's charge is to provide an independent appraisal of the credit quality of the municipality, and value judgments and unsubstantial opinions play no role in the evaluation. Try to stay as close as possible to quantifiable data.

- Avoid criticisms of elected officials or the "political" process.

- Describe any changes in management practices that have resulted in savings or more efficient operation. These are very positive and tend to stick in the analyst's mind.

- Avoid comments about other jurisdictions (i.e., federal, state, or local) unless it is to comment on a favorable development. Don't suggest that County X is a better credit than County Y or Z.

- Avoid statements of political position (especially about unrelated or controversial topics) and be aware that the most innocent comment can be misinterpreted. For example, avoid passing judgment on any proposed changes to the federal tax code, even if these changes adversely affect the municipal bond market. Discuss these changes in passing and with some statement of concern, but don't question the motives of Congress.

- Don't try to provide details to support an answer without being certain of the information. It is much better to simply express an opinion and offer to provide additional detail by mail. In such cases, no answer is better than the wrong answer (one has to assume that the analyst eventually will discover the right answer).

- Try to relax as much as possible. Too often a rating presentation is impaired because the LUA officials are nervous and it is evident to the rating analysts. With the financial advisor beside him or her, LUA officials can feel more relaxed and the information will sound more credible.

In summary, issuers should use a structured approach to applying for a bond rating and participating in a rating presentation.

OFFICIAL STATEMENTS

LUAs issue official statements to provide potential investors (i.e., the bond buyer) with information about the LUA. In most instances, LUAs provide such information to potential investors through securities dealers and dealer banks that purchase securities for reoffering. There are no specific requirements about the type of data that an LUA might include in its official statement. The overriding consideration is to provide a complete, accurate and objective description of those factors relating to the securities being offered that are necessary to make an informed investment decision.

LUAs may present the data in any order; however, many official statements use the following format for inclusion of information:

- Cover page
- Summary of the official statement
- Securities being offered
- Description of issuer and enterprise
- Debt structure
- Financial information

- Legal matters
- Miscellaneous

As part of a request for proposal, some LUAs include an official bid form as the last item attached to the official statements.

BOND SALE PROCESS

Sound debt management may encompass the following seven broad steps when issuing debt:

- Structure Debt
- Secure Specialists
- Obtain Public Support
- Design Bond Issue's Features
- Market Bonds
- Administer Debt

Structure Debt

An LUA should conduct a thorough assessment of each proposed debt issue before actually selling bonds. Long-term debt should be incurred only to purchase items with extended life spans. Also, an LUA should make a thorough assessment of the purposes to which the bond or debt proceeds will be applied to be sure that the benefits are worth the cost (i.e., the debt service payments in future years).

A preferred way to issue debt in a controlled atmosphere is to relate the debt to an LUA's capital improvement program (CIP). A CIP is a multi-year planning instrument used by LUAs to coordinate financing and timing improvements in a way that maximizes the return to the public. Normally, a CIP will include the funding plan for each capital project. Chapter IV-3 discusses the CIP process in detail.

LUAs should analyze all the possible ways the approved items can be financed and arrive at the financing scheme which is the most desirable for the LUA. Consider each of the following alternatives to fund the costs:

1. Current nonrestricted revenues (e.g., property taxes; i.e., pay-as-you-go).

2. Dedicated tax revenues (e.g., local option special purpose sales tax).

3. Federal and state grants.

4. General obligation bonds.

5. Capital leases.

Once a decision is made to sell bonds, determine whether it will be more advantageous for the LUA to sell bonds publicly or to arrange a private sale. Many states require LUAs to advertise publicly the sale of bonds. However Georgia has no such requirement. Bonds may be sold privately through a negotiated or non-public sale. In making this decision, consider several factors.

The size of the issue has a direct bearing on the competitive market. Small issues do not fare well in the competitive market and cost more per borrowed dollar. If an LUA has a high bond rating and previously sold bonds in the public market, usually it is advantageous to sell the bonds publicly. For comparison purposes, an underwriter can estimate the rate of interest the issuing LUA would have to pay, for both public and private sales.

Secure Specialists

The next step is to engage the services of consulting specialists who normally include an architect and a consulting engineer, financial advisor, bond counsel and registrar/transfer agent. A local attorney, an independent certified public accountant and paying agent can provide other services helpful to the issuance of debt. Each of these consultants can play an important role in the process of issuing and administering debt.

Architect and Consulting Engineer. Both an architect and a consulting engineer is helpful in determining the costs of proposed projects included in an LUA's CIP. Once an LUA decides to proceed with a construction project, these consultants might conduct a feasibility study, complete an engineering design and assist with construction coordination.

Financial Advisor. An important participant in the debt administration process is the financial advisor who can provide a variety of services. A financial advisor should have a thorough knowledge of:

- Georgia LUA laws and practices.
- Investor preferences and prejudices.
- How to secure a high bond rating.
- Workings of the bond and money markets.

The services provided by a financial advisor include the following:

- Survey LUA's debt structure and financial resources to determine borrowing capacity for current and future capital financing requirements.

- Gathers all pertinent financial statistics and economic data, such as debt requirement schedule, tax rates, and overlapping debt that would affect or reflect on the issuer's ability and willingness to repay its general obligation bonds.

- Advises on the time and method of marketing terms of bond issue (including maturity schedule), interest payment dates, and call features.

- Prepares, in cooperation with bond counsel, an official statement, notice of sale, and bid form and distributes them to all prospective underwriters and investors.

- Evaluates the benefits of obtaining one or more credit ratings and contacts the rating services to be sure that they have all the information and data required to evaluate properly the LUA's credit worthiness.

- Is present at the sealed bid opening and stands ready to advise on acceptability of bids.

- Helps coordinate the printing, signing, and delivery of the bonds.

- Reviews bidding procedures for competitive sales and the securing of an appropriate underwriter for negotiated sales.

LUAs can obtain financial advisory services from three types of firms: investment bankers, commercial banks, and independent consultants. Investment bankers and commercial banks normally provide advisory services as part of their business, often one that is ancillary to the marketing of securities or to making loans. Independent advisors, on the other hand, generally only sell their professional services and do not underwrite municipal bonds.

Bond Counsel. The bond counsel's principal responsibility is to act as the legal advisor to the investor in the securities by ensuring the legality of the issue. Some of the services provided by bond council include the following:

- Determines whether the legal authority for the issuance of the bonds is consistent with constitutional requirements and limitations.

- Ensures that the statutory or charter authority for the issuance of the bonds is consistent with constitutional requirements and limitations.

- Prepares the legal documents for the issuance of the bonds, including the legal instruments necessary to authorize the issuance of the bonds and to describe the bonds and their security.

- Ensures that the bonds are within the applicable debt limitations (i.e., the legal debt margin).

- Ensures that any applicable tax limitation as to rate or amount is observed.

- Ensures that any required elections (i.e., bond referendums) regarding the bonds are called and held in conformity with the law.

- Reviews the official statement to make certain that the legal information is correct and that no material information has been omitted.

- Examines the proceedings of the authorizing body (e.g., the city council or county commission) providing for the sale of the bonds to be sure that the bonds will be sold legally.

- Ensures a proper advertisement of a competitive sale or that the selection of an underwriter in a negotiated sale is proper.

- Determines whether the bid accepted is legally acceptable in a competitive sale.

- Answers inquiries from rating services, investors, underwriter's trustee, paying agents and others before the delivery of the bonds.

- Prepares an unqualified opinion about the tax-exempt status of bonds.

If bonds are to be marketed nationally, normally the bond counsel should be "nationally recognized." It is important to consider selecting a nationally recognized firm because its reputation often will affect the purchase price favorably.

Registrar/Transfer Agents. Major banks, local banks and trust companies offer registrar/ transfer agent services. The Securities and Exchange Commission registers some of these banks. Generally, registrar/transfer agents perform the following functions:

- Prepare the initial set of bonds for delivery to the underwriter, based upon instructions from the underwriter.

- Formulate and maintain an accurate list of the registered owners or their nominees.

- Carry out transfers and updating the ownership records.

- Prevent the issuance of more bonds than are authorized.

- Maintain in safekeeping a supply of blank certificates to allow for secondary market trading.

- Issue new certificates for those that have been reported as stolen, lost, or destroyed, upon receipt of the appropriate indemnity bond.

- Issue new certificates in exchange for, and upon surrender of, mutilated certificates.

- Conduct a bond lottery to redeem called bonds.

- Administer a program of storage or destruction of canceled certificates.

Local Legal Counsel. Sometimes an LUA selling bonds will contract with a local attorney to serve as the liaison with the bond council, assuming the bond counsel is from a different geographic region.

Independent Certified Public Accountant. Most LUAs include in their official statements portions of their audited financial statements. It is suggested that an LUA issuing official statements ask its independent auditors to review any included financial information to be sure that it is correct and that it is not taken out of context. If the auditor's report is included, it will have to be changed to reflect the financial data presented.

Paying Agent. After an LUA issues its debt, a bank or trust company is chosen as the paying agent for the government. The registrar/transfer agent usually also serves as the paying agent. Generally the paying agent performs the following functions for registered government securities:

- Prepare a schedule for standard record dates to identify the registered owners who will receive interest payments on the payable date.

- Establish a procedure for receiving notification of the names and addresses of registered owners from the registrar/transfer agent. This step is eliminated if the registrar/transfer agent and the paying agent are the same organization.

- Disburse interest payments by check to the registered owners as of the record date upon receipt of sufficient resources from the government. Normally the government is required to submit their payment to the paying agent approximately five days before the due date.

- Make payment by check for principal at maturity or call upon the surrendering of the certificate and provision of satisfactory documentation of ownership.

- Retain up-to-date records of all interest and principal payments made, including year-to-date totals of both the entire issue and the individual security holders accounts, a list of all registered owners and the extent of their holdings, check numbers amount of check for each holder.

- Provide the LUA with periodic reports regarding the amount of principal and interest payments.

Obtaining Public Support

If general obligation bonds are to be sold, the public support for the bonds must be obtained (i.e., a bond referendum must be held). A campaign to inform voters and develop support for the bond issue is of major concern. An effort must be made to gain voter support for the projects and facilities which the bond issue will support. Also, improving voter understanding of the financial features and implications of the debt over its lifetime is important. Some of the tasks required to gain public support include the following:

- Survey community to determine voter opinion about the bond issue.
- Enlist support of civic groups to assist with marketing the bond issue to the public.
- Time the bond election carefully to be sure that this is the only bond election on the ballot which reduces confusion for the voter. However, a separate bond election usually is more costly than holding the election at the same time as a previously scheduled election (e.g., a national election).
- Form a bond issue committee which includes a cross section of community interests to assist with the bond campaign.
- Prepare promotion material which highlights the need for the issue and focuses on reservations which voters may have. Note that LUA resources may not be used to finance the preparation of these materials.
- Hold public meetings to take the issue to the community.
- Use the media to explain the need for the bond issue.
- Use door-to-door committees to answer questions about the issue and urge its approval.
- Review election requirements through bond counsel.

Design Bond's Features

An important service that the fiscal advisor provides is helping the LUA design the features of the bond issue. Consideration must be given to:

1. The maturity schedule (i.e., the schedule on which the bonds will be repaid).
2. Bond denominations (i.e., the face amount of the bond certificates).

3. Coupon rates (i.e., the interest rates specified on the interest coupons).

4. The call privilege (i.e., the right of the LUA to redeem the bonds before maturity for principal and accrued interest payable).

Maturity Schedule. Determining the schedule for repayment of principal and interest is a very important task when selling bonds. With term bonds, the bond principal is not due until maturity. With serial bonds, three types of designs are common for repayment:

1. Downward Trend in Annual Payments - An LUA makes equal payments of principal annually which results in reduced interest payments as the issue is retired resulting in the total annual payment declining, permitting room (i.e., legal debt margin) for new borrowings.

2. Equal Payment Amounts - The annual principal and interest payments are about equal over the life of the issue. The use of this feature occurs when prior debt is outstanding. When the prior debt has matured, there will be an opportunity for issuing new debt.

3. Irregular Annual Payments - Annual payments can vary from high payments either at the beginning or end of the issue or any other possible combination.

LUAs should consider two major factors when deciding about the maturity schedule:

- The LUA's future borrowing needs as defined in the CIP.
- The coordination of the existing maturity schedule with a prior outstanding schedule to provides flexibility to bond when needed.

Bond Denominations. The denomination is the face amount or par value of a bond which the issuer promises to pay on the bond's maturity date. Now, almost all bonds are sold in $5,000 denominations.

Coupon Rate. Since most bonds now are registered, a bond holder need not clip and submit coupons to redeem their interest payment. However with registered bonds, the coupon rate is the rate payable automatically from the paying agent to the bond holder. Coupon rates can vary for each maturity.

Normally coupon rates are higher for bonds maturing in the long-term since investors perceive that LUAs will face more fiscal uncertainty in the long run than in the short run.

The Call Privilege. A callable bond permits the LUA to pay the obligation before the maturity date by giving notice of redemption as specified in the bond contract. The use of a call option enables the LUA to achieve one or more of the following objectives:

1. Voluntary reduction of outstanding debt.

2. Refunding the debt (we discuss bond refunding in Chapter I-16) resulting in interest savings.

3. Reorganizing the debt repayment schedule.

Generally a "call option" can increase interest costs because of reduced investor demand.

Marketing Bonds

Public marketing of bonds includes the following tasks:

1. Prepare the documents needed to sell the bond issue.

2. Obtain a bond rating from a major bond rating agency.

3. Choose the date for selling the bonds.

4. Advertise the bonds and accept bids.

5. Award the bids, then print and deliver the bonds.

6. Close the bonds, including final tabulation of bond amounts and the issuance of debt records.

Prepare Bond Sale Documents. The first step in planning a bond sale is to prepare a calendar of each step necessary to market the bonds. The dates by which each subsequent task in the marketing process will be accomplished should be stated specifically.

As discussed earlier, an official statement should be prepared which includes the terms by which the bonds will be offered. If the bonds are to be sold publicly, an official bid form must be prepared. The primary item included is the place for the bidder to include the interest rates for each bond maturity. Usually the bid form requests prospective bidders to submit a good faith deposit (i.e., a bid deposit check) in a predetermined amount. Space for the determination of a bond premium or discount also might be included. Finally the bid form requires the bidder to indicate the effective interest rate (i.e., the rate adjusted for premiums or discounts).

Underwriting. Often, bond issues are too large to be bought by a single investor and the LUA cannot effectively handle marketing of the issue to large numbers of individual investors. Thus, bonds typically are sold to an underwriter, a firm which purchases the entire issue. The LUA receives the proceeds of the entire issue quickly, without having to worry about marketing. The underwriter hopes to resell them at a profit to investors.

Administer Debt

The final step after the bonds are sold is to administer the outstanding debt. Special detailed records on the debt must be established and maintained. The accounting records must be established and maintained (e.g., debt service funds). Since most bonds are registered, the LUA's primary responsibility is to submit checks as required to the paying agent for payment of principal and interest.

REFUNDING DEBT

The refunding of debt is the substitution of one set of credit market instruments for another. In LUAs, the refunding of debt can occur frequently. Technically, a bond refunding can occur only when the bonds are callable bonds (i.e., the LUA can call in the bonds for retirement). However in practice, a new type of refunding became popular during the 1970's known as an advance refunding. In an advance refunding transaction, an LUA issues new debt (i.e., the refunding debt) to provide monies to pay interest on the old outstanding debt (i.e., the refunded debt) as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date. The LUA issues the new debt and deposits the debt proceeds with an escrow agent in a trust. The escrow agent for the trust uses these proceeds solely for satisfying scheduled payments of both interest and principal of the refunded debt.

Most advance refundings result in what is called "defeasance of debt." We can classify defeasance of debt into two categories, legal and in-substance, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 76, Extinguishment of Debt. SFAS No. 76 defines legal defeasance as when:

1. The LUA pays the creditor and is relieved of all its obligations with respect to the debt (i.e., the refunded debt). This includes the LUA's reacquisition of its outstanding debt securities in the public securities markets, regardless of whether the securities are canceled or held.

2. The LUA is released legally from being the primary obligor under the debt either judicially or by the creditor and it is probable that the LUA will not be required to make future payments with respect to that debt under any guarantees.

An in-substance defeasance occurs if the LUA irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments for both principal and interest of a specific obligation (i.e., the refunded debt). With an in-substance defeasance, the likelihood that the LUA will be required to make future payments also has been determined to be remote.

The LUA should restrict the trust to only monetary assets that are essential risk-free in regard to the following items:

1) Amount.

2) Timing.

3) Collection of principal and interest.

The monetary assets should be denominated in the currency in which the debt is payable (e.g., refunded bonds originally sold in the Japanese market). For debt denominated in U.S. dollars, which is most common, essentially risk-free debt monetary assets are limited to:

1. Direct obligations to the U.S. Government, including state and local government securities (SLGS).

2. Obligations guaranteed by the U.S. Government.

3. Securities backed by U.S. obligations.

The monetary assets also must provide cash flows (i.e., investment maturities and interest earnings) that approximately coincide, as to timing and amount, with the scheduled interest and principal payments of the refunded debt. If the monetary assets are callable, they may not be classified as qualifying assets.

The escrow agent invests the proceeds of the new debt (i.e., the refunding debt) in Federal securities in an amount sufficient to pay the principal and interest on the old debt (i.e., the refunded debt).

Reasons For Advance Refundings

The most common reasons for an advance bond refunding include:

1. Taking advantage of a lower interest rate for the new debt than of the old debt. For example, in the late 1970's and early 1980's LUAs were issuing debt at interest rates in excess of 10%. However, in the late 1980's, the rates came down and many LUAs refunded their outstanding debt at lower interest rates.

2. Restructure amortization schedule. For example, the financial position of some LUAs is such that they cannot repay their debt as required, therefore, they restructure their repayment schedule (i.e., they usually extend their repayment schedule) to better meet their financial needs.

3. Remove restrictive bond indenture requirements. For example, as a result of their bond indenture requirements, some governments are limited in the

types of investments they may purchase (e.g., they may be limited to savings accounts). Therefore, they will refund their debt to change their bond indenture to allow for more latitude in investing.

Accounting and financial reporting for bond refundings is presented in Chapter I-16 and the required note disclosures is included in the Audit Report.

TAX REFORM ACT OF 1986

The Tax Reform Act of 1986, which adopted the new Internal Revenue Code of 1986, made a number of substantive changes relating to the issuance of tax-exempt debt by LUAs. The Act:

- limited projects which qualify for tax-exempt financing,
- modified the economics of the marketplace for tax-exempt bonds, reducing their desirability,
- established new rules that restrict the flexibility of issuers and make it more complicated for issuers to comply with the law.

There were, however, a few provisions which give smaller borrowers an advantage in the marketplace.

The Arbitrage Rebate

Arbitrage, as defined by Treasury Regulations, is the ability to obtain tax-exempt funds and invest those funds in higher yielding taxable securities, resulting in a profit to the issuer. An "arbitrage bond" results when any proceeds of an issue are used directly or indirectly to acquire investments which have a materially higher yield than the yield on the bonds, or replace funds which were used directly or indirectly to acquire higher yielding investments.

What Are The Arbitrage Rebate Rules? The arbitrage rebate rules require that all earnings from the investment of gross proceeds of a bond issue that are in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. In other words, earnings from the investment of bond proceeds exceeding the yield on the bonds must be remitted to the federal government. These rules carry very strict penalties for non-compliance including taxability of interest retroactive to the date of issue.

Generally, arbitrage profit which is made beyond temporary periods specified in the Code must be rebated to the United States Treasury Department. For example, if an LUA invests bond proceeds in higher-yielding, taxable obligations while a project is being constructed, it must rebate those proceeds to the U.S. Treasury.

When Did The Rebate Rules Take Effect? The arbitrage rebate rules are applicable to all tax-exempt governmental bonds issued after August 31, 1986, and private activity bonds (formerly referred to as industrial development bonds) issued after December 31, 1984.

What Funds Are Subject To The Arbitrage Restrictions? As a general rule, arbitrage cannot be earned on the "gross proceeds" of a bond issue.

Exceptions To The Arbitrage Requirements. There are only two exceptions that will preclude an entire issue from compliance of the rebate regulations:

- If the gross proceeds of the issue are expended for the governmental purposes within six months after the date of issuance of the bonds, the interest earned during that period is not subject to rebate. If all but a minor portion of the proceeds (equal to the lesser of 5% of the proceeds or $100,000) is spent within a six month period, then the exception deadline is extended another six months. Amounts held in a bona fide debt service fund are not considered for the purpose of determining whether the six month test has been met.

- Bonds that are issued by small governmental units with general taxing power, which reasonably expect to issue $5 million or less in tax-exempt bonds during each calendar year, are not subject to the rebate requirements if at least 95% of the net proceeds are to be used for local governmental activities of the issuer. In determining whether the $5 million limit is reasonably expected to be exceeded, all governmental bonds issued by the governmental unit and all other governmental units that are subordinate to it must be counted (with the exception of private activity bonds).

The Revenue Reconciliation Act of 1989 provides an additional exception for issuers that spend the bond proceeds within two years of the issued date. It provides that at least 75 percent of the net proceeds are to be used for construction of property that is owned by a governmental unit or 501(c)(3) organization and that at least 10 percent of the net proceeds are spent within six months, at least 45 percent within one year, at least 75 percent within 18 months, and 100 percent within the two-year period. If such an election is made, the issuer must pay a penalty of 1.5 percent of the amount of the net proceeds that, as of each six-month period, are not spent as required. The issuer may also elect to rebate arbitrage earnings on any reasonably required reserve or replacement fund whereby such amounts would not be considered as net proceeds for determining compliance with the two-year expenditure schedule.

In determining the six month period for tax and revenue anticipation notes, the net proceeds of such an issue (including interest earnings) are considered expended for the governmental purpose of the issue on the first day after the date of issuance that the cumulative cash flow deficit to be financed by the issue exceeds 90% of the aggregate face amount of the issue.

Debt Service Fund Exclusion

In evaluating the amount of investment earnings subject to the rebate calculation for issues not meeting one of the exceptions described above, an exclusion is provided for certain earnings on a bona fide debt service fund. A bona fide debt service fund is a fund used primarily to achieve a proper matching of revenues and debt service within each bond year. A bona fide debt service fund for a single issue must be depleted at least once a year except for a reasonable carryover amount not to exceed the greater of (1) one year's earnings on the fund or (2) one-twelfth of annual debt service. Stated differently, the debt service fund generally must be cleared out within a 13 month period.

Advance Refunding

The restrictions on the advance refunding of governmental bonds prevent LUAs from engaging in more than one advance refunding of a single bond issue even if it could save millions of dollars by doing so, or even if some development in the LUA's fiscal condition requires changes in covenants undertaken in the bond documents.

Defining Arbitrage Rebates. The IRS regulations prescribe a two-step approach for determining the amount of rebate. First, the issuer computes the bond yield, then the rebatable arbitrage. These two steps are as follows:

1. Calculating bond yields. The yield on the issue is the discount rate that, when used in computing the present value of all of the unconditionally payable payments of principal and interest on the bonds and all payments for qualified guarantees (municipal bond insurance, letters of credit, etc.), produces an amount equal to the bond's issue price. The new regulations give guidance for calculating yields on fixed- and variable-yield issues.

2. Calculating rebatable arbitrage. The basic method for computing the rebatable arbitrage involves calculating the future value of nonpurpose investment cash flows using an interest rate equal to the yield on the issue. Using this method, nonpurpose receipts are compounded, or "future-valued," from the date of receipt, or the date deemed to be received, to the computation date. Similarly, payments for nonpurpose investments are future-valued from the date the payments are made to the computation date. The rebatable arbitrage as of any computation date generally is the excess of (1) the future value of all nonpurpose receipts over (2) the future value of all payments for nonpurpose investments. Depending on the size of the issue, a computation date credit of $250 to $1,000 is generally available.

   The fair market value of any nonpurpose investment held on the computation date is treated as a nonpurpose receipt. In the case of fixed-rate investments, the issuer has the option to value the investments at present value. If the investment is purchased at par, the par amount plus accrued interest can be used.

Rebate Payments. The rules require computations to be performed once every five years, when the rebate payment is due, rather than annually, as had been the case. It may be necessary for issuers to do annual calculations to determine the amount of the contingent liability to be disclosed in financial statements. Further, issuers may choose to perform annual calculations as a planning tool to minimize negative arbitrage earnings and to determine the rebate liability for cash-flow planning.

The new rules also require that at least 90 percent of the rebatable arbitrage be paid once every five years, no later than 60 days after the installment computation date, and 100 percent within 60 days of the final redemption of the issue. Rebate payments are not refundable. However, it is anticipated that the regulations will allow issuers to recover overpayments if they paid more than the rebatable arbitrage as a result of a mistake--for example, a mathematical error.

For issuers who underpay, a penalty equal to 50 percent of the amount that should have been rebated, plus interest thereon (100 percent for industrial development bonds), could be assessed in lieu of the retroactive loss of the bonds' tax exemption. This remedy will apply only if the failure to pay the full rebate was not due to willful neglect.

Chapter IV – 6 Managing Cash and Investments

NATURE AND PURPOSE

Cash management is the process of managing monies of a local unit of administration (LUA) in order to ensure maximum cash availability and maximum yield on short-term investment of idle cash. It is concerned with what happens between the point that an LUA has a claim on the revenue and an expenditure/expense payment clears the bank.

More specifically the cash management activity is concerned with the conversion of accounts receivable to cash receipts, the conversion of accounts payable to cash disbursements, the rate at which cash disbursements clear a bank account and how the cash balances are invested in the interim.

Cash Management issues relating to federal monies are included in Chapter V-1.

Objectives of a Cash Management System

The overriding goals of the cash management system are to maximize cash availability and to maximize yield from an LUA's idle cash. This goal is achieved by maximizing investment yield on cash between its collection and disbursement. To reduce cash management to the twin goals of maximizing available cash and maximizing yield, however, is to oversimplify. The constraints under which the LUA operates and the inherent conflicts between investment yield and risk dictate that the LUA strives toward a number of subsidiary objectives as well.

- Objective 1 - The Cash Management System Should Support the Operations of the LUA, Not the Other Way Around. The recent focus on cash management can give the impression that LUAs are in the business of making money through aggressive investing.

  Cash should not be maximized at the expense of paying vendors late, nor should yield be maximized at the expense of other goals. Where conflicts exist between the two primary goals of cash management, the LUA should put a higher priority on cash availability than on yield.

- Objective 2 - The Cash Management System Must Meet All Legal Obligations and Constraints Placed Upon it. Cash management systems do not operate within a legal vacuum. Every state including Georgia regulates the cash management activities of its LUAs to some extent. For example, revenue collection activities are constrained by state legislation specifying the payment schedule and collection process for collecting property taxes.

It is in the area of investments, however, that state law plays the greatest role in the cash management system. In Georgia, there are some legal restrictions on what investment instruments LUAs may purchase. These authorized investment instruments are discussed later in this chapter.

- Objective 3 - The Cash Management Program Must Protect the Assets of the LUA at All Times. Cash management is really another form of risk management. Any time that an LUA earns revenue, makes an investment, or commits to an expenditure, it incurs a certain amount of risk. The LUA must recognize and minimize the LUA's exposure to five distinct types of risk, as discussed below.

  Credit risk applies mainly to investments, but also could come into play with simple checking accounts. Credit risk means some or all of the principal amount of an investment or account will not be available due to failure by the issuer, securities dealer or broker, bank or other financial institution. Credit risk is best avoided by carefully screening investment dealers and banks for potential default problems, by limiting investments to those instruments which are least likely to result in default, and by requiring good collateral against all investments.

  Market risk means that changes in the financial markets may reduce the value of the LUA's investment. In extreme cases (usually periods of rapidly rising interest rates), the market value of the LUA's investment may fall below the principal amount invested. The LUA can protect against market risk by avoiding instruments that are traditionally subject to rapid market swings and by investing with the intent of holding all instruments to maturity.

  Custodial credit risk - the rise of electronic funds transfers and creative investment instruments has spawned a whole new process of investing, in which many LUAs never see the instrument in which they are investing, if the instrument even exists in tangible form. Many banks, brokers, and dealers prefer to issue a safekeeping certificate or use another simple method to evidence receipt of the principal. Although not required by Georgia law (O.C.G.A. 45-8-12), some LUAs protect against "external" safekeeping risk by insisting that the collateral securities be delivered physically to the LUA as a condition of making the investment. Practically speaking, custodial credit risk occurs any time that cash or investment assets are being held or transferred.

- Objective 4 - The Cash Management System Must Provide Adequate Liquidity to Meet All Expected and Unexpected Obligations. Idle cash is only idle and available to invest until it is needed to pay employees or vendor invoices. An important objective of an effective cash management program is to time investments so that they mature at the same time they are needed to meet these obligations. If they mature too early, the LUA is losing interest earnings and if they mature too late, the LUA risks a potentially damaging problem of illiquidity, or not having cash available to meet obligations due.

- Objective 5 - The Cash Management System Must be Well-Documented and Accountable. Because of the risks inherent in cash management, it is essential that the cash management system include a strong accounting and reporting element. The superintendent, business official, independent auditor, elected school board members, and citizens must be guaranteed that all receipts are recorded properly and credited, that expenditures are charged properly, and that investments are tracked and earnings properly prorated among funds that provided the principal for the investment.

DEVELOPING CASH AND INVESTMENT POLICIES

Both the school board and the superintendent will be more comfortable when the LUA operates under a set of adopted cash management policies than when major policy decisions are made as and when needed. Sound cash management policies improve consistency, create accountability, help insure that laws and ordinances are followed, and create goals by which to measure performance. The following cash and investment policies are discussed in this section of this chapter.

- Should cash and investments be pooled?
- How should depository banks be chosen?
- Should investments be purchased on a competitive basis?
- Should the Georgia Local Government Investment Pool be utilized?
- What should be the contents of general investment policies?

Should Cash and Investments be Pooled?

Some LUAs maintain separate checking accounts for each fund that they maintain. If practicable, a single checking account or minimum number of accounts should be maintained. Some LUAs may maintain a separate checking accounts for general activity and a separate checking account for payroll activity. The primary advantage of maintaining a minimum number of checking accounts is that it facilitates the investment of available resources in larger amounts which will increase interest revenue. Often, the larger the investment, particularly with certificates of deposit, the greater return on the investment. Therefore, pooling investments from different funds is a suggested practice. However, the allocation of earned interest to contributing funds becomes more difficult (this issue is discussed later in this chapter).

A sample pooling policy follows:

> "All investment funds will be maintained in a single account, except where legally required to be separate. Interest revenue will be allocated according to fund ownership."

How Should Depository Banks be Chosen?

Georgia law (O.C.G.A. 45-8-14) authorize LUAs to deposit funds in one or more solvent banks, insured Federal savings and loan associations, or insured State chartered building and loan associations. (Note: the proceeds from bond issues in certificates of deposit is limited to financial institutions located with this State).

It is difficult to discuss banking services for LUAs without addressing political considerations. Political involvement in an LUA's banking relations can range from minimal to extensive. Unfortunately in many LUAs, banking relations are determined solely by politics. The main problem posed by politics is that it hinders free and open competition in the procurement of banking services at the lowest cost for the services rendered. A growing number of LUAs, however, have been able to set aside politics and approach their banking relations on a business-like basis. Today, most banking officials endorse and support free and open competition for banking services.

Providing services to LUAs can be a profitable business for banks, and maintaining this relationship has been important to them. It was not unusual a few years ago to find bank and LUA relationships lasting several decades. As more and more new banks opened, there was increasing pressure to divide the business among all the banks in the LUA's geographic area. Recently, there has been an increasing trend by LUAs to use competitive bidding in selecting banks. Generally, there are three alternatives available to LUAs for choosing depositories as follows:

- The LUA maintains bank accounts at each of the financial institutions within the community.

- The LUA rotates the banking business to each bank within the community on an annual or other periodic basis.

- The LUA chooses a depository through competitive proposals (i.e., issue request for proposals)

Utilizing All Local Banks. Sharing the LUA's deposits with all or most of the banks in a community (i.e., use of all local banks) is the most common arrangement for handling banking relations. Normally, this policy is unwritten. Unfortunately, it is also the least desirable method. Once established, this method is difficult to reverse, since all of the banks are benefiting from the LUA's business. The sharing method evolved many decades ago as a means by which elected school board members compensated banking officials for assistance provided in previous elections. Furthermore, it had the advantage of maintaining political tranquility among the banks and between the banks and the LUA.

In some communities, these reasons continue to be as compelling today as they were many years ago. While the advantages of this arrangement are political, the disadvantages are economic, which can produce very ineffective cash and investment management programs and inefficient operations. These are some of the disadvantages associated with the sharing arrangement:

- Reduces the ability to pool cash for improved investment earnings.
- Requires minimum account balances be maintained for each account, thus reducing potential investment earnings.
- Administrative processing costs associated with handling multiple accounts can be significant.
- Prevents pooling of cash to cover unforeseen cash emergencies.

In summary, multiple accounts can result in lost interest, reduced yields due to smaller amounts being invested, and additional personnel costs associated with maintaining records. Although the sharing method occasionally may be politically advantageous and economically acceptable when invested funds legally must be segregated, generally it is discouraged since no one gains. None of the banks acquire sufficient deposits to make the endeavor profitable, and the LUA does not earn sufficient interest to offset the cost and inefficiencies encountered.

Rotating Services Between Local Banks. Some LUAs elect to rotate the banking business to each bank within the community on an annual or other periodic basis. Rotating banking business, although not as common, is preferable to the sharing arrangement. Under this arrangement, the accounts are maintained in one bank in the city or county which houses the LUA and then periodically rotated to other banks. Usually this rotation occurs without the benefit of bidding. Once again, competition is limited, and the local banks are not motivated to offer additional or improved banking services to the LUA.

In comparison with the sharing method, the rotation method has several advantages. Some of the advantages of this policy basically are the opposite of the above policy:

- Certain efficiencies are achieved by having all accounts with one bank.
- Processing costs associated with multiple banks are reduced.
- Investment earnings have the potential to be increased.

The disadvantages of this type of policy are:

- Rotation generally is based on informal policies that are subject to change.

- The rotation policy may not include a process for handling new banks or mergers.

- In larger LUAs, the rotation period is usually one year long since there are more banks.

- There may be disagreement over the length of the rotation period for each participating bank (i.e., a larger bank might object to having the same rotation period as that of a smaller bank).

Although preferable to the sharing method, the rotation method is not the best approach for an LUA to use in obtaining banking services. The rotation method is in reality just another means to achieve political peace with the local banking community and has only marginal financial benefits to the LUA. However, rotation might serve as a way to increase competition and eventually lead to a bidding process.

Issuing a Banking Request for Proposal. Generally, choosing a depository through the issuance of a request for proposals is considered the best method from a sound financial management standpoint.

The primary advantages to this policy include:

- Additional interest earnings resulting from:

  - Improved yields.

  - An overall increase in amounts available for investments.

- Additional bank services available for the same amount of bank service charges or compensating balance remaining at the bank.

- Reduced bank service charges/compensating balance requirements.

- An overall increase in efficiency of cash management operations. A sample policy relating to choosing depositories follows:

> "Biennially, the superintendent will issue a request for banking services to all qualified financial institutions located within a reasonable distance from the district's facilities. The award of banking services will be made solely on the response to the request for proposal. After a depository is chosen, a banking services contract will be negotiated and approved by the board."

Should Investments be Purchased on a Competitive Basis?

As a general rule, competition results in a higher interest return for the LUA. Usually, the purchase of short-term investments is not incorporated in the banking services agreement as discussed above. The most common investment instruments used by LUAs when investing in the short-term are certificates of deposits and treasury bills. Most banking institutions offer these types of investment instruments, so LUAs just invest through their local bank without competitive bidding. However, it is recommended that competitive bidding be used each time investments are made. A sample investment policy regarding competitive bidding might be:

> "Before the superintendent invests any surplus resources, a competitive "bid" process will shall be conducted. If a specific maturity date is required, either for cash flow purposes or for compliance with maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, the superintendent shall endeavor to obtain the best available return on the investment."

Should Georgia Fund 1 (Local Government Investment Pool) be Utilized?

The Georgia Office of Treasury and Fiscal Services provides the opportunity for all local governments including LUAs to combine their cash assets with the state's cash assets for investment purposes. Georgia law (O.C.G.A.36-83-8) authorizes LUAs to participate in this investment pool, known as "Georgia Fund 1 (GF1)." Georgia Fund 1 has a maximum maturity of sixty days. In addition, the Georgia Extended Asset Pool (GEAP) is also available and has maturities ranging from six to eighteen months. Some of the advantages for using these investment alternatives include:

- Safety - Investments authorized by statute for the GF1 and GEAP are essentially the same as those for purchased by local governments individually.

- Higher Interest Rates - By pooling of LUA resources into the GF1 or GEAP, a pool large enough to invest in diversified instruments at higher rates is created. Usually, the larger amount of the investment, the greater the yield.

- Liquidity - LUAs are able to withdraw their resources invested with the GF1 within twenty-four hours after their request.

- Investment Expertise - Personnel working with the GF1 and GEAP are well trained and LUAs are able to utilize this same full-time expertise.

- Monthly Statements - Monthly, LUAs receive statements of their account activity.

When LUAs are investing surplus resources, it is suggested that the current interest rates earned by GF1 and GEAP be reviewed to determine if the rates of return are higher than those available from other institutions. However, the GF1 cannot guarantee rates for selected time periods (i.e., 60 days). GF1 does provide comparisons of their rate of return on a monthly basis for the last four years with average Standard & Poor's Rated

Government Investment Pool Index. This comparison can assist with past analysis performance. A sample policy relating to the use of LGIP follows:

> "The superintendent will utilize the Georgia Fund 1 anytime the rate of return is higher than the rate determined through requests from banks."

What Should the Contents of General Investment Policies Include?

The most common cash management policy is the investment policy. It should clearly state the objectives of the investment activity, assign responsibility, establish internal controls, define safekeeping and collateral procedures, and establish a system of monitoring and reporting performance. Investment policies usually establish limits on the maximum maturity for investments and guidelines for diversification of maturity schedules. They also define the instruments in which the LUA may invest and requirements for diversifying the portfolio between these different instruments and among financial institutions. Many investment policies set standards for selecting and monitoring securities dealers and brokers and guidelines for making individual investment decisions.

Because of the potential of losses as a result of poor investing practices, all LUAs should have written, approved investment policies. An investment policy could include the following considerations:

- Scope
- Objectives
- Reporting
- Investment instruments
- Relationships with banks and dealers
- Maturities
- Diversification
- Delegation and authority
- Prudence
- Ethics and conflicts of interest
- Internal controls
- Investment committee

- Safekeeping and custody
- Performance evaluation

Investment policies of smaller LUA's may not need to address all of these issues. Each of these issues is explained briefly below:

Scope. The policy should explain which funds are included in the adopted policies. This policy may not be essential for an LUA since most investments are short-term rather than long-term. However, pension trust funds and some permanent funds operated by LUAs often have long-term investments which might operate under separate policies. A sample scope policy follows:

> "The financial assets of all funds maintained in the LUA shall be invested unless legally prohibited; provided, however, that cash needs shall not be impaired."

Objectives. Every LUA investment policy should contain a concise and clear statement of investment objectives. This policy should not be vague or contradictory. The foremost investment objective should be to "protect the principal." The LUA has fiduciary responsibility and stewardship for these resources and must ensure that they not be lost. A suggested policy relating to safety of principal might be:

> "Safety of principal is the foremost investment objective of the investment portfolio. Each investment transaction shall first seek to ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value."

The second objective, which can conflict with the first, is to maximize the return on investment. In addition, cash flow must be considered. A policy regarding rate of return can be somewhat general:

> "The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the investment risk and cash flow requirements."

Reporting. Investment reports provide a mechanism for school board monitoring. Generally an investment policy will require two types of reports, interim and annual. An investment report policy follows:

> "The superintendent shall prepare a quarterly investment report which summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall include an activity report of all transactions, as well as the outstanding investment on the last day of the quarter. By August 31 of each year, the superintendent shall present a

comprehensive annual report on the investment program and investment activity. The report shall include average rates of return, comparison with applicable indices and average percentage of cash invested."

Instruments. The selection of authorized investment instruments should be addressed in an investment policy. Obviously, the first consideration is the types of investment instruments that Georgia law allows. Georgia law (O.C.G.A 36-83-4) authorizes LUAs to invest in the following types of instruments:

- Obligations issued by the State of Georgia or by other states
- Obligations issued by the United States government
- Obligations fully insured or guaranteed by the United States government or a United States government agency
- Obligations of any corporation of the United States
- Prime banker's acceptances
- The local government investment pool established by Code Section 36-83-8;
- Repurchase Agreements
- Obligations of other political subdivisions of the State of Georgia
- Certificates of Deposit

Each of the above investment instruments are defined below:

Obligations issued by the State of Georgia or by other states. This type of investment is in
the form of general obligation bonds and is not normally suited as an LUA investment as as the maturity is longer than one year.

Obligations of the United States Government. There are a variety of U.S. Treasury obligations that are available to LUAs, however, U.S. Treasury bills (i.e., known as T-bills) are the most common. A T-bill is an obligation of the U.S. government to pay the bearer a fixed sum on a specific date. T-bills are short-term obligations issued at a discount from their par maturity value. For example, a one-year T-bill issued at a 6 percent discount with a $100,000 maturity would be sold initially at 100 - 6 = 94 for a price of $94,000 and a total return to maturity of 6.38 percent (i.e., .06 divided by .94).

Treasury bills are auctioned weekly, with cash settlement required on Thursdays. Each weekly auction of T-bills includes 4-week, 13-week and 26-week maturities. LUAs may purchase T-bills at the auction by submitting bids through dealers or banks, or directly through the Treasury.

Normally, LUAs purchase the bills in the secondary market. The secondary market for T-bills
is the market between dealers, banks and investors. This over-the-counter, telephonic market
has no centralized marketplace like a stock exchange. Instead, buyers and sellers conduct their business over the telephone or other electronic media. Commissions are not paid; instead, the dealer collects a profit by matching buyers and sellers and collecting a small spread between the two. The advantage of the secondary market for public investors is that they can purchase the T-bills on any day of the week, and likewise can sell a T-bill on any day instead of waiting for maturity.

Ordinarily, T-bills are used only when no alternative form of investment yields a higher rate.
This is because T-bills are considered risk free and very liquid instruments with a high degree
of marketability. Therefore, their yields tend to be the lowest of all money market instruments. Thus, many LUAs elect alternative investment securities to obtain higher yields. T-bills do offer excellent collateral for bank deposits and repurchase agreements, however. Sometimes, when the interest rate spread between T-bills and other instruments such as bank deposits is unusually narrow, investors purchase the T-bills despite their slightly lower yields, expecting that on a future date, they can sell the bills and reinvest the cash proceeds in a higher-yielding instrument at a wider spread.

A final advantage of the T-bill market is that newspapers carry the T-bill discount rates and bond equivalent yields on a daily basis for all the maturities. This disclosure enables the LUA to compare other money market instruments against the T-bill yield curve (i.e., interest rate
structure).

In addition to the T-bill series, the U.S. government also issues coupon securities called notes
and bonds. These instruments pay interest every six months just like municipal bonds. Unlike
T-bills, which are quoted on a discount basis, Treasury bonds and notes are traded in the bond
market with prices based on par equaling 100.

Notes and bonds are virtually identical in their investment features, except that notes are issued originally with maturities of 10 years or less, whereas bond maturities are longer than 10 years. LUAs rarely invest in instruments with maturities exceeding one year.

<u>Obligations fully insured or guaranteed by the United States government or a United States</u>

government agency. In addition to the U.S. Treasury, Congress also has authorized numerous
federal agencies and government-sponsored corporations (instrumentalities) to issue debt. Some of these obligations are guaranteed by the full faith and credit of the U.S. government, but most of them carry only a "moral obligation" of the Congress to protect investors. One advantage of these instruments, besides their generally higher yields, is that the investor can choose a specific maturity to match known cash flow requirements. Of these investment instruments, the most popular among governmental investors have been the Federal National Mortgage Association (FNMA or Fannie Mae), the Government National Mortgage Association (GNMA or Ginni Mae), the Federal Home Loan Bank, and the Federal Farm Credit Bank (FFCB).

Obligations of any corporation of the United States. Over 1,000 American corporations issue
unsecured promissory notes maturing in less than 270 days. These instruments are known as
commercial paper, and represent an alternative to government securities and depository instruments. Obviously, because these debt instruments carry no government guarantees or
insurance, they entail considerably higher credit risks. To control these risks, broad portfolio
diversification is needed. Most small LUAs are unable to properly construct a portfolio of high-quality commercial paper, with each issue representing only one or two percent of the total holdings. Accordingly, many LUAs use the LGIP or money market funds as the vehicle through which to invest in commercial paper. Several rating agencies now rate commercial paper, and LUAs should restrict their investments to the highest quality (A-I or P-I) ratings.

Prime Banker's Acceptances. To finance foreign trade transactions, several large banks issue acceptances of trade bills. These instruments are usually high-quality money market securities, and usually trade in denominations of $1 million or $10 million. Bankers' acceptances are popular, and generally are perceived as high-quality money market securities. Of course, any crisis in the international financial community could affect these instruments more than domestic bankers' acceptances. Most banker's acceptances trade in the secondary market on a discount with maturities under 60 days. Because of their large denominations, it is difficult for small LUAs to construct a properly diversified portfolio including banker's acceptances. Only banker's acceptances that are "prime" rated are allowable investments.

Georgia Fund 1 or Georgia Extended Asset Pool, the local government investment pool administrated by the Georgia Office of Treasury and Fiscal Services. Georgia law (O.C.G.A. 36-83-8) authorizes LUAs to invest in either of these pools. Any local government, including LUAs, which has resources on hand that are not immediately needed for payment of obligations can send those resources to the GF1 or GEAP for investment. These resources are pooled for investment purposes with the objectives of preservation of capital first and maximizing income second.

At the end of each calendar month, earnings are credited to the accounts of the participating
governments on a basis directly proportional to the amounts on deposit in the pool and the length of time such deposits have remained. The literature lists the following advantages of using this investment pool as follows:

- A voluntary flexible pool.
- Safety
- Higher interest rates.
- Liquidity
- Investment expertise

To participate in these pools, LUAs should contact:

200 Piedmont Avenue

Suite 1202 West Tower

Atlanta, GA 30334

Phone - (404) 656-2168

Fax - (404) 656-9048

Email - OTFSweb@otfs.ga.gov

Repurchase agreements. A repurchase agreement, despite its legal complexity, is essentially a simple, two-way transaction. An investing LUA exchanges cash to receive government securities for a specified period of time. In other words, the LUA purchases a portion of the seller's portfolio (e.g., a bank). Again care must be taken to insure that this investment can be made for overnight, for a specific term (maturity), or on an indefinite (open) basis. The interest rate paid for the use of the government's cash is determined by negotiation or bidding, and typically is related closely to the Fed funds rate on overnight borrowing in the banking network. Upon maturity, the investing LUA returns the securities and receives cash plus accumulated interest. The market value of the securities transferred to the LUA should exceed the amount invested. As a protection against fraud, the bank or dealer should not be permitted to hold the collateral securities in its own safekeeping department but should instead deliver them to an independent third-party institution.

LUAs are advised to arrange all repurchase agreement transactions through the use of a written master repurchase agreement. This document specifies the intentions, rights and obligations of both parties to the transaction, and provides remedies in the event of default. Industry experts consider a master repurchase agreement to be a vital protection against possible losses that could occur in the event of default.

<u>Obligations of other political subdivisions of the State of Georgia</u>. This type of investment in the form of bonds issued by local governments is also long-term and is not generally suited as an LUA investment.

<u>Certificates of Deposit</u>. Georgia law (O.C.G.A. 20-2-411) adds certificates of deposit as an authorized investment of LUA funds. Banks and savings and loan associations offer several instruments that can strengthen the cash management program. In fact, for years bank certificates of deposit (CDs) were the backbone of most LUAs' investment programs. As the financial marketplace becomes more complex, many LUAs are exploring additional alternatives, but many LUAs still are investing in CDs. CDs presently must mature in seven or more days.

Most small LUAs purchase non-negotiable local bank CDs, and elect maturities that coincide with payroll, accounts payable distributions or debt service payment dates. The interest rate on CDs is negotiable, although most banks post a specified rate and allow the investing LUA to "shop the market." Most institutions pay interest using a 360-day year, but many are still known to calculate interest 365-day using a year. When comparing investment yields, it becomes important to know the basis of the interest calculation.

Although the above investments are legal, local boards may as a matter of conservatism elect to limit the types of investments the superintendent may use.

A sample policy follows:

> "The superintendent may invest surplus funds in any of the following instruments (insert applicable investments from the above list)."

Relationships with Banks and Dealers. The investment policy should require a formal process be used to select depositories and broker/dealers in money market instruments. This policy is similar to that discussed above.

> "The superintendent may invest idle, surplus funds through the open market, competitive procurement process, which shall include a formal request for proposals issued every two years. In selecting depositories, the credit worthiness of institutions shall be considered."

Maturities. Generally, LUAs only invest in maturities that are one year or less (except possibly for capital project resources from a general obligation bond issue), therefore this policy area is not critical. The following policy addresses maturities:

> "Investments for all operating funds shall be made in maturities of twelve

months or less, unless a temporary extension of maturities is approved by the board."

Diversification. The primary purpose of diversification is to reduce the overall portfolio risks while attaining market average rates of return. Diversification should consider type of investment, maturity and issuer. Although Georgia law limits the types of investments in which LUAs may invest, the amount of each investment is at the option of the LUA. This policy may be a general statement of intent,

> "Assets held in the pooled funds and other investment funds shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities.
>
> - Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. treasury issues.
>
> - The superintendent shall establish strategies and guidelines for the percentage of total portfolios that may be invested in securities other than U.S. treasury issues."

Though not illustrated here, a comprehensive policy addressing diversification could limit the percent of portfolio for each type of instrument, by financial institution and by maturity.

Delegation and Authority. It is important that only selected individuals within the LUA have the authority to invest resources. If a number of LUA official have investment authority, the financial policy should address this issue. For example:

> "The responsibility for authorizing investment transactions resides with the superintendent, or designee, responsible for investment decisions and activities. Written administrative procedures for the operation of the program shall be developed, consistent with all investment policies. No person may engage in an investment transaction except upon written authorization from the superintendent, or designee."

Prudence. Simply stated, the rule of prudence is that the investment officer will not take any action that a cautious, well informed person, knowing all the circumstances, wouldn't take. It is important that the LUA's investment policy address this issue:

> "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable safety of their capital as well as the probable revenue to be derived (prudent person rule). The superintendent shall observe and apply the prudent person rule to the management of the investment portfolio."

Ethics and Conflicts of Interest. It is suggested that the investment policies address ethical conduct and conflicts of interest of LUA personnel. For example:

> "Business officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Business officials shall disclose to the superintendent any material financial interests in financial institutions that conduct business with the board, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio."

Internal Controls. Generally, LUAs should maintain strict internal controls for a variety of financial activities. The local board should require LUA officials to develop and maintain a system of internal controls. The policy also can provide for periodic reviews and monitoring of the controls. A sample policy follows:

> "The superintendent shall establish a system of internal controls for investments, which shall be documented in writing. The internal controls shall be reviewed by the investment committee and with the independent auditor. The controls shall be designed to prevent losses of funds arising from fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by employees."

Investment Committee. Often, boards may not have the investment expertise to monitor an investment portfolio. Therefore some LUAs, usually the larger LUAs, have instituted investment committees. This committee might consist of board members, employees, and volunteer experts from the private sector. An investment committee policy might include the following:

> "There is hereby created an investment committee consisting of (designate membership by title) who shall be appointed by the board chairperson. Members of the investment committee shall serve without compensation and shall meet at least quarterly to determine general strategies and monitor results. All written investment policies shall be approved by the investment committee before being presented to the board."

Safekeeping and Custody. Local board members will feel more secure about the LUA's investments if they know that the securities are physically safe. Investment policies typically include a clause regarding third-party safekeeping and custody of securities and collateral.
A sample investment policy follows:

> "All investment securities purchased by the local unit of administration (LUA) shall be held in third-party safekeeping by an institution designated

as primary agent. The primary agent shall issue a safekeeping receipt to the local board listing the specific instrument, rate, maturity and other pertinent information."

Collateralization of investments/deposits. Georgia law (O.C.G.A 45-8-12) provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral in an amount of not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. However, Georgia law (O.C.G.A. 45-8-11) provides that an officer holding public funds may in his discretion, waive the requirement for security in the case of operating funds placed in demand deposit checking accounts.

Georgia law (O.C.G.A. 50-17-59) prescribes the acceptable security for deposit of LUA funds as follows:

1. Surety bond signed by a surety company duly qualified and authorized to transact business with the State of Georgia. See http://www.fms.treas.gov/c570/c570_a-z.html to identify companies.

2. Insurance on accounts provided by the Federal Deposit Insurance Corporation (FDIC) limited to $100,000 per account.

3. Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States of or the State of Georgia.

4. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.

5. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.

6. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia,

7. Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

Performance Evaluation. Yield objectives are important. The investment policy should require a formal reporting system to evaluate performance.

> "The quarterly and annual investment reports submitted to the board shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program. Every three years the superintendent shall retain an independent firm to evaluate investment performance. The purpose of this evaluation shall be to obtain suggestions for improved future performance, and to verify that investment officials have acted in accordance with the investment policy and written investment procedures."

CASH CONTROLS AND REPORTING SYSTEMS

Cash control and reporting systems, vital to the operations of all cash management programs, should have three objectives:

- To assure the recording of cash receipts and disbursements on a timely basis;

- To assure that sufficient funds are on hand to meet operational and capital expenditure needs; and

- To facilitate the investment of idle cash to maximize revenues, thus permitting an increase in the level of service provided by the LUA or the setting aside of funds in reserve for future needs.

By accurately reporting cash on hand and facilitating the forecasting of cash flows, cash control and reporting systems can help to identify surplus cash and potentially boost investment earnings. It is sometimes observed that only large LUAs can afford to establish and maintain an effective cash control and reporting system, but this notion is entirely mistaken. While larger LUAs must have a control and reporting system to simply account for their greater resources, smaller LUAs have an even more critical need since they lack the margin of safety and greater tolerance of error of larger LUAs. An overlooked investment opportunity, while unfortunate for a large LUA, may be disastrous for a smaller LUA because of its relatively greater dependence on each resource.

Because of the risk inherent in handling cash and investments, internal control is an important consideration, especially for smaller LUAs with fewer personnel. Independent auditors consider an adequate internal control environment essential for the reliability of financial statements.

The ability to maintain an adequate cash flow and properly invest surplus cash is one of the most important cash management functions. Cash reporting systems facilitate the performance of this function, and have the following components, each interacting and relying on the other:

- A cash accounting system;

- An investment and interest apportionment accounting system; and

- A reconciliation reporting system of cash and investments consisting of bank reconciliations and treasurer's reports.

The above concepts are discussed in Chapters III-1 andIII-2.

COLLECTION, DEPOSIT AND DISBURSEMENT PROCEDURES

An effective cash management program will maximize the amount of surplus cash available to an LUA. By maximizing the amount of surplus cash, an LUA can increase its investment earnings and reduce the property tax burden. Effective collection methods are those that speed up the collection and deposit of revenues due the LUA.

Effective disbursement methods, on the other hand, are those that slow the outflow of cash from an LUA. New technologies, particularly in the data processing and telecommunications areas, have had a significant impact on cash management during this decade. Electronic funds transfers or machines that read scannable documents can improve the efficiency of the collection process and enable LUAs to disburse funds to their creditors at the appropriate time, thereby increasing the amount of cash available for investment and possibly boosting investment earnings.

Collection Procedures

The major goal of any revenue collection system is to increase the amount of surplus cash by speeding collections to an LUA's bank account. Funds cannot be invested until checks that are deposited in an LUA's bank account are presented to the bank on which the checks are drawn. At this point, check deposits become usable cash, or collected funds. Until the LUA has usable cash, the checks deposited are considered deposit float. For the purpose of investment it is better that checks and other receivables be deposited in a single account, such as a concentration account (a concentration account is explained later in this chapter). The slow processing of such items can result in foregone revenue opportunities.

Improved collection efficiency can be accomplished in a number of ways. This section discusses the different types of collections, how LUAs can make effective use of staff, and improving the efficiency of the collections process. The first step in developing effective collections procedures is to identify the various types of collections. This is important because different types of collections place different demands on staff time. There are generally four types of collections:

- Collections driven by services provided;

- Collections dictated by state or local law;

- Immediate and unpredictable collections; and

- Federal or state grants.

Collections driven by services provided by the LUA generally involve the generation of an invoice to be returned with payment. Some examples are tuition, building rentals and some school food revenues. There are three ways to bill for these types of recurring services:

- Pre-billing before the service is delivered;
- Billing upon service delivery; and
- Billing after service has been provided.

The second type of collections is the result of various state or local laws and are collected on a periodic basis. These could be property taxes and earnings from the Quality Basic Education Act (QBE). These receivables involve much larger dollar amounts per transaction than other types of collections. The timing of their collection is determined by state law.

LUAs also receive monies from immediate and unpredictable collections. These receipts will be for such items as sale of capital assets, insurance and damage recoveries, and reimbursement for lost and damaged textbooks. Most of these involve smaller dollar amounts and represent a small percentage of total LUA collections.

The last major type of collections is those from the federal or state governments in the form of grants or other assistance. In such cases, the revenue stream may be of a limited duration and is usually governed by time of year or month.

LUAs may want to explore methods to speed up the collections process. However, the only real option, since the QBE payments are determined by state law, is to work with the tax commissioner to ensure that taxes are remitted to the LUA as frequently as possible. See Chapter III-1, Cash Receipts, relating to laws that tax commissioners must comply with.

LUAs not only must increase the speed of the collection of LUA receivables and revenues but also increase the speed of funds deposit, as interest does not begin to be earned until funds have been deposited in an interest-bearing bank account or used to purchase an investment security. The traditional system of collecting and depositing LUA revenues involved LUAs collecting the revenues and then depositing them in a bank account. That method of depositing LUA monies has been altered in the last decade, with the collecting and depositing of funds occurring almost simultaneously.

No longer does it have to take days for LUA revenues to be deposited in the bank. Today banks often collect much of the revenue due an LUA and credit LUA accounts almost immediately.

Deposit Procedures

By increasing the speed of the collection and deposit process LUAs can increase the amount of surplus cash and possibly improve investment earnings. There are three steps LUAs can do to achieve these objectives:

- Reduce float in receivables;
- Collect accurate accounting information;
- Take advantage of lock box processing;

The receipt of LUA revenues can be accelerated by reducing the float that occurs in checks received. There are three types of deposit float:

- Mail float
- Administrative float
- Collection float

Mail float is the amount of time a payment remains in the mail system until the LUA has physical possession of the check. Mail float can be reduced by assigning post office box numbers for LUA receipts. Mail float can further be reduced by multiple pick-ups throughout the day that bring items into the processing stream faster. However, because of the type of revenues LUAs receive, this method of reducing mail float is not practicable.

It is very important that grant funds from the Georgia Department of Education be received and deposited as quickly as possible. The system uses the automated clearing house (ACH) to electronically credit the QBE earnings to each LUA's bank account on the last working day of the month except those months when the funds are transferred earlier to accommodate school vacation periods such as Christmas and Thanksgiving holidays. All other grant funds are electronically transmitted weekly.

If an LUA changes its bank account, notification in the form of a preprinted deposit slip or bank letter identifying the new bank and account number should be sent to the Georgia Department of Education, Grants Accounting Unit, 1652 Twin Towers East, 205 Jesse Hill Jr. Drive, SE, Atlanta, Georgia 30334-5050, by the tenth calendar day of the month in which the change is made. Changes received after that date will be effective the following month.

Administrative float is the amount of time necessary to process the check, and is totally under the LUA's control. Because of the limited revenue sources in LUAs, this type of float should be minimized by the prompt deposit of all collections. Whether the LUA accounting system is a paper-based general ledger system or a computerized system, there is often a time delay before checks are deposited into the LUA's bank account. From a management point of view, it is imperative to determine what information must be collected before a check can be deposited. If staff can work from a photocopy or a scanned electronic copy of the check long after the check has been deposited in the bank, the process of collecting and depositing checks can be accelerated while, at the same time, the necessary updates to the LUA's accounting records are provided on a timely basis.

Collection float is the amount of time taken by the bank to credit an LUA's bank account after a check has been deposited. In other words, the time necessary for an LUA to receive collected funds (the payor's check has cleared the bank). Collection float is a function of banking procedure. LUAs should request a bank's availability schedule which states how long checks must be deposited with the bank until the LUA has available funds.

Lock box collections involve the interception of the designated revenues of an LUA by one or more third parties, usually a bank, to pick up remittances addressed to a specific post office box number assigned by the LUA. Lock box processing is used for high volume, daily collections and is not suited for LUAs.

Disbursement Procedures

The major goal of an LUA's disbursement system is to slow the payment of funds so that the maximum amount of monies are available for investment for the longest possible time period, while at the same time ensuring that timely payments are made.

By taking advantage of disbursement float, which is the period between the time when a check is prepared and the time when it is presented for payment. Utilizing effective disbursement procedures, LUAs can accomplish this objective. Developing an efficient disbursement system requires:

- An analysis of disbursement patterns; and
- Efficient management of disbursements.

Disbursement Patterns. An analysis of disbursement patterns can help LUAs identify disbursement float and opportunities for greater investment. Determination of payment due dates is a key component of effective disbursement management. The intent of the LUA should be to pay all invoices on time. On time means on the due date, not before or not after.

An analysis of payment due dates will identify disbursement patterns. Some of the larger payment patterns revolve around the salary disbursements, utility payments, debt service and large vendor or service providers to the LUA. This analysis will be helpful for the following reasons:

- It will determine the in-house lead time needed to prepare a disbursement document.

- It can match large disbursements with investment maturities.

- It will maximize the time before payment is due except when prepayment discounts are cost-effective.

By taking advantage of the disbursement float LUAs can potentially boost investment earnings. Disbursement float has three components:

- Delivery float - the time it takes to deliver a check to the payee after it has been prepared for disbursement.

- Processing float - the time it takes for an LUA to process an invoice for payment.

- Transit float - the time that it takes a check to clear the banking system, from its deposit to its deduction from an LUA's account balance.

The efficient and effective disbursement of funds requires the use of effective disbursement procedures and the effective management of an LUA's banking arrangements. Once a data base of due dates has been established and estimates of disbursement float developed, it is necessary to determine the most cost-effective way to manage disbursements. The two main ways LUAs disburse funds are through:

- Commercial bank checks.

- Electronic Funds transfers.

Commercial Bank Checks. A commercial bank check is still the most widely used disbursement mechanism employed by LUAs today. A check is simply an order to pay money on demand to the payee from the LUA's bank account. It is not cash, but rather a credit instrument that is presented for cash.

Electronic Funds Transfers (EFT). EFT move resources between banks electronically. Because resources can be moved almost immediately, payments can be made to vendors at the last possible moment, allowing cash balances to remain for a longer time in an LUA's central bank account. EFT are particularly useful with large payments such as for debt service and construction contracts.

Other Disbursement Alternatives

One of the keys to increasing investment earnings is to centralize all LUA finds in a single, centralized bank account. In most cases LUAs will want to utilize a concentration/zero-balance account system. Under this system a concentration account is established to hold the LUA's available funds, while a number of other accounts, containing zero balances, are set up to handle disbursements. As checks are presented for payment, these disbursement accounts are drawn upon. At the end of each business day, funds are transferred electronically from the central account to the disbursement accounts to cover checks presented throughout the day. Excess funds remain in the master account of the LUA to pay banks for services. This balance is known as a compensating balance.

Direct deposit of payroll is one of the original electronic technologies available to LUAs. In direct deposit of payroll, a data file is generated by an LUA and given to a commercial bank before the disbursement date. The commercial bank then transmits the data to the local automated clearinghouse house (ACH) and moves funds from the LUA's account to the recipient's account on the designated business day.

CASH FORECASTING

Cash forecasting is an important, but often overlooked, component of an effective cash management program. Cash forecasts are projections of anticipated receipts, disbursements and cash balances over a certain period of time, typically a year. An accurate cash forecast is an important cash management tool:

- It can improve investment earnings by forecasting the amount of cash that will be available for investment and for what time period;
- It can identify temporary cash deficits that require short-term debt financing.
- It can ensure liquidity by providing estimates of the amount of cash on hand for timely disbursements;
- It can enhance credit worthiness, through improved cash management practices, thereby reducing the costs of borrowing to debt issuers; and,
- It can warn of impending problems with the annual fiscal budget through the identification of potential revenue shortfalls or unexpectedly large disbursements that could result in budget deficits.

There are certain difficulties in cash forecasting:

- A tendency to think in terms of budget years, rather than actual dates of cash receipts and disbursements.
- The unpredictability of revenues and expenditures.
- Inadequate time and staff for the collection of the necessary data.
- Failure of key supervisors and principals to recognize the benefits of a

successful cash management system.

While all cash forecasts estimate an LUA's cash position over a period of time, they differ in the period for which cash position is measured. The three most common are annual, monthly and weekly forecasts. At the least, cash forecasts should be prepared on an annual basis with cash position estimated monthly. More frequent cash forecasting will depend on a number of factors, including:

- The time and resources available and the user's sophistication;
- The amount of funds under management and other characteristics of an LUA's cash flows;
- The desire to improve the cash management program;
- The need for accurate information regarding cash position.

Annual Forecasts. Annual cash forecasts provide monthly estimates of cash position, including the level of positive and negative cash balances. They are useful in determining the amount of cash available for investment in instruments with maturities of 30 days or more.

Monthly Forecasts. Monthly cash forecasts provide weekly estimates of cash position. They can be used to monitor the accuracy of the annual forecast and are useful in making decisions involving investment instruments in the 0-90 day range.

Weekly Forecasts. Weekly forecasts provide daily estimates of cash position. They can be used to monitor the accuracy of the monthly forecast, and can be used for investment decision making involving instruments with maturities of fewer than seven days. The daily monitoring of cash position can improve investment opportunities and lead to greater investment earnings.

Preparing a Cash Forecast. An LUA's future cash position can be estimated through an analysis of historical patterns of receipts and disbursements and of budgeted revenues and expenditures.

The receipts and disbursements that flow to and from an LUA can be characterized as either recurring or nonrecurring. Recurring flows are regular and predictable. The timing and amount are usually known well in advance of their occurrence. In Georgia LUAs, examples of recurring flows are receipts from the state for QBE, and local property taxes and disbursements for salaries and benefits and taxes. Disbursements for vendor payments are recurring but will have larger disbursements at the beginning of the fiscal year as a result of heavy purchasing to prepare for the new school year.

Nonrecurring flows are irregular and unpredictable. The timing and amount are usually not known very far in advance of their occurrence. Examples of nonrecurring flows are receipts from the sale of an LUA's assets and disbursements for capital projects.

Accurately forecasting the timing of disbursements for these projects will be the biggest challenge facing LUAs in the development of the cash forecast. In constructing a cash forecast, information must be gathered on these flows. Information can be obtained from a number of sources including the following:

- Monthly financial reports for the previous three years (or five years if needed) that include revenues by type and amount and expenditures made by type and amount;
- The current year fiscal budget for both revenues and expenditures;
- Capital project spending projections;
- Debt service expenditures if applicable;
- A summary of maturity dates for the current investment portfolio.

The object of forecasting receipts is to determine the level of tax and non-tax revenues an LUA can expect to receive by month (or some other period, e.g., week) over the course of the fiscal year. In order to accurately forecast receipts, LUAs need to gather information from two sources, the current fiscal budget and monthly financial reports from prior years. A rule of thumb is to evaluate only those sources that account for 15 percent or more of an LUA's total revenues; the rationale being that the other revenue sources will not have a significant impact on the cash forecast. This usually means that only four or five revenue sources will be studied. Projecting revenues for QBE funds, property taxes, federal grants and other revenue should be adequate to project cash receipt.

The object of forecasting disbursements is to determine the amount of disbursements an LUA
may expect to make by month over the course of a year. While all disbursements should be considered in the development of the cash forecast, there are several of prime importance, including:

- Salaries and wages
- Taxes withheld
- Employee benefits
- Debt service
- Capital expenditures

- Materials and supplies
- Utility payments
- Other expenditures

LUA departments and schools must assist in the development of a report that estimates disbursements by month for both recurring (such as for payroll) and nonrecurring (such as for capital projects) items.

The business official should evaluate the report of projected monthly expenditures in light of the LUA's past expenditure experience, and determine whether those projected expenditures are reasonable. Then, using expert judgment and the information at hand, a forecast of disbursements by month should be created.

BANKING RELATIONS

The success in establishing banking relations will be determined to a large extent by political considerations and capabilities of the banking community as well as the ability of the LUA to develop the best banking arrangement.

The first step in selecting the best mix of financial services is to define the available banking services. They generally consist of the four types of services:

- Collection
- Disbursement
- Investment
- Credit

Collection Services

As discussed earlier in this chapter, collection services have a primary objective of accelerating cash receipts. Banks provide a number of services designed to improve the processing of funds into an LUA. Acceleration of cash receipts is achieved by a reduction of the collection float. Electronic wire transfers and lock box systems are the two services sometimes used by LUAs. The primary objective of these services is to accelerate the availability of funds by decreasing the collection float.

Banks accept all checks subject to funds being received from the remitter's bank. Most banks, however, provide credit before the funds actually are received. This important feature should be required of banks competing for the LUA's business.

Electronic Funds Transfers (EFT) provide an excellent means of accelerating receipt and deposit of large incoming payments. Used in lieu of checks, transfers involve the electronic transmission of payments from one bank to another through the Fedwire Funds Service (the Fedwire). The Fedwire is used for several important reasons: transaction costs are generally less; there is daily settlement between banks; all banks may participate; and security of the transfer is guaranteed by the Federal Reserve, rather than by the participating banks.

Disbursement Services

Electronic funds transfers (EFT) can be utilized for delaying disbursements in much the same manner as they are used for accelerating collections. Electronic funds transfers, as compared with checks, will reduce the disbursement float rather than lengthen it, since EFT provide an additional time period in which the funds can remain invested before the transfer is made. EFT often are used for large debt service payments or large contractor payments.

Another very important usage of EFT is the initiation of investment transactions outside the local area. When an LUA wants to purchase certificates of deposit from banks in distant large urban areas (e.g., Atlanta), it will need to electronically transfer the appropriate funds. Automated Clearing House (ACH) systems can be used to process electronic payments. To date, ACH has been used primarily in the direct deposit of payroll; however, some districts use this method of disbursing travel reimbursements and reimbursements for flexible benefit plans. Direct deposit of payroll is convenient and a benefit to the employees. A concentration/zero-balance account (ZBA) structure is an excellent tool for managing disbursement float. As the name implies, all balances are maintained in the concentration account. Checks are presented against the various ZBAs which have zero balances, thus causing the ZBAs to be overdrawn by the amount of checks presented. At the end of each business day, or early the next day, funds automatically are transferred from the concentration account to each ZBA so that their balances become zero.

Ideally, the transfers from the concentration account to the ZBAs should be done automatically during the evening of the day the checks are presented. This should not present any problems, as long as the daily balance reporting system shows the transfer as having occurred and the ZBAs with zero balances. ZBAs can be established for any type of payment, the same as regular checking accounts. Typically, ZBAs are established for accounts payable and payroll. More accounts can be added, or if desired, all accounts combined into a single ZBA.

Daily deposits, regardless of the collection method, generally are deposited into the concentration account. Those deposits that are not immediately available (i.e., collected funds) will remain in the concentration account unusable until they become available. A concentration account containing both available and unavailable funds can be difficult to manage.

Funds within the concentration account can be used for either disbursement or investment, provided they are available. Any funds not needed for disbursing can be invested, either overnight or over a range of maturities. Many LUAs invest a certain percentage, or a certain amount of the available investment funds in an overnight or open repurchase agreement for liquidity purposes. Good cash management programs accelerate receipts, delay disbursements, and minimize idle balances; however, the investment practices provide the real measure of overall effectiveness. LUA should pursue a good investment program with the same zeal that goes into developing a good cash management program.

Investment Services

Investment services and specific investment techniques are available to LUAs to assist them in their investment programs. Most LUAs are accustomed to dealing with their local banks for investment services. A key issue within the investment services area is whether these services are used by LUAs more for political than for economic considerations.

Although banks offer various types of investment services to LUAs, it is widely recommended that LUAs retain the investment responsibility for themselves, or seek independent advice from an investment banker. Contracts for banking services should expressly state that the LUA reserves the right to make investment decisions with any bank or brokerage firm it chooses. Shopping for investment services should be kept separate from shopping for other banking services.

LUA officials should never lose sight of the fact that the investment services offered by banks can be accepted or rejected. LUA officials should not hesitate to consider all alternatives when they are shopping for investment services.

In evaluating these services, LUAs are encouraged to consider national money market yields and other opportunities that are available outside the local banking community.

Financial Advisory Services

Financial Advisory services are available to LUAs that borrow money for short-term (e.g., through tax anticipation notes) or long-term purposes (i.e., through general obligation bonds). Generally, these services can range from direct loans to support functions relating to the administration of an LUA's bond issue.

Negotiating For Banking Services

Almost without exception, competitive bidding will prove beneficial to LUAs and some of the benefits that can be obtained through competition are:

- Additional interest earnings resulting from improved yields if investments are separated from routine banking services;

- Additional interest earnings resulting from an overall increase in amounts available for investments through better use of a bank's collection services;

- Additional bank services available for the same amount of bank service charges or compensating balance currently remaining at the bank;

- Reduced bank service charges or compensating balances as a direct result of the competition; and/or

- An overall increase in efficiency of cash management operations.

There also will be certain costs associated with competitive bidding. These may include:

- Costs related to the bidding process (e.g., staff time, legal fees, advertising, and possible use of consultants);

- Costs incurred when changing established procedures (e.g., forms, computer software, training, and errors arising from misunderstandings and unfamiliarity with the new procedures).

Generally, the competitive bidding process will include the following steps:

- Review present system and determine what bank services are desired and available;

- Prepare a request for proposal (RFP) and distribute to all banks in the designated area (city, county, region, or state);

- Hold a pre-bid conference for all potential bidders to answer questions and to clarify the RFP;

- Banks prepare and submit proposals;

- Evaluate proposals;

- Recommend the best proposal to the local board;

- Award contract to the approved bank;

- Execute a banking services contract; and

- Implement the contract.

Money Market Funds

Though not classified as an investment instrument, some LUAs utilize money market funds. Like their retail counterparts, several investment companies offer institutional money market funds to governmental investors. Mutual funds are regulated by the Securities and Exchange Commission (SEC). Most funds require delivery versus payment for their portfolio, and conduct transactions through electronic funds transfers so that the portfolio managers and officers never have access to the client's cash. So although they carry no federal guarantee, money market funds are an extremely safe way to invest short-term cash.

However, care must be taken to insure that the money market fund that the LUA uses only invests in securities which are allowed by Georgia statute. Unfortunately, many money market funds invest a portion of their portfolios in securities not allowed for Georgia LUAs. Usually, only money market funds that invest exclusively in government securities should be used.

Money market funds seek to maintain a constant $I net asset value. Under SEC-regulations, the funds must maintain an average maturity of less than 120 days, although in practice most maintain portfolio maturities averaging 30-60 days. No single instrument can be purchased with a maturity of more than one year.

INVESTMENT SAFEKEEPING

Georgia statutes require all LUA investments to be fully collateralized. Prudent LUAs avoid several risks by arranging for their investment securities to be held by an independent third party-somebody different from the bank, dealer or investment company who sells securities to you. Although dealers and local bankers may attempt to discourage you from implementing sound safekeeping practices because it raises their costs, it is important that you act to protect the public's interest. The following general guidelines apply to different investment instruments.

- *Government Securities* - Ownership of U.S. Treasury securities and some federal agency securities is recorded by computerized "book entry" on the records of a Federal Reserve Bank. The custodian bank usually will be listed on the Fed's book entry system, with the LUA ownership shown as "customer account" or "trust account." LUAs generally cannot have their own name shown on the book-entry system. Therefore, it is very important that ownership be placed with an independent party-either a financial institution other than the one acting as seller, or possibly in the trust department of a local bank (provided there is a written trust agreement). A written safekeeping confirmation should be provided for each security held by the custodian.

- *Repo Collateral* - Securities purchased under a repurchase agreement (repo) should also be delivered to an independent custodian or a bank trust department, subject to a written safekeeping/custodial agreement. LUAs should avoid "hold in custody" repos, in which the dealer or bank holds the collateral with no segregation and independent verification to protect the customer.

- *Deposit Collateral* - To protect public deposits, some states require each bank to segregate LUA securities. Collateral usually can be transferred to a Federal Reserve Bank or to a third-party bank, which protects the LUA against financial failure.

- *Mutual Funds* - Most mutual funds employ independent bank custodians for their portfolio safekeeping. Before investing in a money market mutual fund or a short-term LUA bond mutual fund, investors should verify:

    - Whether the portfolio is held by an independent custodian.

    - Whether the fund requires delivery versus payment in its portfolio transactions.

    - Whether the fund purchases insurance against fraud, embezzlement and computer errors.

These protections are offered by many mutual funds and should not be overlooked.

Summary

Managing cash and investments is a critical function of LUAs. It is important to safely earn a return on available funds while at the same time meeting required disbursement deadlines. It is important for LUA staff to be aware of state laws and accounting requirements related to cash in investments prior to setting investment policies. Many alternatives exist for earning returns on public funds; however, care should be taken to understand investments purchased.

Chapter IV – 7 Implementing A Capital Asset Management System

NATURE AND PURPOSE OF CAPITAL ASSET MANAGEMENT SYSTEMS

According to GASB *Codification,* Section 1400.103, capital assets include “land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.” Infrastructure is defined as “long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.” Examples of infrastructure include roads, bridges, water and sewer systems, dams, and lighting systems.

GASB Statements 87 and 96 expand capital asset recognition to include right to use assets obtained through lease transactions. GASB Codification L20.102 defines a lease as “a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.” Examples of nonfinancial assets include buildings, land, vehicles, and equipment.” GASB 96 adds Subscription Based Information Technology Arrangements (SBITAs) to capital lease recognition. GASB Codification S80.103 defines a SBITA as “a contract that conveys control of the right to use another party’s (a SBITA’s vendor’s) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.” Examples of SBITA’s include ERP Systems, Office 365, cloud services, Zoom, Google Drive, Google Docs, etc.

Capital assets generally are the most visible expenditures a local unit of administration (LUA) incurs. Today, as taxpayers go about their daily business, they see reminders of their school tax dollars at work through schools, school buses, land, and use of software systems that provide specialized communications and student records.

Inadequate capital asset records are one of the major causes of deficiencies in financial statements of LUAs. Because all Georgia LUAs must have annual audits, failure to install and maintain a capital asset management system may be cause for a modified opinion in the auditor's report.

Why is a Capital Asset System Necessary?

There are numerous reasons why every LUA should have implemented an effective capital asset management system. The degree of sophistication of the system and the number of features of the system will depend on the size of the LUA and the goals and objectives of its management.

Reasons why LUAs should establish and maintain capital asset management systems include:

1. Governmental accounting standards require inclusion of general capital assets, as well as capital assets used in business-type activities in the government-wide financial statements. Proprietary and fiduciary fund financial statements should also include capital assets.

2. Presentation of financial statements in accordance with generally accepted accounting principles allows the LUA to participate in the Government Finance Officers Association’s

(GFOA) Certificate of Excellence in Financial Reporting program or Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting Program.

Proper financial statement presentation satisfies debt underwriters and other creditors.

3. These systems facilitate preventive maintenance on buildings, furniture and equipment, and other assets.

4. Capital asset records improve risk management by providing records for replacement in the event of loss.

5. Historical cost data on capital assets helps plan for future capital expenditures (see Chapter 33 for a discussion of capital budgets).

6. Capital asset records facilitate federal grant compliance related to capital assets purchased with grant funds.

7. These systems increase the likelihood that surplus property is properly disposed of or sold for an appropriate sales price.

8. Depreciation calculation is simplified.

Beginning the Development of a Capital Asset System

One way to start the project is to present a staff report to the school board of the LUA. This staff report might include:

- Problem statement – why have capital asset records?
- Background – last inventory and appraisal or need to conduct one or both.
- Objectives of system.
- Alternatives to achieve objectives.
  - Use of in-house personnel.
  - Use of outside consultants.
  - Joint effort with in-house personnel and outside consultants.
- Recommended course of action to achieve objectives.

The balance of this chapter will discuss how to design, implement and maintain such a system.

PLANNING

A proper planning effort is essential to minimizing the cost and time involved in establishing capital asset inventory records. Proper planning ensures that your system:

- Meets external financial reporting requirements.
- Meets the needs and requirements of all departments and schools within your LUA.
- Can be maintained properly so that the data will remain useful over the life of the system.

Improper planning will result in capital asset data that is not timely, accurate, or complete. The primary steps necessary for establishing a capital asset inventory system include the following:

1. Develop Capital Asset Policies.
2. Define System Requirements.
3. Create a Capital Asset Coding System
4. Implement the System
5. Conduct the Physical Inventory.

1. Develop Capital Asset Policies

Establishing and documenting capital asset accounting policies before creating capital asset inventory records is critical. Key policies provide general guidance to ensure proper system design. The policies should be established first since they affect other steps. Policies determine many system and procedural requirements. If not established first, the capital asset records will drive the setting of policies rather than vice versa. A policy or steering committee composed of senior level managers (e.g., department directors, principals), with the authority and responsibility to make policy decisions should be established to address policy issues.

Policy decisions should include:

- Capitalization threshold cost (amount at which a qualifying purchase is classified as a capital asset).

  Section 702, *Valuation of capital Assets Other Than Intangibles,* of the PPC Guide discusses considerations when setting the capitalization threshold. While most governments do maintain an inventory list that includes every capital asset acquired or constructed, most report for GAAP purposes only those assets that exceed a specified cost. When setting the threshold for capitalization, the LUA must consider what capitalization level is reasonable for their size. What is the materiality threshold for the government-wide and major fund reporting? What threshold is necessary to meet the federal reporting requirements as established in the Federal Uniform Administrative Regulations? At what level will small value assets be maintained for inventory tracking for those assets that do not meet the capitalization threshold?

Typically, two criteria are apparent when determining the LUAs capitalization policy, the cost of the asset and its estimated useful life.

A school board's capitalization policy must meet state and federal requirements.

- Asset categories (land, buildings, equipment, etc.)

The various sizes of LUAs and the quantities of various kinds of capital assets will justify the number of classifications used. In all instances, the number of classifications should be minimized. The general intent is that when any kind of equipment is present in such quantity to represent a significant portion of the overall value (e.g., buses), it should be classified separately.

Sub-classes of major asset classes often are used. The major class usually equates to the general ledger accounts used. However, the emphasis should be limiting the number of accounts and classifications in relationship to the potential problems and confusion that can arise from voluminous accounts and classifications.

Capital assets usually are classified into seven major groups: buildings, machinery and equipment, improvements other than buildings, land, construction in progress, intangibles, and right to use leases.

• Buildings

The buildings account usually includes the value of all buildings at invoice price or construction cost, as applicable. Sub-classes usually are by type of construction or by building component. The cost should include all charges applicable to the building including brokers', architects' and engineers' fees. For proprietary fund type capital assets the net interest cost on borrowed money during the construction period should be capitalized. Interest costs related to construction of general capital assets are not capitalized.

For a donated building, appraised fair market value at time of donation should be used. Additions and improvements to buildings (e.g., a new heating and ventilating system) should be added to the building account when these costs are considered betterments as discussed in Chapter 16. Burglar alarms may also be included in the building classification.

• Machinery and Equipment

The machinery and equipment account should consist of property that does not lose its identity when removed from its location and is not changed materially or expended in use. The sub-classes are many and varied for machinery and equipment. A sub-class such as data processing equipment might be sub-divided into more detailed items (e.g., terminals, printers). An LUA's capitalization policy will determine the items to be included in this account. This property should be recorded at cost, including freight, installation and other charges incurred to place the asset in use.

• Improvements Other Than Buildings

The improvements other than buildings account should be used to record the costs of infrastructure assets. These are public domain assets such as sidewalks, streets, curbs, etc. Sub-classes often are determined by types of improvements. The costs included here include paving, fencing, concrete walks and steps, lighting, plumbing, irrigation, signs, flagpoles, bleachers, ballpark improvements, walls and fountains. Usually, values can be recorded on a "cost of construction basis." Items not included are landscaping, demolition, land acquisition, which is included in the land section, and movable equipment such as picnic tables that are included in the equipment classification.

• Land

The land account usually includes all land purchased or otherwise acquired by the LUA. The land account usually includes no subclasses. Purchased land should be carried on the records at cost. All expenses for legal services incidental to the acquisition and other charges incurred in preparing the land for use also should be included in the cost (e.g., building demolition). Donated land should be recorded at the appraised market value at the time of donation.

If a building is present on land at time of acquisition, the value of the land should be determined, and only that amount carried in the land account *and* the building carried in the building account. Costs relating to the razing of a structure and other costs relating to the land normally are capitalized and carried in the land account.

• Construction in Progress

The construction in progress account should be used when an LUA reports amounts expended on an incomplete construction project. Three sub-classes such as buildings, improvements and equipment might be used. When the project is complete, the amounts here should be transferred to the appropriate asset classes.

• Intangible Asset

The Intangible Asset account should be used to document purchases of assets lacking physical substance, nonfinancial in nature, and possessing a useful life extending beyond a single reporting period. Common types of intangibles include easements, land use rights, water rights, timber rights, mineral rights, patents, trademarks, copyrights, and purchased computer software, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.

• Right to Use Lease

The Right to Use Lease account should be used to document multi-year lease agreements that convey the right to use an asset without a transfer of ownership at the end of the lease to the LUA. There must be an exchange of equal or close to equal value. Right to Use assets could be leased buildings, equipment, and subscription-based software agreements.

- Tagging policy

Positive identification of an LUA's capital assets, a must for inventory, requires the use of a tagging system. Great emphasis is being placed today on accurate maintenance of property records. This emphasis has resulted in increased interest in the numbering or tagging of capital assets. While tagging appears to be a simple management undertaking, it can develop easily into a time-consuming, costly and often frustrating task. The total involvement of the LUA's management team is needed if a tagging system is to be maintained.

Which assets to tag is influenced by the purpose for which tagging has been established. If accounting problems alone are involved, the decision may be to control only major installations, major pieces of equipment and vehicles and large motors, because these assets represent the largest amount of capital outlay.

If property accountability is the desired purpose, the tagging operation may be applied to smaller items of equipment. A selected dollar threshold might be established for tagging which may or may not be consistent with the capitalization policy for these controllable items. The inventory system used may dictate which items to tag.

Careful consideration should be given to the cost to tag and control capital assets. Consider if it is important to identify an individual asset from other similar assets and will the records be changed each time the asset changes location. If it is important, then tagging should be considered.

See Practical Aspects of Tagging, page IV-37-16 for more details.

- Controlling Noncapitalized Items

Items falling below the capitalization threshold may require control due to risk of theft, to ensure legal compliance, or to avoid potential liability. In these circumstances, items should be identified and responsibility assigned to specific individuals within departments for maintaining associated records. Control would include maintaining a listing of items, periodically inventorying items, and communicating to the accounting function that detailed records of the items are current and kept within the department.

- Frequency of Inventory

The LUA should set a policy for how often a physical inventory should be conducted. Consideration of funding methods and associated requirements should be made when determining frequency. US Government Accountability Office (GAO-02-447G) recommends "The most desirable goal would be to count all of the inventory items at least once a year." Whereas, fWhereas, federally funded acquisitions, 2 C.F.R. 200.439 (d)(2) states that “a physical inventory of the property must be taken and the results reconciled with property records at least once every two years.”

Disposition of Property

Include a requirement that surplus capital assets will be sold by advertised auction or sealed bids.

- Gifts and Donations

Include a statement that capital assets received by gifts or donations that meet capitalization thresholds must be added to the capital asset management system and valued at fair market value at the time of donation.

- Federal Property

Include a statement that capital assets funded with federal grants will be identified as such and reporting requirements of grant will be followed.

2. Define System Requirements

A survey should be conducted of all of the departments and schools as to their capital asset information needs. This allows for a review of all accounting requirements and a determination of both internal management and external information needs. The requirements should determine numbers and types of assets which are needed in the capital asset records to satisfy internal and external reporting requirements.

Failure to do so can cause several problems. Reports may be required and defined for which the necessary data elements are not available. It may be necessary to repeat portions of the inventory effort in order to obtain the value for data elements that were not identified initially to be part of the capital asset records. The selected computer software may be unable to process data elements identified after the selection. Distinguishing between critical data and information that would be nice to have is an important consideration.

3. Establish a Capital Asset Coding System

Adherence to a standardized group of appraisal accounts and classifications promotes uniformity, consistency and systematic compilation of data. A system of logical classifications and codes is essential to the maintenance of any capital asset accounting system, automated or manual. The system, when complete, should have the ability to present an accurate status of any group or class of capital assets at any point in time. This can be accomplished only when codes and classifications of capital assets are in place. These standards should be concerned primarily with asset classification, source of funds, property identification number and any other coding considerations. The coding system will be built upon the survey of user needs and the determination of data elements. The amount of data tracked for each asset may vary widely.

For all except the smallest LUAs it will be advisable to maintain the capital asset inventory records in a computerized format. Most systems have acquired software for this purpose.

4. Implement the System

To successfully implement a capital asset management system, one must:

- Obtain support from top management.
- Consider any desired data element or activity in relationship to the maintenance of the system.
- Delegate to the lowest practical organizational level.

5. Conduct the Physical Inventory

The inventory process is the gathering and assembly of the data which drives the capital asset accounting system. The plan for execution of the inventory phase of the system should be responsive to the needs described in the previous planning session as well as providing for an orderly and efficient manner by which to collect, record and organize properly the needed data.

Inventories can be accomplished using "in-house" personnel or by contracting with professional contractors. Fundamental and distinct advantages can be realized by contracting with reliable outside contractors. Project completion within established time frames, no interference with established priorities, third party credibility, and fulfillment of contractual obligations are the most obvious advantages to be realized.

Whether undertaken in-house or with contracted professionals, the specific needs and objectives generally are stated in preliminary plans or requests for proposals to outside contractors. Any responses to requests for proposals should address the elements stipulated therein. Those elements and specifications form the basis of a work plan.

Steps for Conducting the Physical Inventory

Step 1 - Planning the Project

Actual inventory work should be preceded by a project plan meeting with supervisory personnel. The purpose of such a meeting is to review the general scope of the project and identify specific tasks related to the actual fieldwork. Many of these items are similar to those discussed in the planning session. Items to be resolved should include:

- Review general scope of the plan.
- Identify specific properties to be included in the inventory.
- Identify specific properties to be excluded from the inventory.
- Establish time frames for completion of the entire project, as well as each phase of the project.
- Identify and specify elements of the final product expected (e.g., special reports, classes, codes, tagging procedures).
- Establish specific dollar amount cut-offs (i.e., thresholds) for items to be excluded or grouped into specified classes of assets.
- Identify tags to be used and develop placement specifications.
- Provide for maintaining the inventory through either manual or automated applications.

To ensure smooth and punctual field operations with a minimum of time interruptions, each LUA undertaking an inventory of capital assets has the following tasks prior to the beginning of the field work.

- Notify appropriate school personnel and department managers.
- Furnish maps and plat plans of areas to be included in the inventory.
- Prepare letter of introduction for the inventory team when a contractor is used.
- Provide work space on the premises (i.e., in each school building).
- Identify sources and arrange for access to various blue prints, drawings and plans that may become necessary during the inventory.
- Arrange for access to various buildings and rooms identified as vital to the inventory.
- Establish and supply necessary coding information.
- Establish specific work hours to ensure the inventory progresses on schedule with minimum intrusion to normal daily operations.
- Consider the existence and whereabouts of any resources that might be of value to the development of property records.

Step 2 –Deciding when to Conduct Inventory

When to inventory is always a difficult question. There is no right time to inventory. As a general rule, all efforts should be made to minimize the disruption of the regular work day and school day. Obviously, if the inventory is conducted at night or on weekends, the disruption is minimal.

However, if the LUA's staff is not available, often there is limited access to locked closets, file cabinets, desks, etc. In addition, many LUA employees can provide much of the inventory information about specific assets (e.g., the source of supply, the asset cost, the date acquired).

Often equipment inventories in school buildings are conducted in the summer when school is not in session, as long as access to locked areas is made available.

Step 3 – Developing Input Forms

Input forms for use in recording inventory data in the field should be developed and organized in such a way to facilitate accurate and logical records of assets. Development of inventory recording forms also should reflect considerations for various coding to conform to specified class codes, fund accounts, grouped assets, school buildings, departments, etc. If no previous coding has been in use, now is the time to implement such a system. Coding systems need not be complicated, but should be able to accommodate and handle all needed controls.

Step 4 - Performing Inventory

Buildings
The inventory of buildings and building improvements must be physically inspected. The building inventory should be a quantitative and qualitative description of each structure. Basic building construction should be segregated from heating, ventilating, air conditioning, roof, elevators, plumbing, lighting, floor and ceiling cover, and built-ins. The latter assets may be replaced several times over the life of the building shell and, therefore, take a shorter useful life estimate. Segregation of their costs will also ease relieving the accounts when they are retired to avoid pyramiding costs. Qualitative items such as number of square feet and building capacity are helpful in the description.

The inventory record for buildings should include at a minimum:

- Description of the building
- Identification number if assigned
- Location and use
- Completion date if known
- Condition
- Cost or estimated historical cost
- Date of disposal
- Sale price

Equipment

The most time consuming inventory to maintain is that of the major movable and capital tangible personal property (equipment). The inventory record for equipment should include at a minimum:

- Description of the equipment (including make and model)
- Serial number or other identification number
- Vendor
- Title holder
- Acquisition date (if known)
- Quantity
- Source of funding
- Percentage of federal participation
- Location
- Condition
- Cost or estimated historical cost
- Date of disposal
- Sale price

Equipment includes picnic tables and movable playground equipment if capitalization threshold is met.

Often with modular equipment, the base unit is inventoried but the accessories are not inventoried.

Improvements Other Than Buildings

This inventory includes all improvements outside a building or improvements to a parcel of land. For paving, include total quantitative and qualitative amounts for site including berms and parking lot striping. Fencing should be inventoried by total linear feet including gates by type of fence. Concrete work should include sidewalks and flatwork. Plumbing for site should include drainage, irrigation, drinking fountains, hose bibs and on-site sewer. Area lighting should be inventoried separately.

Land

The land inventory should be listed by parcel using county's parcel number and/or lot, block and tract. The use and the location of the land should be listed. The inventory record for land should include at a minimum:

- Description of land
- Acreage
- County's parcel number and/or lot, block, and tract

- Use and location of the land
- Acquisition cost, if known or estimated historical cost
- Acquisition date, if known

Intangible Asset

The Intangible Asset lacks physical substance. Common types of intangibles include easements, land use rights, water rights, timber rights, mineral rights, patents, trademarks, copyrights, and computer software purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.

- Description
- Invoice (if applicable)
- Vendor (if applicable)
- County's parcel number and/or lot, block, and tract (if applicable)
- Title holder
- Acquisition date (if known)
- Location
- Cost or documented valuation of internally generated

Right to Use

The Right to Use classification should be used to list a multi-year lease agreement that conveys the right to use the asset or software without a transfer of ownership at the end of the lease to the LUA. There must be an exchange of equal or close to equal value. Right to Use assets could be leased buildings, equipment, and intangibles. The inventory record for Intangible Right to Use assets should include:

- Description of the lease
- Serial number or other identification number
- Vendor
- Title holder
- Lease start date
- Lease end date
- Lease Liability Value
- Lease Incentives (if applicable)
- Payments (including prepayments and direct costs to place asset in use)
- Lease Interest Rate

See Tips for Inventorying on page IV-37-17

Step 5 - Review of Inventory Progress

It is important for the inventory team to hold regularly scheduled progress meetings once the inventory process is initiated. These meetings should be a forum for exchange of information, review of progress, personnel assignments and the preparation of progress summaries. Progress summaries should be discussed with the LUA's finance director or LUA person designated as responsible for the inventory on a regular basis.

As inventory work proceeds, a method of the measurement of progress against time projections becomes an important consideration. Job sheets can be created for each identified location and assignment during the inventory. As each geographic area is completed, a record of actual time expended in completion is made and compared to the time estimate.

The comparison produces a gauge of progress and serves as a warning when and if work begins to lag behind schedule. Each job control sheet should contain the projected time for each identified assignment area with space to record numbers of units counted, square feet of area involved and the total working time elapsed on completion.

Step 6 - Actual Inventory Listing

The actual inventory listing is usually the most time consuming part of the entire capital asset project. The size of the inventory team does not necessarily depend on the size of the project, although it most certainly is an important consideration. Of more importance is the complexity of the project, and the availability of personnel with technical experience and skills to complete the project in a timely, accurate manner. If the inventory is to be undertaken with the use of LUA employees or students, training becomes absolutely essential.

Step 7 - Valuing and Costing

Costs and values can have varying meanings depending on the circumstances and ultimate application of the stated costs and value opinions. Generally accepted accounting principles (GAAP) are an important consideration in LUA's capital asset management systems. As indicated in Chapter 16, GAAP requires LUAs to record purchased capital assets at actual or estimated historical costs (i.e., the original costs).

Original cost is defined as the cost of capital assets in accordance with costs prevailing at the date the capital asset was first constructed or originally installed. Assets acquired through contribution or donation are required to be recorded at fair market value on the date donated.

Fair market value is defined as the estimated amount at which the capital asset might exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, with equity to both.

The development of cost information might relate to a cost accounting objective for program cost analysis or grant reimbursement reporting. A third application for cost data applies to capital expenditure planning or for risk management protection.

The "cost reproduction new" is a term used for this application and is defined as the amount required to reproduce property in like kind and materials in accordance with current market prices.

The "cost of replacement new" also is a term used for this application and is defined as the amount required to replace property with a modern new unit utilizing the most current technology (which eliminates functional obsolescence) and construction materials that will duplicate the product capacity and utility of an existing unit at current market prices.

Various methods of costing are used to determine the original cost of a capital asset.

1. Direct costing is the most accurate and is determined through the use of actual original costs obtained from invoices or other source documents.
2. Estimated Historical Cost — Current Replacement may be used if after reconciliation of the newly constructed inventory records, costs for certain capital assets cannot be established. This method involves estimating the current cost of the capital asset at acquisition and then deflating it to the year of acquisition by using available price indexes.

   For example, assume that actual original cost is not available for a five year-old drill press. The current replacement cost is $1,750. By referring to appraisal manuals, which present indices of price changes by asset class (e.g., 1.192 is the increase for five year-old shop equipment), the current replacement cost can be deflated to $1,468 (i.e., $1,750 divided by 1.192). Appraisal firms normally have software that includes the indices for each asset class which allows for ease in estimating historical costs. Often after deflating an asset's cost, it may fall below the capitalization policy established for the LUA.

The valuation of constructed capital assets sometimes can become a problem. As indicated earlier, GAAP requires purchased capital assets to be valued at cost. Constructed capital assets should be valued at cost to the LUA which could include not only materials and supplies, but any salaries and benefits relating to the construction. Salaries and benefits for construction should be charged to function 4000, Facilities Acquisition and Construction.

Establishing costs for inventoried capital assets should begin with examination of data from a variety of internal sources. For direct costing, sources such as existing vendor invoices, inventory records, vouchers, purchase orders and cancelled checks should be used. For standard costing, a knowledge of current costs for like items is required. Published indices are necessary for normal costing.

Donated or contributed capital assets are required to be recorded at fair market value at the time of donation. The sources for market data are varied.

MAINTAINING CAPITAL ASSET INVENTORY RECORDS

Once the capital asset records have been established, reporting changes in inventory records is an extremely important task.

Acquisitions

Recording the acquisition of capital assets usually is not the problem. Often there is an interface with the general ledger or the accounts payable system that interfaces to the capital assets management system for all purchased capital assets. There may be a delay in adding assets to the system that are constructed since normally they are paid for over a period of time. There must be a system developed to record capital assets acquired through capital lease or donation.

Modifications

Modifications to current records are common. Corrections are changes made to existing records relating to the original recording and could include:

- Error in prior classification of asset.
- Item stolen or disposed of and property record previously not deleted.
- Correction of description, serial number, or model number.
- Correction of cost.
- Year of acquisition and/or in service change.
- Correction of asset tag number, equipment code number or service code number.
- Change in estimated useful life.

The deletion of an item which previously was recorded and should not have been recorded in the asset register is considered an erasure.

Transfers

Transfers of capital assets between rooms and buildings often are difficult to track in a capital asset system. The necessary recording will depend upon the data maintained in the capital asset system. Changes will be necessary if data regarding location (e.g., school) or using department is maintained. Physical inventories become extremely difficult when transfers of equipment have not been processed.

Dispositions

Dispositions usually are not processed as quickly in the capital asset system. Some dispositions are the result of a sale, and a corresponding journal entry to record the revenues can be extracted and sent to the capital asset system, but most dispositions are simply discarded, trashed, or cannibalized. Without proper procedures, it may be months after a department has disposed of an item before the central capital asset or property management staff learn about the disposition. Ordinarily dispositions do not surface until the next physical inventory is taken.

Practical Aspects of Tagging

Tagging is important for:

- Providing a quick and accurate method of identifying individual assets.
- Facilitating the taking of inventory on a periodic basis.
- Controlling the location of all physical assets.
- Assisting in maintaining capital assets.
- Providing a common ground of communication for both the accounting department and the user of the assets.
- Assisting in identifying stolen goods.

What Type of Tag?

The type of tag to use is a decision that must be reached. Metal tags or some form of decal are the most common tags in use. However there are a large variety of tags available and it will require some investigation as to the best tag for each type of capital asset. Factors such as cost, ease of installation, procurement (particularly replacements) and durability should be considered when choosing the type of tag.

Metal tags are more permanent. These tags work very well on machinery, vehicles and other equipment subject to wear, accumulation of oil and grease, or periodic repainting. However these tags require time and effort to properly apply them and are prone to be removed. Metal tags can be purchased in a variety of sizes and shapes, with or without the LUA's name stamped on them. Brass and aluminum are the normal materials used, but thought should be given to the potential corrosion that might occur on certain metals, dependent upon the tag use. Normally, the number should be painted or enameled so that it will stand out more easily from the tag itself.

There is available a durable, corrosive-resistant aluminum tag. Extremely thin, it adheres with a solvent-activated backing and will not wash or wear off. It bonds to the asset and is strongly resistant to accidental removal. Capable of adhering to rippled surfaces and even rough casting, it is easy to apply, attractive and eliminates the most serious objections to the use of metal tags.

Decal-type tags usually are satisfactory for tagging office furniture, office machines and small plant equipment. Machines are available for an LUA to make its own tags. Decals are available in a variety of forms, usually as a stock item. There is now on the market a "do-it-yourself" decal machine. If preferred, decals can be ordered with the LUA's name embossed on them, but again cost may be a factor. Care should be exercised that the surface which will receive the decal tag is free from grease, furniture wax, oil or other substances that will prevent proper adherence of the tag to the surface. Variations in temperature also may prevent proper adhesion.

Decals with bar coding may be used. In addition, there are handheld machines that can read the bar coding which results in more efficient periodic inventory taking.

Asset numbers may be stenciled or painted on machinery and equipment; but care must be taken to replace the number in the event of a rebuilding or repainting operation. Materials such as towels might be stenciled.

Where Are Tags Procured?

Tags are available in all size, shapes, colors and materials. An office equipment dealer may be helpful in locating a source. Also, an Internet search usually provides an adequate list of sources. Various manufacturers can supply tags in almost any type of metal.

Some tags can be attached with a special epoxy resin base adhesive; some must be applied with fasteners. Metal tags can be imprinted, furnished with raised letters, furnished with the letters filled in with contrasting color and with many other combinations. Such tags usually are made to specific order, so sufficient time should be allowed for delivery.

Prices vary, depending on the type of tag and method of fastening. Appropriate discounts normally are allowed for purchase of graduating quantities. When choosing a supplier, be sure that the supplier will be capable of supplying additional tags at a later date since the same tag time should be used in the entire capital asset system. Normally, the number should be painted or enameled so that it will stand out more easily from the tag itself.

What Should Appear on the Tag?

A numerical designation should appear on the tag. An identifying mark or LUA logo also might appear on the tag, however it should be secondary. As a general rule and practice, a simple consecutive series of numbers will provide a satisfactory system. Here numbers are assigned in consecutive order without regard for type of asset and location. The use of a consecutive number allows each controllable asset to carry an assigned number throughout its entire life, regardless of its location. Once disposition has occurred, the number is retired.

A numerical system might be developed for the tags. The numbering system might reflect the year of acquisition or type of capital asset. The type of inventory system used might dictate the numbering scheme for tagging. However the cost-effectiveness of a numerical system must be considered. The use of manufacturers' serial numbers is not suggested. Often the numbers are difficult to locate and may become obscured by paint, rust or dirt.

Some LUAs prefer to assign varied series of numbers to certain departments, buildings or plants. The theory for this policy is acceptable; however, in practice it may necessitate an excessive amount of recordkeeping. Equipment tends to move, therefore any time a movement is made, the system must be changed to reflect the new department or building.

If the purpose of the inventory system is to track individual assets, a numbered tag is required. However, in situations where theft control is more important than accounting control, it might be preferable to affix tags that are not numbered but prominently display the LUA's name and/or logo.

When to Tag?

When to tag machinery and equipment is an important decision. There are numerous theories about when an LUA initially should tag its assets. Tagging when employees are not working results in little interference with the normal work day. However, often cabinets and closets are locked and there is no one available to open these areas in order to inventory. In addition, a LUA's employees may be able to provide additional information regarding inventoriable assets such as the cost, date purchased, the vendor and other pertinent information.

Who Should Tag?

Who should complete the tagging process also is an important decision. Who assigns the tag number and who does the tagging varies from LUA to LUA. Since the property record-keeping normally is the responsibility of the accounting department, this department might assign the number. In other LUAs, either the purchasing department or the receiving departments might assign the number.

After the number is assigned, the tag may be attached to the capital asset by the staff from the central warehouse, the purchasing department, the accounting department, or the staff of the respective department or school using the equipment. Having two separate departments or individuals assign and attach tag numbers aides in providing internal controls over inventory management.

Where Should the Tag be Placed?

The placement of tags should be a simple decision. However, the tag location on assets is important and must be consistently placed and accessible. It’s important to know where to find a tag when verifying the asset record. For some items there is no good place, however, if and when tagging is used, it should be consistent. The tag should be placed in an area where the number can be easily seen and identified without disturbing the operation of the item. This placement will allow for easy periodic inventory taking. However, in some areas tags are kept out of sight due to management's desire to create the best possible appearance.

Tips for Inventorying

1. Identify items at location and trace to inventory list. This will help identify those items that have not been included. Items that are unaccounted for on the listing should be located.

2. Locate all the capital assets at each location before moving to another area. If items are missing, make a list of these for follow up.

3. Provide advance notice of the inventory process to applicable personnel in all locations.

4. Use the generic name when describing buildings (the name the LUA uses).

5. Make clear and concise notations on the inventory sheets to ensure the capital asset management system is properly updated.

6. Contact the department manager, school principal and school custodian as resources for inventories that involve custom built items of machinery, lab components, etc.

7. Maintain contact with those responsible for the project throughout the inventory process.

Chapter IV – 8 The Annual Audit

Nature and Purpose

This chapter explains the audit process applicable to local units of administration, i.e., local school systems hereinafter referred to as LUAs, auditees, or local boards. Understanding the duties of the auditor and the procedures that must be followed to carry out the statutory responsibilities of the Georgia Department of Audits (GA DOA) will help to make the annual audit a useful management tool which Superintendents and local boards can use to maintain and improve the financial management system.

PURPOSE OF THE AUDIT

The purpose of an audit of the financial statements is to express an opinion as to whether the financial statements are presented fairly, in all material respects, with respect to financial position, results of operations, and cash flows (if applicable) in conformity with accounting principles generally accepted in the United States of America. If the auditor is unable to express an opinion a disclaimer of opinion may be appropriate.

The auditor has the responsibility to plan and perform an audit to obtain reasonable assurance as to whether the financial statements are fairly stated and free of material misstatements, whether caused by error or fraud. The financial statements, however, are the responsibility of management. While the auditor’s responsibility is to express an opinion on the financial statements, management is responsible for adopting sound accounting policies and establishing internal controls with appropriate levels of monitoring to ensure that transactions are properly initiated, authorized, recorded and reported in accordance with management’s assertions embodied in the financial statements.

USE OF THE AUDIT

As stated above, the auditor's role is to examine the financial statements and make an impartial and objective determination that the statements fairly present the financial position and results of operations of the audit entity. The importance of the auditor's work is evident when one considers the reliance placed on the financial statements by a variety of users, such as bondholders, creditors, government agencies, grantors, board members and taxpayers. The audit may also provide information to the Superintendent to enable him or her to address weaknesses in the financial management system that should be corrected through board policy or executive decisions.

LEGAL AUTHORITY FOR THE AUDIT

Georgia law (O.C.G.A. 50-6-6) requires the GA DOA to conduct an annual financial audit of the books and accounts of LUAs. The statute also includes a provision allowing LUAs to engage a certified public accountant (CPA) to provide an “additional audit”. In general, the term “additional audit” provides LUAs with the ability to satisfy local charter requirements which may require the LUA’s to contract with a local CPA. By strict interpretation, this “additional audit” would not relieve the GA DOA from the legal requirement to perform the audit. However, to prevent duplicity, the GA DOA has maintained a practice of accepting audits of LUAs conducted by CPAs, when performed in accordance with certain requirements outlined below, as substantially satisfying the audit requirement relating to financial statement audits mandated by Georgia law.

REQUIREMENTS FOR CPA FIRMS ENGAGED TO CONDUCT LUA AUDITS

Audits performed by a CPA firm will be subject to a Desk Review by GA DOA. The Desk Reviews will be performed to ensure that the CPA’s work is substantially in compliance with applicable standards and statutory requirements. If the CPA’s work is deemed to be substandard in any manner GA DOA may request corrective action, which may include, but not limited to, necessitating additional work by the CPA, re-issuance of the CPA report, or GA DOA may decide to perform an audit or conduct additional audit procedures.

Any local board contracting with a CPA firm must ensure that the CPA firm adheres to certain requirements.

Any CPA engaged to conduct an LUA audit must:

- Be a licensed CPA firm in the State of Georgia and be in good standing with the Georgia Society of Certified Public Accountants and the American Institute of Certified Public Accountants (AICPA)
- Conduct financial statement audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States (generally referred to as Yellow Book standards).
- Comply with requirements prescribed by the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement,* when engaged to conduct a Single Audit or an audit on federal compliance.
- Have an external peer review conducted every three years as required by *Government Auditing Standards.* Results of peer reviews should be made available for GA DOA review.
- Retain all working papers, records, and all other documents pertaining to the LUA audit for a minimum of five (5) years after the audit.
- Be able to certify that auditors are receiving appropriate continuing professional education in accordance with GAO standards.
- Make all working papers and audit materials available to the State Auditor’s office upon request. When requested, copies of the audit and originals of all working papers and other pertinent documents shall be delivered to the State Auditor’s office.

If a local board contracts with a CPA firm, the LUA should abide by its procurement procedures in conjunction with GDOE guidelines with respect to the issuance of a

Request for Proposal (RFP). If an RFP is required, the local board should ensure that the RFP clearly spells out the requirements for the audit and includes certifications that the CPA firm will comply with requirements stated in the previous paragraph. It is also recommended that the RFP include suggested items listed below. The failure of local boards to comply with these requirements may subject them to the necessity of additional on-site visits by the GA DOA to satisfy all audit requirements.

Listed below are some key provisions that should be included in an RFP for audit services:

- the name and address of the government entity;
- the entity to be audited, scope of services to be provided, and specific reports, etc. to be delivered;
- the period to be audited (with an explanation if the RFP calls for a multiyear procurement);
- the name and telephone number of a contact person at the government entity;
- the format in which the proposals should be prepared;
- the address to which proposals should be delivered or sent;
- the date and time proposals are due;
- the number of proposal copies to be submitted;
- the criteria to be used in evaluating the bid and their relative importance to each other;
- the method and timing of payment; and
- any other important points, including the consequences if due dates are missed or work does not meet audit standards.

The likelihood of receiving high quality proposals will be enhanced if the RFP

- explains the work the government entity does;
- explains what is to be audited, e.g., basic financial statements, specific funds, or both;
- describes in some detail the entity's accounting system, administrative controls, records, and procedures;
- informs prospective bidders whether the Single Audit Act applies to this audit;
- identifies the appropriate auditing standards;
- informs prospective bidders if data from prior years (audit reports, management letters, etc.) will be available, whether major audit findings remain open from prior years, and whether any audits of subrecipients are required;
- notifies prospective bidders of requirements for workpaper retention and for making the workpapers available to the entity as well as governmental auditors if they request them;
- describes expected audit products, the required format of the audit report, and the format of any required progress reports;
- explains any assistance that the government entity will offer, such as staff support to assist the auditor (which could materially reduce audit costs);
- outlines the expected schedule of work (completing field work, issuing reports, etc.).

SCHEDULING THE AUDIT

In scheduling annual audits, Superintendents should anticipate that the supervising auditor from GA DOA will contact them between October and January following the close of the June 30 fiscal year. Due to GA DOA's commitments related to the Statewide CAFR and Single Audit reports, LUA audit season will generally begin in November.

All requests for early audits should be made in writing to the following address and specify the reason(s) for the request:

Georgia Department of Audits
Director - Education Audit Division
270 Washington Street, S.W., Room 1-156
Atlanta, Georgia 30334-8400

Also, if the local board contracts with a CPA firm to perform the annual audit, a copy of the contract and engagement letter must be provided to the GA DOA no later than July 15th, at the address listed above. This is required in order to allow GA DOA to adequately plan the audits for the upcoming season. Failure to comply with this request may result in GA DOA scheduling an audit even though a CPA has been contracted to provide one.

When the annual audits have been scheduled, the Superintendent will receive an engagement letter from the supervising auditor of the GA DOA prior to the beginning of field work. This letter sets forth the terms and objectives of the audit and the nature and limitations of the services to be provided by the auditors, an indication of when the audit will be started and a request that the local board designate a representative to serve as a primary contact for the auditors.

In addition, during the course of the audit engagement, it may become necessary for GA DOA personnel to inspect, compel production of and reproduce information (both hardcopy and electronic format) considered confidential under the statutes of the State of Georgia. If requested, confidential data will be afforded the same confidential status as assigned by the local board and the GA DOA will protect the confidentiality of this data with at least the care and procedures by which it is protected by the local board or substantially equivalent care and procedures. Accordingly, the school district may be requested to provide our on-site auditors with means of securely storing confidential information used during the course of the engagement. If a scheduling conflict exists, the Superintendent should contact the supervising auditor and reschedule the start of audit field work.

Normally a staff of two to four auditors will perform the field work portion of the audit in the auditee's office. Sufficient office space should be set aside within a reasonable distance of the financial accounting staff to house the auditors.

Copies of the various reports and other financial records requested should be placed in this office prior to the arrival of the auditors. Auditors should also be provided with a secure area to store audit working papers and the auditee's financial records.

The auditors should have access to telephones, photocopying and FAX machines and internet connections.

The auditors may require assistance during the course of the audit for such tasks as making copies and retrieving documents for audit test work. In addition, key financial staff should be available to answer questions and explain procedures. These needs should be considered when scheduling leave during the annual audit.

MANAGEMENT'S RESPONSIBILITY AND REPRESENTATIONS

Financial Statements
Management is responsible for preparing financial statements, including note disclosures. The financial statements should be prepared in the proper GASB reporting format and provided to the auditors at the beginning of the engagement.

Internal Controls
Management is responsible for establishing and maintaining internal controls, including monitoring of ongoing activities. Recent auditing standards, specifically SAS 112, *Communicating Internal Control Related Matters Identified in an Audit,* emphasizes client responsibility for maintaining internal controls over financial reporting which includes documenting of the primary or "key" controls over significant business processes identified by management. Internal control has been defined as a process consisting of specific policies and procedures designed to provide management with "reasonable assurance" about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Management should provide the auditors with documentation of risk assessments over significant business processes, and "key" controls within those processes that mitigate risks.

Fraud Prevention and Detection
Management is responsible for implementing procedures to prevent and detect fraud. Management is also responsible for informing the auditors of any fraud or suspected fraud.

Disclosures
Near the end of the field work a representation letter will be provided to the primary audit representative. The purpose of this document is to obtain assurances from the Superintendent, Board Chairman and Fiscal Officer that all items of a material nature have been disclosed to the auditors. If the board fails to complete the representation letter properly and return it, the audit report may be qualified due to a limitation in the auditor's scope of examination.

Inquiry from Auditee's Attorney
The local board will be requested to provide disclosure from the board's attorney of any

litigation, claims or assessments which existed during the fiscal year or from June 30 to the date of the attorney's response. If the board did not employ or consult an attorney concerning any litigation, claims or assessments during the year, a form has been provided to disclose this as well.

Board Members

A form will be provided to the Superintendent requesting a listing of all board members which served during the year, an indication of which board members were serving at June 30, mailing addresses of each board member and the name of any business owned by a board member.

ACCOUNTING AND REPORTING CONSIDERATIONS

Accounting resources for LUA's are available at the GA DOA website www.audits.state.ga.us. Select the Resources tab on the left of the page, then select Local Government Links, and select Georgia School Districts. Numerous resources are available including financial statement checklists, financial statement templates, review checklists, sample note disclosures, and other helpful information.

Budget

Upon transmission of data to the GA DOE, LUAs are required to submit the final amended budget of the fiscal year just completed for the general fund and each special revenue fund with a legally adopted budget. In addition, the original adopted budget for the new fiscal year must also be submitted for the same funds. This information will be used to prepare Required Supplementary Information (RSI). The RSI prepared will include the original approved budget, final amended budget, and actual financial data prepared using the budgetary basis of accounting. The LUA will be required to explain significant differences between the original and final amended budget and final amended budget and actual expenditures.

The original budget is the first complete appropriated budget and may include any changes before the beginning of the fiscal year. These changes may include reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. Any automatic carryovers by law from the prior fiscal year should also be included in the original budget. An example of automatic carryover is the rollover of appropriations to cover outstanding encumbrances at year end.

The final budget is the original budget adjusted by transfers, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever legally authorized.

Accrued Leave

The LUA must provide a detailed listing of accrued annual leave hours and payrate by employee as of June 30 including details of leave earned and leave utilized during the year. In addition, any sick leave balances that will be paid at termination or retirement should also be provided. Employer benefits relating to leave payout that would be paid at the time of termination or retirement are also included. This information is needed to determine if the auditee's liability for future payments of accrued leave, where employees are entitled to compensation for the leave at retirement or termination, is material to the financial statements. If the liability is material to the auditee's financial statements, the liability must be disclosed or the auditor must qualify his or her opinion as the financial statements will not be presented in accordance with GAAP. If material, this amount will be included as a long term liability in the Statement of Net Assets.

IRS 457 Deferred Compensation Plan

In 1996, IRC Section 457 was changed to require all assets and income of the plan to be held in trust for the exclusive benefit of participants and their beneficiaries. Therefore, Section 457 plans are not required to be presented in a government's financial statements unless a fiduciary relationship exists. Factors to consider in determining whether a fiduciary relationship exists include: presence of a trust agreement between the government and plan or provision of investment or administrative guidance by the government. If these factors are not present, then the balances and activities of the plan would not be reported in the government's financial statements. If evidence of a fiduciary relationship is present, balances and activities should be reported as a Private Purpose Trust Fund.

Audit Opinions

Upon completion of an audit, the auditor must either express an opinion regarding the financial statements (governmental activities, each major fund, and the aggregate remaining funds) or state that an opinion cannot be expressed. The auditor's opinion on an auditee's financial statement may be unqualified, qualified, adverse, or a disclaimer of opinion. Each of these types of opinions is defined below:

Unqualified Opinion

An auditor's opinion stating that the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with GAAP. This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an examination made in accordance with generally accepted auditing standards (GAAS) or generally accepted governmental auditing standards (GAGAS).

Qualified Opinion

An auditor's opinion stating that except for the effect of the matter(s) to which the qualification(s) relates, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with GAAP. Such an opinion is expressed when a lack of sufficient competent evidential matter or restrictions on the scope of the auditor's examination have led the auditor to conclude that an unqualified opinion cannot be expressed, or when the auditor believes, on the basis of his or her examination, that (1) the financial statements contain a material departure from GAAP; (2) there has been a material change in accounting principles or their method of application between fiscal periods; (3) there are significant uncertainties affecting the financial statements, and the auditor has decided not to express an adverse opinion or to disclaim an opinion.

Adverse Opinion
An auditor's opinion stating that the financial statements do not present fairly the financial position, results of operations or cash flows in conformity with GAAP.

Disclaimer of Opinion
A report stating that the auditor does not express an opinion on the financial statements. The disclaimer of opinion is appropriate when the auditor has not performed an examination sufficient in scope to enable him or her to form an opinion on the financial statements.

Communication Regarding Internal Controls
Internal control deficiencies identified during the course of the audit that are considered material weaknesses or significant deficiencies must be communicated to management in writing. Significant deficiencies are control deficiencies that adversely affect the organization’s ability to reliably report financial data. The deficiency is significant enough that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected. A material weakness occurs when a significant deficiency, or combination of significant deficiencies, results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Significant deficiencies and/or material weaknesses will be reported as findings in the audit report.
Note: Instances of material noncompliance with State laws and Federal regulations will also be reported in the findings section of the audit report.

Management Letters
Many times the auditor will note other matters involving internal controls, or operations that, while not being significant deficiencies or material weaknesses, merit consideration by management. In those cases Management letters will be utilized by the GA DOA to communicate those matters to management. Also, situations of nonmaterial noncompliance with State laws and Federal regulations will normally be reported in a Management letter.

Post Audit Conference A post audit meeting will normally be scheduled by the supervising auditor with the Superintendent at the conclusion of the audit engagement. It is recommended that the auditee's chief financial officer also attend. Generally, auditors from the GA DOA are not permitted to attend a board meeting unless the attendance has been approved in advance by the State Auditor; therefore, the attendance of board members, if any, should be limited so as not to constitute a quorum. The purpose of the meeting is for the audit staff to inform the Superintendent of any matters that might result in findings and/or questioned costs and to make recommendations concerning the improvement of the auditee's internal controls. This meeting will also provide the Superintendent with an opportunity to ask questions about any area of financial operations.

Audit Closure

At the conclusion of the audit, the auditors will return to their office and finalize the draft audit report manuscript and submit the work papers and report to the GA DOA management for review. When the review process has been completed, the Audit Manager of LEA's will electronically transmit the board a typed draft copy of the financial statements and auditor's opinion letters. At the completion of the audit, the auditee will also receive a schedule of findings and/or questioned costs. The Board should prepare management responses for each audit finding included in the current year audit. These responses should include pertinent comments regarding each finding and provide the name(s) of contact person(s) responsible. If the Board does not agree with any audit findings or believes corrective action is not necessary, then management's response should include an explanation of the Board's position.

The Superintendent and the chief financial officer should review the draft financial statements and determine if there are any inaccuracies. If inaccuracies are noted, then they should be described in writing and copies of any appropriate documentation should be included for review and discussion with GA DOA personnel. The Superintendent's response should be completed, signed by the Superintendent and returned to the GA DOA within the time specified.

Note: The request for pertinent comments is not a request for a corrective action plan. A corrective action plan may be required during the audit resolution process conducted by the GA DOE. This request is for the views of responsible auditee officials regarding matters associated with the findings and recommendations included in the audit that the board wishes to make part of the audit which is considered a public record. Once these comments have been received by the GA DOA, they will be processed for inclusion within the audit report.

Audit Report Distribution

In accordance with Federal OMB Circular A-133, the Superintendent has a responsibility to fulfill external audit report distribution requirements. The requirements include providing a copy of the single audit report to a Federal audit clearinghouse designated by Office of Management and Budget (OMB) and to those organizations that provided Federal financial assistance to you.

Federal Audit Clearinghouse

If an LUA expended $500,000 or more in Federal Financial assistance then a copy of the single audit report and the original Data Collection Form (Form SF-SAC) which includes the signatures of the State Auditor, or other auditor, and the School District representative must be submitted within the earlier of 30 days after receipt, or 9 months after the end of the audit period to:

Federal Audit Clearinghouse
1201 East 10th Street
Jeffersonville, Indiana 47132

Responsibilities to Sources of Federal Assistance

If all Federal Financial assistance was furnished to the LUA by GA DOE and GA DOA performed the single audit, then no further distribution of the report will be required by the LUA. GA DOA will handle all report distribution requirements for GA DOE and the school district upon its issuance. If a CPA firm conducted the audit, then the LUA will be responsible for submitting the single audit report to GA DOE.

Furthermore, a copy of the audit report must be submitted to any Pass-Through entity if the LUA's report contains either a prior year or a current year finding related to Federal awards provided by the Pass-Through organization(s). The Pass-Through organization(s) are responsible for issuing a management decision on the audit findings to ensure that the LUA takes appropriate and timely corrective action.

Additionally, the LUA is responsible for providing a notification letter to those Pass-Through organization(s) in which there were no prior year or current findings related to Federal awards from any of the following sources that provided DIRECT Federal Financial assistance:

(1) State agency other than GA DOE,
(2) Federal Department (other than U.S. Department of Education which is discussed below),
(3) Regional Educational Service Agency,
(4) another Board of Education,
(5) College or University,
(6) Non-Profit Organization and
(7) a Local Government

The contents of the letter should address the following:

- ✓ An audit has been conducted in accordance with OMB Circular A-133,
- ✓ The period covered by the audit,
- ✓ The name, amount and CFDA numbers of the Federal Awards provided by the Pass-through organization,
- ✓ There were no prior year or current year findings disclosed in the audit report related to a Federal award received from the Pass-Through organization.

If the GA DOA conducted the audit, a sample letter will be provided for the LUA's use.

The LUA should maintain written evidence that the report distribution requirements to the Clearinghouse, GDOE, and Other Pass-Through Organizations have been fulfilled.

If the GA DOA conducted the audit, sufficient copies of the audit report will be furnished to the LUA to fulfill its distribution requirements. If the audit was conducted by a CPA firm, the LUA should ensure that sufficient copies of the report are received to fulfill all distribution requirements. If there is an uncertainty as to which organization should be supplied a copy of the report, contact the program official who has oversight responsibilities for the program.

Assessment for Auditing Federal Programs
Shortly after the GA DOE closes its books for the fiscal year, the total federal grant expenditures for the previous fiscal year will be used to calculate an amount that each federal program will bear for the single audit costs. For example, if Title I expenditures are 13% of the total federal expenditures for the fiscal year, then 13% of the additional audit costs billed to the GA DOE by the GA DOA will be assessed to the Title I program. Then for each LUA, the percent that the Title I program expenditures bear to the total statewide Title I program expenditures will be calculated. For example, if an LUA's Title I program is 9 % of the total statewide Title I expenditures, then that percentage would be applied to the amount billed by the GA DOA to arrive at the amount the LUA would charge to its Title I program.

Between November and February, each LUA will receive an invoice from the GA DOE for its share of the additional audit costs. The memorandum accompanying the invoice will indicate which federal programs have been assessed and may be charged for the audit service.

Audit Resolution
For findings and questioned costs dealing with funding provided by or through the GA DOE, the LUA will be contacted by the Financial Review Section to obtain comments and to establish the corrective action needed to resolve these issues. In accordance with federal regulations, the GA DOE must resolve the findings and/or questioned costs within six months after receipt of the audit report.

The Superintendent must respond to the findings and/or questioned costs contained in the audit, including the corrective action planned or already taken. Federal regulations require that the corrective action plan be completed within 30 days of receipt of the audit. GA DOE is required to issue management decisions on audit findings within six months after receipt of the LUA’s audit report, and ensure that the LUAs take appropriate and time corrective action.

The corrective action plans may require refunding money, filing corrected financial reports or changing accounting procedures. If, in the Superintendent's judgment, a finding and/or questioned cost does not warrant corrective action, a statement explaining and documenting why it is not necessary should be included in the corrective action plan.

Additional Audit Work
Federal regulations require that additional audit work build upon audits previously performed and be coordinated so as to avoid duplication of work. For this reason, if federal or private auditors intend to perform additional auditing of the fiscal year covered by the single audit, please refer them to OMB Circular A-133. Advise them to contact the GA DOA if the single audit was performed by the GA DOA or the CPA firm if the audit was contracted and notify the Director, Financial Review Section as well.

Chapter IV – 9 Risk Management

NATURE AND PURPOSE

Risk management is the process of managing a local unit of administration's (LUA) activities to minimize the adverse affects of accidental losses. In other words, risk management is the process of identifying and controlling risks of all kinds. Effective risk management is essential for LUAs, especially as third party insurance premiums continue to rise or are not available to certain LUAs.

Risk management normally is concerned with potential losses arising from the following:

- Torts
- Theft of, damage to, or destruction of assets
- Business interruption
- Errors and omissions
- Injuries to employees
- Acts of God

The two primary elements of risk management are risk control and risk financing. Risk control techniques are used to minimize the accidental losses that strike an LUA. Risk financing techniques are used to obtain resources to restore the economic damages resulting from those losses.

Because the topic is so broad, this chapter is not intended to be all-encompassing about risk management. This chapter provides an overview of risk management as it applies to LUAs with particular emphasis on risk financing. Risk control is reviewed briefly also. Finally this chapter includes an overview of the risk management pool available through the Georgia School Board Association (GSBA).

IDENTIFYING THE TYPES OF RISKS

Generally there are four basic types of risks that an LUA should identify. Loss can occur as a result of:

- Damage to property (e.g., schools, buses)
- Loss of property (e.g., money, equipment)
- Loss of revenue or increased costs because of damage to or loss of property (e.g., a river floods a school food service lunchroom and meals cannot be served)

- Liability to others as a result of injury to persons or property (e.g., a teacher falls down slippery steps in a school building)

Damage to Property

Accidental loss or damage can occur with both real and personal property. Real property can include school buildings, bus garages, athletic stadiums and boilers. Personal property can include motorized equipment such as buses or maintenance trucks, desks, chairs, computers and tools. Loss may result from carelessness, natural causes, faulty equipment or fire.

Loss of Property

Cash is a primary target for loss, either from dishonest employees or the general public. Burglary, robbery and embezzlement are examples. In addition, various types of equipment may be stolen.

Loss of Revenue or Increased Costs

This element is not as common in LUAs since most LUA activities are not revenue generating, other than the school lunchrooms and athletic stadiums. If these facilities are damaged or destroyed, there could be a significant loss of income.

Liability to Others

Normally, this type of liability is likely to have the most serious loss exposure. Unfortunately, school violence can cause harm or injury to LUA employees. There seems to be numerous workers compensation claims in LUAs. A private citizen or business may claim a loss due to actions by the LUA. These losses can arise from wrongful acts (i.e., known as torts) or from contractual liabilities. For example, wrongful acts can occur as a result of:

- Harmful actions of LUA employees or school board members (e.g., auto accidents, libel and unintentional discrimination,

- Faulty public facilities (e.g., broken bleachers, cracked concrete steps),
- Faulty products provided to the students or public (e.g., serving spoiled food in a school lunchroom).

METHODS TO IDENTIFY RISKS

There are four principal approaches to identify risks:

- Analyzing selected documents
- Inspecting premises and operations
- Using risk recovery questionnaires

- Analyzing operational flow charts

Analyzing Selected Documents

Though it is not feasible to review all LUA documents, some of the more important documents should be reviewed to determine potential risks. These records might include personnel policies, contracts and leases and operating policy and procedures manuals.

Inspecting Premises and Operations

A physical inspection of all LUA premises is a "must" to reveal risks. Property inspections need to be conducted periodically. School building principals and custodians can assist with this task. Fire marshals and boiler inspectors normally conduct regular inspections.

Using Risk Recovery Questionnaires

A risk recovery questionnaire is a listing of major types of possible losses. This questionnaire should be used in conjunction with the other three alternatives included here. The questionnaire could include:

- The relative severity of possible risks
- General information including the locations of buildings and land
- Information about the financial management procedures and records used
- A detailed description of each building and its contents (i.e., is there an adequate capital asset inventory?)

- A description of each vehicle

- Plate glass exposures
- Elevators in operations
- A boiler and machinery analysis
- A section on crime risks (e.g., internal controls), safety measures, and fidelity schedules
- Claims and loss analysis records for the past few years
- Transportation and employee benefit schedules

Analyzing Operational Flow Charts

The last alternative is less common than the three previously discussed. If an LUA has developed flow charts for its various operations (e.g., an accounting policy and procedures handbook), these flow charts can be reviewed to identify any potential risks in the LUA processes.

CONTROLLING RISKS

When controlling risks, an LUA should decide if the risk can be:

- Eliminated entirely
- Reduced to an insignificant cost
- Assumed partially or in total by the LUA
- Transferred to insurers through risk assumption agreements

First the risk should be evaluated to determine the potential frequency and severity. The frequency of risk is as it relates to the number of losses. Severity of loss refers to the cost or size of losses.

Obviously, the highly severe risks should be emphasized. The LUA needs to consider whether the risk can be eliminated entirely by changing methods or equipment or by ceasing performance of a particular service. If elimination is not an option, an effort should be made to reduce the risk so that it becomes insignificant. For example, a surety bond might be obtained for an amount that statistically reduces the potential amount of theft to an amount that is insignificant.

If risks are not severe but are highly frequent, they may be assumed (i.e. an amount set aside in the budget) since they are predictable and the total amount of loss will be fairly certain. A risk which does not occur very often and results only in a small loss also can be assumed. However, the infrequent type of loss which can be very severe should be transferred by buying insurance or through risk assumption agreements. This transfer is needed because such risks are impossible to predict with accuracy but can cause severe economic loss.

RISK ASSUMPTION

As indicated above, an LUA should not want to assume a great risk without proper financing. LUAs need to understand which risks they are assuming. Unexpected assumptions might include a situation where property insurance policies are written on an actual cash value basis which is current replacement cost less depreciation. In other words, the LUA would be assuming the risk for the amount of depreciation on the asset. In addition, understanding coinsurance clauses and identifying risks is an important part of risk assumption.

Planned assumptions are those risks which the LUA knows it is taking on. One extreme is to insure everything and another extreme is not to insure anything. Obviously, neither of these extremes is practical. A balance between these two extremes is desirable. The key advantage to assuming rather than insuring a risk is that planned assumption is more economical. Careful attention must be given to the amount of risk that may be assumed compared to the size of premium to insure the risk.

RISK TRANSFER

Transferring risk is the last step in controlling risk. Transferring may be done by use of pooling, hold harmless agreements or third party insurance.

Pooling

Pooling risk provides an alternative to traditional insurance programs for treatment of property, liability and workers' compensation risks. It eliminates duplication of effort and inefficiency that drives up costs. It also expands coverage, promotes stability and focuses attention on risk improvement and accident prevention. The Georgia School Boards Association Risk Management Fund (GSBA RMF) offers this type of coverage.

Established under O.C.G.A. 20-2-2002, the GSBA RMF is an interlocal risk management agency that allows members to do the following - .

(1) Pool its general liability risks in whole or in part with those of other boards of education.

(2) Pool its motor vehicle liability risks in whole or in part with those of other boards of education.

(3) Pool its property damage risks in whole or in part with those of other boards of education; or

(4) Jointly purchase general liability, motor vehicle liability, or property damage insurance with other boards of education participating in and belonging to the interlocal risk management agency, the participating boards of education to be coinsured under a master policy or policies with the total premium apportioned among such participants."

<u>Overview of Bylaws</u>. By-laws set forth the governance structure of GSBA RMF and define the responsibilities of the Board of Trustees. The Board of Trustees must approve all applications for membership. Once approved, the LUA’s initial contribution will be determined by the Board of Trustees in accordance with State law and regulations of the Insurance Commissioner. Annually premiums are determined by the Board based on regulations of the Insurance Commissioner and premiums approved by the Insurance Commissioner. The Board may decide to pay dividends in the event of a surplus providing the stability of the GSBA RMF is not impaired. The fiscal year of the GSBA RMF is July 1 – June 30.

Membership in the GSBA RMF (the Fund) may be terminated for the following reasons –

- Failure to timely meet its financial obligations to the Fund;

- Failure to comply with loss control and other recommendations of the Fund or its representatives or agents;

- Excessive losses; or

- Failure to discharge its obligations to the Fund as set forth in the bylaws,

For more information visit www.gsba.com.

Hold Harmless Agreements

In some contracts, an LUA may transfer the risk to the other party by including a "hold harmless" agreement which indicates that the other party will hold the LUA harmless in certain situations. Obviously, if the other party cannot make financial restitution, the agreement is not very valuable. Many LUAs include insurance and "hold harmless" agreements in bid documents for school construction documents. In addition, these requirements could be included in service contracts such as food service, maintenance, transportation and any other circumstance where an LUA hires an outside service contractor.

"Hold harmless" agreements should be reviewed by the LUA's legal counsel.

Purchasing Insurance

The most common form of transferring risk is that of purchasing insurance from a third party. In purchasing insurance, LUAs need to have the following:

A clear plan for how much and what types of insurance to buy.

- Professional advice

- Understanding of the principal methods of placing insurance and the advantages and disadvantages of each.

- Knowledge of the various criteria for evaluating the performance of insurance companies

- Knowledge of types of insurance policies available

- Proper recording and filing of purchased insurance policies

Unfortunately or fortunately, depending upon perception, there is a variety of insurance coverage available to LUAs including:

- Property
- General liability
- Errors and omissions
- Workers compensation
- Student athletic
- Student professional
- Boiler & machinery
- Automobile
- Environmental impairment

Unless the LUA official is knowledgeable in risk management, acquiring professional advice is recommended strongly.

SUMMARY

1. Risk management is the process of managing a local unit of administration's (LUA) activities to minimize the adverse affects of accidental losses.

2. The two primary elements of risk management are risk control and risk financing.

3. There are four basic types of risks damage to property; loss of property (e.g., money, equipment), loss of revenue or increased costs because of damage to or loss of property, and liability to others as a result of injury to persons or property.

4. There are four principal approaches to identify risks - analyzing selected documents, inspecting premises and operations, using risk recovery questionnaires, and analyzing operational flow charts

5. When controlling risks, an LUA should decide if the risk can be eliminated entirely, reduced to an insignificant cost, assumed partially or in total by the LUA, or transferred to insurers through risk assumption agreements.

6. An LUA should not want to assume a great risk without proper financing.

7. Transferring risk may be done by use of pooling, hold harmless agreements or third party insurance.

Section V – Other Information

Chapter V – 1 State and Federal Fiscal Rules and Procedures

INTRODUCTION

This chapter sets forth the principal requirements that a local unit of administration (LUA) must meet to account for and externally report its budget and financial operations relating to state and federally-funded programs administered by the Georgia Department of Education (GADOE). The GADOE manages over 40 federally-funded programs and over 25 state-funded programs including the QBE programs. Because the budgeting, accounting, and reporting rules are complex (in some instances arcane) and differ among programs, it is impossible to cover every detail of each program. Legislative changes, funding reductions, and policy and procedure changes prevent complete coverage; however, the information presented herein will provide the reader with a basic understanding of the myriad financial requirements that govern these programs. With this knowledge LUAs may avoid audit exceptions and other fiscal problems. GADOE's management procedure for administering state and federal education programs is to appoint a program manager who develops, in coordination with related GADOE staff and other state and federal agency personnel, the policies and rules governing the assigned program. A program manager must assure that recipients of state or federal funds comply with all applicable fiscal rules of a programmatic nature. Such matters as application process, budget development and submission, expenditure of funds for programmatic purposes, maintenance of effort, and matching requirements are programmatic responsibilities.

The responsibility for ensuring financial accountability of grant programs by the LUAs rests with the Financial Review section and Accounting Services Division of the GADOE. This responsibility includes developing in cooperation with the program manager the financial reporting requirements, requisitioning of funds, disbursing funds, resolving audit findings, calculating carryover funds for federal programs, and providing technical assistance on fiscal matters to GADOE program managers and LUAs.

The Financial Review section is staffed with auditors who assist LUAs with budgeting and financial reporting as well as operation of GENESIS, the statewide computer-based budgeting and accounting system that was implemented with the passage of the Quality Basic Education (QBE) act. This section also works with the Grants Accounting section to develop financial reporting requirements for new or revised programs and to resolve audit findings that require on-site visits. In addition, the Financial Review section conducts annual workshops in the Spring for LUA personnel to explain new or revised budgeting or financial reporting procedures that resulted from legislative action or GADOE rules. The Financial Review section also is responsible for updating this manual to ensure that it remains current. Another responsibility now assigned to Financial Review is the review and approval of indirect cost rate plans submitted by LUAs. (See chapter II-9.)

The Grants Accounting section, Accounting Services Division is responsible for processing budgets, requisitions for funds, project completion reports, developing financial reporting requirements in cooperation with Financial Review and the program manager, calculating carryover funds for federal programs, and providing technical assistance on fiscal matters to GADOE program managers. This section also calculates and authorizes the monthly QBE payment to LUAs. The Accounting Services Division is the disbursing agent for the GADOE and works with program managers to ensure that accountability of the grant programs is maintained.

Except for the QBE programs, which is covered in Chapter II-7, this chapter describes the financial management requirements of each state and federal program the GADOE administers; however, the reader should be aware that there are local education programs funded by other state and/or federal agencies which LUAs must budget, account for and report to the GADOE in the annual budget/financial report submitted electronically. This chapter first describes the state-funded programs (except the QBE program), followed by the jointly funded state and federal programs and then the fully federally funded programs are covered. In addition, this chapter includes a section on accounting for tangible personal property and supplies as well as the rules governing the earning of interest on federal funds. There are two exhibits: Exhibit V-41-1, Unallowable Costs of Federal Programs and Exhibit V-41-2, Federal Regulations Governing Education Programs.

The financial officer in each LUA can share these program narratives with the local program manager as a means of documenting rules and regulations governing each program. In doing so, however, each program manager also should be given the two exhibits listed above. To facilitate distribution of a section to interested parties, acronyms frequently used in this chapter are spelled out the first time they appear in each program narrative; thereafter, the acronym is used.

The Quality Basic Education law, O.C.G.A. 20-2-242, defines local school systems and regional educational service agencies as "local units of administration", abbreviated as LUA. To be consistent, this term is used to designate local school systems and regional educational service agencies.

STUDENT TRANSPORTATION

1. Program Description. This state-funded program helps determine bus needs for LUAs, ascertains standard costs on which to base allotments, promotes school bus safety, improves transportation services to students, provides funds to replace busses and makes recommendations for improving the student transportation program.

2. How the program is funded. LUAs do not apply for student transportation funds. Instead, they provide information to GADOE through a student transportation survey, which is used to calculate allotments per SBOE Rules 160-5-3-.10 and 160-5-3-.11.

3. Use and Use Restrictions of Funds. State funds may be used to pay operational costs of the student transportation program including salaries and benefits and operating costs. Bus replacement funds are allotted separately and must be reserved in the fund equity section of the general fund on the balance sheet.

4. Financial Management

a. Budgeting

(1) The LUAs do not submit a budget in the same fashion that other programs require.

(2) The allotments as noted above are calculated from the student transportation survey conducted annually.

(3) LUAs budget student transportation funds in function 2700 in the information submitted to the Financial Review section in the GADOE.

b. Accounting

(1) Program code 132X is assigned to pupil transportation in the GADOE chart of accounts by GADOE.

(2) LUAs account for these funds in function 2700 in the general fund according to the objects assigned in the GADOE chart of accounts.

(3) The project period is July-June.

(4) While the program has no requirement for local matching funds, LUAs must spend the entire state allotment on the transportation program or return any unobligated funds to GADOE at the end of the fiscal year. Each year auditors verify that student transportation expenditures in function 2700 equal or exceed the state allotment.

c. Reporting

(1) LUAs are not required to file a separate annual expenditure report with GADOE. The expenditures are reported in function 2700 in the year-end financial information submitted Financial Review section of the GADOE and serves as an annual expenditure report.

(2) LUAs do not request cash from GADOE to operate the program; instead, funds are paid in twelve payments (including adjustments to the allotments resulting from changes in transportation routes) through the QBE payment system beginning in July.

SPARSITY GRANTS

1. Program description. State-funded sparsity grants are provided to eligible local units of administration (LUA) to ensure that comparable educational programs can be offered at a school if the student population is below the recommended minimum size and the student population at the school represents 100% of the LUA's student population. LUAs may also be eligible if the school has been classified as an isolated school because of the distance the students would be required to travel, climatic conditions that create hazardous travel or other factors that are specified in the law and policies.

2. How the program is funded. These state grants, if appropriated, are allotted to LUAs under strict criteria contained in State Board of Education (SBOE) Rule 160-5-4-.14. The Facilities Services section under the Local Support Services Division in the GADOE can provide detailed information concerning the operation of the program.

3. Use and Use Restrictions of Funds. Funds may be spent for any legal education purpose, but must be spent only in the school(s) that have met the eligibility criteria and been awarded a grant.

4. Financial Management.

    a. Budgeting

        (1) The Facilities Services section under the Local Support Services Division works with each eligible LUA to determine the amount of funds required to provide comparable educational programs and requests legislative appropriations to meet those needs.

        (2) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. The LUA is not required to file a separate budget to obtain funds.

    b. Accounting

        (1) Program code 149X is assigned to this program in the GADOE chart of accounts in order for LUAs to identify revenues and expenditures.

        (2) A separate special revenue fund is not required; eligible LUA's budget and account for these funds in the general fund.

        (3) The project period is July-June.

        (4) This program does not require a minimum of local fiscal effort nor does it require local matching funds.

(5) There are not any unobligated funds to be returned to the GADOE.

c. Reporting.

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. A separate annual financial report is not required.

(2) The funds are paid in twelve payments through the QBE payment system beginning in July.

STATE CAPITAL OUTLAY

1. Program description. The capital outlay program provides state funds to supplement local funds for the renovation of existing school buildings and the construction of new school buildings. The calculation of funds to eligible local units of administration (LUA) is a lengthy and complex process. It is beyond the scope of this chapter to describe in detail all the requirements to establish eligibility and receive funds. The Rules and Policies of the Georgia Board of Education set forth the requirements to participate the capital outlay program. (See O.C.G.A. 20-2-260 and 20-2-291, and Georgia Department of Education Rules and Policies 160-5-4.)

2. How the program is funded. The General Assembly annually authorizes the entitlement level for capital outlay purposes. Each LUA's share of that entitlement is calculated by dividing the LUA's construction needs as identified in its facilities plan plus the LUA's eligible debt service needs for the period corresponding with its facilities plan by the total statewide needs. The ratio of each LUA's need to the statewide needs derived from this calculation then is multiplied by the annual entitlement level authorized by the legislature to determine the LUA's earned entitlement annually. LUAs decide whether to submit an application to utilize their entitlement to accomplish the next project identified in their facilities plan or to allow their earned entitlement to accumulate until sufficient state and required local matching funds of 10 percent to 25 percent of the eligible project costs are available to complete the next project.

3. Use and use restrictions of funds. As set forth in Georgia law (O.C.G.A. 20-2-260), the term "capital outlay" refers to, but is not limited to, the acquisition of fixed assets, existing buildings, improvement to sites, construction of buildings, construction of additions to buildings, retrofitting of existing buildings for energy conservation, and initial and additional equipment and furnishings for educational facilities. The term "educational facilities" does not include swimming pools, tracks, stadiums, and other facilities or portions of facilities used primarily for athletic competition and the central and area administrative offices of LUAs. Under the Capital Outlay Program, state funds provided to an LUA are to be used for eligible construction needs.

4. Financial Management.

a. Budgeting

(1) A project budget is required for each construction or renovation project. The project budget is one of the documents required to be submitted to the Georgia Department of Education (GADOE) with the application for funding.

(2) The budget should conform to the GADOE chart of accounts as the project will be recorded in the capital projects fund, fund 300, in the accounting records.

b. Accounting

(1) There is not a separate program code assigned to capital outlay project; however, each LUA must assign and maintain separate identification of and accounting for each project in the capital projects fund. The identifier for state funded projects should be the one assigned to each project by the GADOE in the official application returned to the LUA after a project has been funded by the legislature.

(2) Small locally funded construction or renovation projects may be accounted for in the general fund, but all state and locally funded capital projects should be accounted for the capital projects fund (300). Each capital project should be identified separately so that all revenues, expenditures, assets, liabilities, and equity including transfers can be traced to the project.

(3) The GADOE recommends that LUAs adopt project budgets for capital outlay projects in which the entire cost of the project is budgeted in the first year; therefore, no budget adoption is necessary for subsequent years. (See chapter IV-2, "What Types of Budgets Should be Adopted".)

(4) Expenditures would be recorded on a July-June fiscal year.

(5) Unobligated funds may be carried over from one year to the next.

(6) There is no limitation on the amount of funds that may be carried over from one fiscal year to the next.

(7) Carryover funds should be transferred immediately to the next capital outlay project. These funds must be expended within a three-year

period from the time of the sale of the state bonds as required by federal law so as not to be subject to arbitrage. The capital outlay projects are funded by the sale of General Obligation Bonds as approved by the Legislature and sold by the Georgia State Finance and Investment Commission (GSFIC).

(8) Other than the local matching requirement described below, this program does not require a minimum maintenance of fiscal effort.

(9) LUAs must have on hand the required participation funds, which shall be no more than 20 percent of the eligible project cost as modified by the local ability ratio and annual debt service as set forth in O.C.G.A 20-2-260. The required matching funds must be transferred to the project before the end of the fiscal year or there will be an audit exception. An LUA may use up to 75 percent of its eligible principal and interest payments on school bonds to reduce its required local participation in capital outlay applications. In no event shall an LUA's required matching funds be less than 8 percent nor more than 20 percent of the eligible construction costs except in: (i) instances where an LUA qualifies for a 50 percent reduction in required local funds as the result of consolidating small schools within the LUA; or (ii) the LUA has agreed to merge some or all schools with an adjoining LUA; or (iii) the LUA has met all the construction needs identified in its plan, and funds are provided for recurring (current) construction needs based on the LUA's eligible annual principal payment on bonded indebtedness.

(10) At the completion of a project, any unobligated funds may be transferred to the next project application. The GADOE Facility Services section must approve any transfer of funds from one project to another. In the event there are no active state or locally funded projects when an overrun occurs, the general fund must absorb the excess expenditures. However, if there is an underrun on a completed project and there are no active state or locally funded projects to transfer the funds to, the Facilities Services section should be consulted to determine the disposition of these excess funds.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. Once a project has been approved, an LUA may request periodic reimbursement by submitting a letter of request from the superintendent along with DE Form 0263, Reimbursement Request, to the GADOE Facilities Services section of the GADOE. Final payment is made when all the documents specified in Guidelines for Receiving State Capital Outlay

Funds have been submitted to and approved by the Facilities Services section.

(2) DE Form 0263, Reimbursement Request, along with the Summary of Materials Stored and Schedule of Change Orders, must be completed by the construction contractor based on the work completed and approved by the LUA's architect. Once the LUA receives these documents, they should be submitted under a cover letter from the superintendent as soon as possible to the Facilities Services section for review. When all required documents have been received from the LUA, the Facilities Services section will review the data to determine that it is complete and accurate. The Facilities Services section will simultaneously submit a request to the GSFIC for issuance of a disbursement and send notification to the LUA that payment has been requested. When 90 percent of the total construction costs or 90 percent of the state funds appropriated for the project, whichever is less, have been reimbursed, no additional state funds can be disbursed until final inspection and acceptance by the local board and the architect have been made, and all expenditure data has been submitted which show the total project expenditures including the expenditure of the LUA's required matching funds and any additional local funds which may be required.

SCHOOL FOOD SERVICES MANAGERS' AND WORKERS' SALARY AND SICK LEAVE SUPPLEMENT

1. Program description. State funds are designated to maintain the lunch sale price to paying students as low as possible and to supplement federal funds in the school nutrition program but on a different basis. The federal reimbursement program pays all or a part of the cost of preparing and serving a breakfast or lunch. This program directly supplements managers' and workers' compensation and sick leave.

2. How the program is funded. The state legislature approved H.B. 782 in March 1982, which was codified as O.C.G.A. §20-2-187. This law provides that state funds be used to supplement the school food service manager's salary and the worker's salary. The base salary was calculated on the basis of not less than one-third of the federal minimum wage in effect as of January 1, 1981. The federal minimum wage at that time was $3.35. Therefore, 1/3 x $3.35 = $1.12. The base salary increased annually by the same percentage of increase that teachers and, later, state employees received.

   State money for managers' supplements also was included under O.C.G.A. §20-2-187 and was approved for $250 per manager, payable over a 10-month period, beginning with FY 83. It was increased to $400 per manager in FY 87.

State money for sick leave was first appropriated under O.C.G.A. §20-2-1190 for FY 89 and funded one day's sick leave for full-time SFS workers. Beginning in FY 90, appropriations funded two days' sick leave for full-time SFS workers($58/manager/for 2 days/payable over a 10- month period and $37/non-manager/for 2 days/payable over a 10- month period.

3. Financial management. State salary supplements are paid in separate checks for the months of July-August and September-June. The July and August checks are for the base salary only. The September-June's check includes base salary, managers' supplement and sick leave.

SUPERVISION AND ASSESSMENT OF STUDENT TEACHERS (MENTOR TEACHER STIPENDS)

1. Program description. This state-funded program provides a stipend to a mentor teacher who is defined as "a peer who provides skill development and guidance to a beginning teacher" and who has received training in accordance with the Teacher Support Specialist Certification endorsement.

2. Financial Management. Responsibility for management of this program is the responsibility of Professional Standards Commission (PSC). LUAs should record the receipt of funds from the GADOE in revenue account 3995, Funds from Other State Agencies, in the general fund and as an expenditure under program code 139X in the appropriate function/object where these payments to supervising teachers are budgeted.

EQUALIZATION GRANTS

This state grant is the amount needed to bring each LUA's relative property wealth per weighted FTE to that of the 75th percentile system. The annual allotment sheet includes the amount of the grant for each LUA and the allotment letter contains a schedule showing each LUA's rank and amount of funds. This grant is for general aid to the LUA and is recorded only as a revenue source. No specific expenditure requirements exist. There are no accounting or reporting requirements applicable to this grant.

LOW INCIDENCE GRANTS

1. Program Description. This state-funded program provides funds to local units of administration (LUA) where projected Quality Basic Education (QBE) earnings are less than 60 percent of the cost to provide direct instructional services in an area of exceptionality.

2. How the program is funded. The LUA must submit an application by June 1 which is reviewed by a panel of readers from outside the Georgia Department of Education (GADOE).

3. Use and use restrictions of funds. The application includes a budget section in which the LUA calculates the cost of providing direct instructional services. These costs are the same as those used in the QBE formula, i.e., consumable materials, textbooks, travel and equipment/maintenance. Only those costs chargeable to function 1000 are allowed in the program. No indirect or other operating expenditures are allowed.

4. Financial management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. The LUA also submits a budget summary and narrative with its application.

      (2) This program funds only salaries, benefits and direct instructional costs incurred by certified personnel. A detailed budget is prepared in accordance with the functions and objects in the GADOE chart of accounts.

   b. Accounting

      (1) Program code 209X is assigned in the GADOE chart of accounts to enable LUAs to account for expenditures.

      (2) A separate special revenue fund is not assigned in the GADOE chart of accounts. The program is accounted for in the general fund.

      (3) The project period is July-June.

      (4) Funds may not be carried over in this program. However, since the program only funds salaries, benefits and direct instructional costs, it is unlikely that an LUA would have any unobligated funds. If for some reason the program was not fully implemented so that all the funds were not obligated, then the excess funds should be returned to the GADOE by check to the Grants Accounting section with an explanation.

      (5) While there is no maintenance of effort required for this program, the LUA must show on its application the FTE earnings for the students to be served by the teacher for whom it is requesting funds.

   c. Reporting

      (1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. There is no requirement

to submit a completion report or any other financial report showing the expenditure of funds.

(2) The LUA obtains cash to fund this program on the QBE Payment Advice identified as Other Grants, Low Incidence Grants. Funds are paid monthly beginning in July.

TUITION GRANT FOR PRIVATE RESIDENTIAL SERVICES (MULTI-HANDICAPPED STUDENTS)

1. Program Description. The Tuition Grant for Private Residential Services is a state-funded grant program designed to assist a local unit of administration (LUA) in the funding of a needed alternative placement of a student with disabilities in a private residential program. This placement is in the event the LUA determines through the individualized education program (IEP) that it cannot appropriately provide special education and related services within the boundaries of the LUA, regional program or within a setting operated by the state of Georgia and that a residential placement outside of the LUA is necessary in order to provide appropriate special education and related services.

2. How the program is funded. The LUA must submit an application by June 1 which is then reviewed by staff of the Georgia Department of Education, (GADOE), Division for Exceptional Students, with priority based on students with profound and severe disabilities needing residential services. LUAs which apply for assistance must assume full responsibility for the funding of the private program at the time the application is submitted. Grants are not automatically funded. If the grant is approved, the state's designated percentage will be funded by the tuition grant. The state's grant amount is reduced by the LUA's percentage of local revenue as calculated and published by the Statistical section of the GADOE and any third party amounts to which the student is entitled.

3. Use and use restrictions. The grant covers only special education costs, related services, and room and board. Any transportation costs must be covered by the LUA submitting the application.

4. Financial Management.

   a. Budgeting

      (1) The amount of funds by category of special education, related services, and room and board is required on the application, but a line item budget is not required.

      (2) Any funds budgeted for this program by the LUA would be budgeted by function and object as contained in the GADOE chart of accounts.

b. Accounting

(1) Program code 231X is assigned in the GADOE chart of accounts to enable LUAs to account for expenditures in this program.

(2) A separate special revenue fund is not required. LUAs account for this program in the general fund.

(3) The project period is July-June.

(4) This program does not permit carryover of the previous year's funds.

(5) While this program does not require an LUA to maintain a minimum amount of fiscal effort, an LUA's grant amount is reduced by the percent of the LUA's local revenue as calculated and published by the Statistical Services section of GADOE in its publication, Local, State and Federal Revenues for Maintenance and Operation of Public Schools.

c. Reporting

(1) This program does not require that an annual financial report be submitted to the GADOE. Any expenditures incurred by the LUA for this program would be recorded by function and object and reported in the year-end financial transmission to Financial Review section of the GADOE.

(2) This is a reimbursement program. LUAs receive cash to operate this program by submitting monthly DE147 Request for Reimbursement, in the Grants Accounting On-line Reporting System (GAORS).

STATE-FUNDED AND FEDERALLY-FUNDED PROGRAMS

Career Technical Education State Grants

1. Program description. The Georgia Department of Education (GADOE) provides state and federal funds to support programs and leadership activities relating to vocational and applied technology instruction. Among the programs funded are professional development activities for teachers, inservice, and preservice training. Programs aimed at improving instruction include integration of vocational and academic curricula; instruction in technology education, development, dissemination, and field testing of curricula; assessment of programs, development of performance standards and measures. These programs also promote partnership among business education and other agencies and assist and encourage vocational student organizations.

2. How the programs are funded. Local Units of Administration (LUAs) and other contractors execute an agreement which is included in or becomes a part of the local plan/application. The local plan/application sets forth the activities the LUA seeks to have funded including the amount of local fiscal effort the LUA is contributing to its vocational program. Most of these programs are statewide activities. GADOE program managers negotiate with LUAs, RESAs, and other contractors to perform these functions.

3. Use and use restrictions of funds. Uses of funds include but are not limited to travel, materials, equipment, and salaries related to the program or activity as specified in the local plan/application. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. LUAs also are required to prepare an annual budget submitted in the Consolidated Application, with its local plan/ application in order to obtain funds.

      (2) Budgets are prepared according to the objects contained in the GADOE chart of accounts.

   b. Accounting

      (1) The only program code assigned is in the QBE series for the vocational laboratory program (301X). LUAs may assign program codes in the 30XX series for other vocational projects as needed.

      (2) A separate fund in the GADOE chart of accounts is not assigned to vocational programs; therefore, accounting for revenues and expenditures is in the general fund.

      (3) The project period is July-June.

      (4) The amount of state and local funds provided for in the local plan/application must equal or exceed the amount provided for in the previous year.

(5) Any unobligated funds remaining at the end of the funding period revert to the GADOE. Carryover is permitted for federal funds.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. There is no requirement to submit a separate annual financial report or project completion report. LUAs must make a self evaluation relative to performance standards and measures that have been developed. The LUA must submit enrollment and equipment inventory data required by the vocational management information system (MIS). This is a report submitted to program management and is not a fiscal report.

(2) LUAs should submit claims for reimbursement through GAORS. Some LUAs do not submit claims monthly which impairs their cash flow and puts a burden on the general fund to support the vocational program until reimbursement has been received.

TECH-PREP EDUCATION

1. Program description. The purpose of the Tech Prep program is to increase articulation efforts between secondary schools and technical institutes/community colleges/apprenticeship programs. Tech prep helps more students participate in a coordinated academic and technical program of study which starts at the high school level and continues at the postsecondary level. This grant is consolidated with the Career Technical Education State Grant, Basic.

2. How the program is funded. LUAs in consortium with postsecondary institution(s) submit a proposal for a competitive grant.

3. Use and restrictions of funds. Same as the Career Technical Education State Grant. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial management.

a. Budgeting

(1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. A budget is included with

the project proposal in order to obtain funds.

(2) Budgets are prepared according to the functions and objects in the GADOE chart of accounts.

b. Accounting

(1) LUAs may assign a program code from the 3XXX series in the GADOE chart of accounts to account for revenues and expenditures.

(2) A special revenue fund is not required. The program is accounted for in the general fund.

(3) The project period is July-June. The project is usually approved for funding for three consecutive years.

(4) The program does permit carryover of the previous year's funds because it is consolidated with the Basic grant.

(5) The program will be able to be continued with adequate local support beyond the three years of special state/federal grant support.

(6) At the end of the funding period any unused funds will be awarded by grants to LUAs on a competitive basis.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. LUAs are not required to submit a project completion report as this is a reimbursement program.

(2) LUAs should submit claims for reimbursement in GAORS each month to the vocational program manager in the GADOE. Some LUAs do not submit claims monthly which impairs their cash flow and puts a burden on the general fund to support the vocational program until reimbursement has been received.

FEDERALLY-FUNDED PROGRAMS

Throughout this section frequent reference is made to federal OMB Circular A-87, Cost Principles for State and Local Governments, as the authority for determining allowable costs of federally-funded education programs, except where noted. The importance of this document in managing the expenditures of federal programs cannot be minimized. LUA personnel who have responsibility for approving federal program expenditures should be knowledgeable of the contents of this document. A-87 is too lengthy to include in this manual, but the section listing unallowable costs is reproduced as Exhibit V-41-1 and will serve as a reference source to ensure that specific unallowable costs are not charged to federal programs. In some instances costs listed as unallowable in A-87 may be approved by the federal grantor agency. LUAs should inquire of the GADOE program manager if any such costs have been approved before incurring the expenditure. Circular A-87 was last revised in June 2004, and can be obtained at the following link:

http://www.whitehouse.gov/omb/circulars/a087/a87_2004.pdf

SCHOOL AND COMMUNITY NUTRITION PROGRAMS

The GADOE currently manages the following nutrition-related programs funded by the U. S. Department of Agriculture (USDA).

1.	School Breakfast	(CFDA 10.553)
2.	National School Lunch	(CFDA 10.555)
3.	Special Milk for Children	(CFDA 10.556)
4.	Child and Adult Care Food	(CFDA 10.558)
5.	Nutrition Education and Training	(CFDA 10.564)
6.	Food Distribution	(CFDA 10.550)
7.	Temporary Emergency Food Assistance	(CFDA 10.569)

BREAKFAST, LUNCH AND MILK PROGRAMS

1. Program description. The USDA gives cash grants and food donations to assist states in providing low-cost nutritious nonprofit breakfasts and lunches available to and accepted by students; to encourage domestic consumption of nutritious agricultural commodities; and to provide subsidies to schools and institutions that do not participate in the National School Lunch Program or School Breakfast Program to encourage consumption of fluid milk by children of high school grade and under.

2. How the programs are funded. LUAs, referred to as School Food Authorities (SFAs), execute an agreement with the GADOE to participate in these programs.

   The GADOE draws federal funds from USDA based upon the number of reimbursable meals served by schools throughout the state. Reimbursable meals are defined as lunches which meet the requirements as set forth in 7 CFR 210.10 and breakfasts which meet the requirements set forth in 7 CFR 220.8. Breakfasts and lunches are counted by category, i.e., paid, free and reduced price and multiplied by the assigned reimbursement rates published in the Federal Register.

Meal counts are reported on the GADOE School Nutrition On-line Reporting System where the meal counts are accumulated and reported to Food Nutrition Services (FNS), USDA by GADOE. After the USDA receives the report, funds for these meals are placed in the GADOE's letter-of-credit. Funds are drawn down as needed to issue reimbursement checks to the SFAs.

Reimbursement rates, or the national average payment (NAP) factors, are established each year by USDA, giving consideration to the May Consumer Price Index, Food Away From Home category. The NAP factors are published in the Federal Register, usually around the middle of July. Upon publication of these rates, the SFAs are notified of their reimbursement rates. SFAs who serve 60% or more of their lunches free or at a reduced price receive an additional two cents for each meal. The reimbursement rates assigned for July through June. The federal fiscal year still has one quarter remaining after the end of the state fiscal year, and these funds must be paid out in full for these three months to avoid a second close-out and/or lapsing of funds.

3. Use and use restrictions of funds. Once an SFA has been reimbursed for eligible meals, the funds may be spent for any purpose related to the operation of the programs except that such revenues shall not be used to purchase land or buildings or to construct buildings. Refer to GADOE Criteria and Procedures for allowable program-related purposes, which should be available from the School Food Service Director.

4. Financial management.

   a. Budgeting

      (1) The preparation of the annual budget requires the SFAs to estimate the amount of federal revenue (meal reimbursement) that it expects to receive in the fiscal year along with other state and local revenues.

      (2) Anticipated revenues and expenditures are budgeted as function 3100 on both the budget/financial report as special revenue fund 600; however, there is no requirement to submit a separate budget to obtain funds.

   b. Accounting

      (1) There is no program code assigned to the school food service accounts in the GADOE chart of accounts as these funds are accounted for in a separate fund.

(2) These funds are accounted for on a modified accrual basis; therefore, they are accounted for as a special revenue fund rather than as an enterprise fund. Fund number 600 is assigned in the GADOE chart of accounts. This fund is further sub-divided in the chart of accounts to permit school accounting, but is rolled up into fund 600 for state reporting. Special accounting instructions are published in the School Nutrition Record Keeping Guide, supplemented by numbered memoranda jointly published by the Accounting Services Division and the School and Community Nutrition Division.

(3) These funds are available for obligation for the period July-June.

(4) There is no requirement for SFAs to maintain a local maintenance of effort expenditure to support the programs.

(5) There is no requirement for SFAs to match these funds with local funds.

(6) Funds are earned in these programs by serving eligible meals. Revenues and expenditures are closed to the fund balance account. Unreserved fund balances are used to fund future operations. There is no requirement to return unobligated funds to the GADOE; however, if through audits previously served meals are ruled ineligible for reimbursement, such funds must be returned to the GADOE by the audit resolution process.

c. Reporting

(1) SFAs submit claims for reimbursement to the Accounting Services Division for each serving month of the fiscal year (July-June).

(2) At the end of the fiscal year, the Accounting Services Division makes a "settlement" based on the final count of eligible meals served and remaining federal funds.

(3) SFAs are required to submit an annual report on DE Form 0804, Report of Total Depreciable School Food Service Equipment Value, to enable the Accounting Services Division to calculate the amount of depreciation to be included in meal costs.

CHILD AND ADULT CARE FOOD PROGRAM

1. Program description. The USDA through cash and other means assists states to maintain nonprofit food service programs for children and adults in public and private nonprofit nonresidential institutions.

Only a small number of SFAs participate in this program as sponsors of child care programs. The principal constituencies are public and private nonresidential institutions providing day care services.

2. How the program is funded. This program is administered by Department of Early Care and Learning/Bright from the Start.

FOOD DISTRIBUTION

1. Program description. The USDA makes surplus food available to state agencies for distribution to a variety of qualifying outlets, including schools. The GADOE is designated the distributing agency (DA) for Georgia. LUAs are eligible to participate in this program as a result of their participation in the National School Lunch program. In Georgia the surplus food is used to supplement the food needs of the school food service program.

2. Use and use restrictions of funds. There is no actual cash involved in this program. It is the value of the food that must be accounted for.

3. How the program is funded. This program uses surplus food authorized by the USDA. There are no cash funds disbursed.

4. Financial management.

   a. Budgeting

      (1) There are no budgets required in this program.

      (2) Foods are allocated to LUAs on an equitable basis, using their average daily participation in the school food service program.

   b. Accounting

      (1) This is a difficult program to account for, because it is the value of food expressed in dollars that must be carefully tracked by the local school system.

      (2) The GADOE program manager maintains records of how much food in quantity and dollars is sent to recipients over the course of the fiscal year.

      (3) The GADOE program manager furnishes each local school system at the beginning of the fiscal year a complete list of food to be distributed and instructs them to use these amounts throughout the year for accounting purposes.

(4) The value of food received during the fiscal year must be recorded as revenue.

(5) The usage of food must be recorded as an expenditure and the amount of unused food at year-end and should be reserved as an asset (inventory).

c. Reporting

(1) There are no reports of a financial nature submitted to Accounting Services for this program, except that the value of donated foods received is reported on the DE 0106 submitted to Accounting Services each month.

(2) LUAs are required to submit an annual report of donated foods in inventory. DE Form 0116, USDA Donated Food Inventory is required to be submitted to the program manager as of June 30 of each year.

(3) The GADOE chart of accounts does not provide a program code nor a special fund code as this program is accounted for through revenues and assets which are in the chart of accounts.

THE EMERGENCY FOOD ASSISTANCE (FOOD COMMODITIES)

1. Program description. This program provides food to needy persons who are unemployed, at the poverty level, or receiving welfare. LUAs do not participate in this program as the distribution of food to needy persons is managed through local agencies which apply to the GADOE. Since LUAs do not participate in this program, there are no financial management requirements to describe.

MIGRANT EDUCATION PROGRAM (CFDA 84.011)

1. Program description. This 100 percent federally-funded program provides educational opportunities to migrant children, 3-21 residing within the state. Also, funding ensure that migratory children receive full and appropriate opportunities to meet the same challenging state academic content and student academic achievement standards that all children are expected to meet. This program is unique in that the federal regulations designate this program as a state-operated program. Also, this program operates on a fourteen-month program year (July-August).

2. How the program is funded. The program is funded on the state's per pupil expenditure and full-time equivalents (FTEs) of migrant children in residence, which the federal grantor calculates based on student data in the national Migrant

Student Record Transfer System (MSRTS).

The Migrant Education Agency (MEA) submits an application including a budget through GADOE Consolidated Application System. The program manager and Grants Accounting section approve budgets within the available funding.

3. Use and use restrictions of funds. The LUAs reporting through the MEA to GADOE may incur expenditures in any of the functions in the GADOE chart of accounts, except that capital outlay is limited to approved equipment purchases. Migrant funds may be used only to benefit migratory children; they may not be used to support projects of general aid to populations that include non-migratory children. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial Management

   a. Budgeting

      (1) LUAs budget migrant funds in special revenue fund number 534 to which they assign an account number while the MEAs budget these funds as 695, Migrant Education Agencies, an internal service fund assigned by GADOE.

      (2) The budget is prepared according to the functions and objects contained in the GADOE chart of accounts. The program manager notifies the MEAs of their tentative budget amounts in the Spring, but budgets are not approved until the grant award is received by the GADOE, usually in July.

   b. Accounting

      (1) This program is accounted for on a modified accrual basis as a special revenue fund by the LUA and reported as fund 534 on the budget/financial data submission. The MEAs which act as fiscal agents report this program as an internal service fund 695.

      (2) The obligation period for funds received by this grant is July of one fiscal year until August 31 of the next fiscal year, a fourteen-month obligation period, which may be unique among federal programs.

      (3) This program allows carryover of previous year's unobligated funds. The program manager works with the MEAs to re-budget the

carryover funds. Carryover funds are not automatically given to the MEA that generated them.

(4) The 15 percent limitation on carryover funds applicable to Title I funds does not apply to the Migrant program.

(5) A determination of the amount of carryover funds available for the next period is made from the balances in the Grants On-line Reporting System (GAORS) after the completion report is submitted to close-out the program grant. The completion report filed with the Grants Accounting section, provides the program manager with expenditure information. The program manager re-allocates carryover funds to the MEAs on a formula basis, using financial information provided by Grants Accounting section.

(6) Before the program manager approves an LUA grant, the LUA's maintenance of effort requirement must be verified. An LUA's combined fiscal effort per student or its aggregate expenditures for State and local funds must be at least 90 percent of the LUA's combined fiscal effort per student or the aggregate expenditures of State and local funds for the second preceding fiscal year.

(7) Encumbrances are not allowed as expenditures and unobligated funds must be returned to the GADOE.

(8) The uniqueness of MEA operations requires some special accounting procedures to ensure proper financial reporting.

(a) Travel expense for a migrant staff member employed by a school system which is a member of the MEA is paid directly to the staff member by the MEA and not the employing school system.

(b) An MEA paying travel to a migrant staff member in another school system must submit a report to the State Department of Audits as of June 30 of each year. The report lists each school system, the migrant staff member's name and the amount paid, identified as per diem and fees. Because there is not a direct salary payment to the migrant staff member from another school system, and the staff member is employed by another entity, the MEA must list the payment as per diem and fees.

c. Reporting

(1) At the close of each project year (August 31) a preliminary project

completion report (PCR), DE Form 0375, for the current year is due to Grants Accounting section by October 15 and a final report due by November 30. Since it is possible that two preceding carryover years are active, a final PCR is due October 31 for the second preceding carryover year. A preliminary PCR for the first preceding carryover year is due October 15 and a final PCR is due October 31. DE Form 0375 contains instructions for reporting revenues and expenditures.

(2) Funds to operate the program are obtained on DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, which is sent to the Grants Accounting section each quarter. This form establishes a cash flow needed to ensure the program pays its obligations when due. DE Form 0147 contains instructions for requisitioning cash. Encumbrances are not allowable and unobligated funds must be returned to GADOE.

HEALTH EDUCATION (AIDS) (CFDA 93.938)

1. Program description. To provide federal funds to develop and implement HIV prevention programs of public information and education. Also, called the Comprehensive School Health Program.

2. How the program is funded. The program is funded by the Center for Disease Control through a cooperative agreement with the Georgia Department of Education (GADOE), which makes funds available to the sixteen regional education service agencies (RESAs) to conduct teacher training and provide technical assistance to local units of administration (LUAs).

3. Uses and use restrictions of funds. This program is governed by the U.S. Department of Health and Human Services. The U.S. Department's of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR) does not apply to this program. Title 45 of the Code of Federal Regulations, Parts 74 and 92, govern this program.

4. Financial Management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. The RESAs enter into a contract with the GADOE to conduct the program. RESAs also submit a budget on DE Form 0209, which must be approved prior to expenditure of funds.

      (2) The budget is prepared according to the functions and objects

assigned in the GADOE chart of accounts.

b. Accounting

(1) Program code 1808 has specifically been assigned to this program in the GADOE chart of accounts.

(2) LUAs should account for this program in the special revenue fund 436.

(3) There is no carryover provision as there is with the education programs, but the period of availability of the use of the funds may be extended if approved by the grantor as indicated above.

(4) This program is fully funded with federal funds. There is no requirement for LUAs to maintain a minimum maintenance of fiscal effort as a condition of participation.

(5) LUAs are not required to match this program with local funds, either in cash or in-kind.

(6) Ordinarily, LUAs must return unexpended funds to the GADOE at the end of the project period, but since this project period is extendable, LUAs would return funds only when the project is closed out.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. This program does not require the submission of a project completion report to Grants Accounting section.

(2) This is a cost reimbursement program. The LUAs obtain cash by submitting monthly DE147 in the Grants Accounting On-line Reporting System.

-FREE SCHOOLS AND COMMUNITIES (CFDA 84.186 DRUG)

1. Program description. This program provides federal funds to LEAs to establish or expand elementary and secondary school counseling programs, with special consideration to applicants that can demonstrate the greatest need for counseling services, propose the most innovative and promising approach, and show the greatest potential for replication and dissemination.

2. How the program is funded. Funds for this program are allotted based on school enrollment and Title 1 enrollment. LUAs must submit an application and a budget

to the GADOE program manager, which must be approved before funds can be obligated.

3. Use and use restrictions of funds. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial Management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. LUAs must submit a budget in the Consolidated Application System, the budget is approved by the GADOE program manager and the budget is electronically submitted and added to the Grants Accounting On-line Reporting system where funds are made available for system draws.

      (2) The budget is prepared according to the functions and objects assigned in the GADOE chart of accounts.

   b. Accounting

      (1) Program code 1782 has been specifically assigned to this program.

      (2) A separate special revenue fund, Fund 412, has been assigned in the GADOE chart of accounts.

      (3) The project period is July-June.

      (4) If an LUA does not obligate all of its grant funds by the end of the fiscal year in which the funds were granted, it may obligate the funds during a carryover period of one additional year until June 30; however, funds may be obligated until September 30 of the second carryover year.

      (5) An LUA may carry over up to 25 percent of its annual budget for obligation in the next fiscal year. Any amount above 25 percent must be justified in writing and approved by the GADOE program manager.

      (6) LUAs have until June 30 of the next fiscal year in which to obligate

the prior fiscal year's funds, i.e., carryover funds; however, funds may be obligated until September 30 of the second carryover year.

(7) This program does not require a local minimum maintenance of fiscal effort.

(8) LUAs are not required to match this program with local funds.

(9) At the end of each funding period (June 30) LUAs must return any unobligated funds when the final project completion report (PCR) is due.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. The PCR is due October 31.

(2) The LUAs obtain cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, in the Grants Accounting On-line Reporting System. LUAs must return all unobligated funds to the Grants Accounting section with its final PCR. If the LUA has not drawn all the cash it is entitled to at the time the final PCR is filed, it should request the funds through the Completion Report in the Grants Accounting On-line Reporting System.

EVEN START (CFDA 84.213)

1. Program description. This program provides federal funds on a declining matching basis to establish family-centered education projects to help parents become full partners in the education of their children, to assist children in reaching their full potential as learners, and to provide literacy training for their parents.

2. How the program is funded. The GADOE awards grants to LUAs on the basis of selection criteria mandated by the federal grantor. The awards are based on applicant (LUAs) scores and geographic location. The federal share begins at 90 percent the first year and declines 10 percent each year until it reaches 60 percent.

   Each LUA must match the program, beginning at 10 percent the first year and increasing 10 percent each year until it reaches 40 percent. Each LUA may meet its matching requirement with either cash contributions, i.e., actual funding of the program, or with LUA or third party in-kind contributions (use of currently available resources such as equipment and facilities). Since these funds are available for a 27-month period, the LUA could have three different matching requirements, i.e., 10, 20 and 30 percent over the 27-month period.

3. Use and use restrictions of funds. Funds are used primarily for recruitment and screening of children and parents, design of programs, instruction of children and parents and staff training. There are no state rules which impose spending restrictions.

   This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial management.

   a. Budgeting

      (1) These funds are included in the annual budget to the Financial Review section of the GADOE. The LUAs also must prepare a budget and submit through GADOEs Consolidated Application System which is comprised of a budget summary, a detail, and cash or in-kind matching funds. The budget is approved by the Program Manager in the Consolidated Application and electronically submitted to the Grants Accounting On-line Reporting System where funds are made available to draw.

      (2) The budget is organized according the functions and objects in the GADOE chart of accounts.

   b. Accounting

      (1) Program code number 1790 has specifically been assigned to this program in the GADOE chart of accounts.

      (2) A separate special revenue fund, number 422, has been assigned in the GADOE chart of accounts for the Even Start grant.

      (3) The project period is July-September.

      (4) This is a reimbursement program in which LUAs expend the funds and then are reimbursed by the GADOE. The only unobligated funds the LUA should have would be its entitlement in excess of expenditures. These funds may be carried forward and included in the next year's budget.

(5) There is no limitation on the amount of funds that the LUA may have unobligated at the end of the project period.

(6) Funds are available for 27 months.

(7) This program does not require a minimum maintenance of fiscal effort.

(8) This program does require matching by the LUA as described above; however, it should be understood that the matching requirement percentage is applied to the total project amount--not just the federal share.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. The LUAs must submit a Completion Report in the Grants Accounting On-line Reporting System by October 31st. Carryover funding is calculated based on the expenditures reported. Also, if expenditures reported are greater than the draws, the additional funds will be requested automatically through the completion report.

(2) The LUA submits an Even Start reimbursement requisition (no DE Form #) monthly in the Grants Accounting On-line Reporting System.

EDUCATION FOR HOMELESS CHILDREN AND YOUTH - GRANTS FOR STATE AND LOCAL ACTIVITIES (CFDA 84.196)

1. Program description. To provide federal funds to carry out activities for and services to homeless children and youth to enroll in, attend, and achieve in school; to provide programs for school personnel to heighten awareness of specific problems of homeless children.

2. How the program is funded. The local unit of administration (LUA) submits an application which is reviewed by a panel based on criteria set forth in the application. Awards are based upon need of LUAs as determined by (a) the number of homeless children and youth enrolled in schools; (b) the extent to which proposed funds would facilitate enrollment, attendance and success; (c) the extent to which the application reflects coordination with local and state agencies that serve homeless children and youth, and (d) the extent to which the applicant

exhibits in the application and current practice a commitment to the education of homeless children and youth.

3. Use and use restrictions of funds. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

    P.L. 100-77 lists fourteen specific purposes for which funds may be expended. These purposes are spelled out in the application. An LUA applying for these funds will identify its expenditures in accordance with these purposes.

4. Financial Management.

    a. Budgeting

        (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. The LUA also must prepare a budget to participate in this program.

        (2) The budget must be prepared in accordance with the GADOE chart of accounts.

    b. Accounting

        (1) Program code number 1800 has specifically been assigned to this grant.

        (2) A separate special revenue fund, number 432, has been assigned in the GADOE chart of accounts.

    (3) The project period is July-June. The project period for the carryover funds is July-September.

    (4) LUAs may carryover unobligated funds from the previous year to use in the current year.

    (5) There is no limitation on the amount of funds that may be carried over.

    (6) LUAs have until June 30 of the next fiscal year in which to obligate the prior fiscal year's funds, i.e., carryover funds, but obligation must be liquidated by September 30.

(7) This program is I00 per cent federally funded. There is no minimum fiscal effort required of the LUAs.

(8) There is no matching requirement.

(9) At the end of each funding period (September 30 of the next fiscal year) LUAs must return any unobligated funds when the final project completion report (PCR) is due.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. At the end of each project the LUA submits a preliminary project completion report (PCR), DE Form 1210, to the Grants Accounting section by July 31 for current year funds. A final PCR is due by September 30 for current year funds. If the LUA has first year carryover funds in its project, a final PCR is due July 31. If the LUA has second year carryover funds in a July-September project, a final PCR is due October 31.

(2) The LUAs obtain cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, to the Grants Accounting section.

HEAD START (CFDA 93.600)

1. Program description. This federally-funded program provides comprehensive health, educational, nutritional, social and other services to economically disadvantaged preschool children, including Indian children on federally-recognized reservations, and children of migratory workers and their families; and to involve parents in activities with their children so that the children will attain overall social competence.

2. How the program is funded. This program is administered by the U.S. Department of Health and Human Services. The Georgia Department of Education (GADOE) does not receive funds to provide grants to LUAs. GADOE has some administrative staff with which to carry out its responsibilities to coordinate education-related activities with other state and local agencies.

3. Financial Management. LUAs have no budgeting, accounting, or financial reporting responsibilities to the GADOE for this program since no funds are sent to them by the GADOE; however, these funds must be accounted for and reported on the annual financial statements and are audited by external auditors.

4. Financial Management.

a. Accounting

(1) Program code number 6030 has specifically been assigned to the Basic Grant, and program code number 6040 has been assigned to the Training and Technical Assistance grant.

(2) A separate special revenue fund, number 514, has been assigned in the GADOE chart of accounts.

(3) LUAs may carryover unobligated funds from the previous year to use in the current year.

(4) There is no limitation on the amount of funds that may be carried over.

(5) This program is l00 per cent federally funded. There is no minimum fiscal effort required of the LUAs.

(8) There is no matching requirement.

b. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE.

SPECIAL EDUCATION - STATE GRANTS PART B (CFDA 84.027)

1. Program description. To provide federal grants to states to assist them in providing a free appropriate public education (FAPE) to all children with disabilities, ages 3-21.

2. How the program is funded. This is an entitlement program with funds awarded by formula grant as a per-child amount. Local units of administration (LUAs) must report the number of students by age and area of disability served on December 1 of each year.

   The LUA submits an application for funds (the comprehensive plan) annually. LUAs earning an entitlement of less than $7,500 must submit a consolidated application with another LUA. The comprehensive plan includes assurances regarding the provision of a FAPE for students with disabilities, LUA financial information and budgets which describe proposed expenditures. FAPE includes procedural safeguards and the development of an individualized education program for each disabled student.

3. Use and use restrictions of funds. This program is governed by the U.S.

Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.) Additionally, funds may be withheld from systems which do not demonstrate compliance with the Individuals with Disabilities Education Act. Compliance is verified by periodic comprehensive program reviews conducted by the Evaluation and Assessment Unit in the Division for Exceptional Students. The LUA must be able to show that it will not use these funds to provide services to students with disabilities unless it uses state and local funds to provide services to students which are at least comparable to services provided to other students with disabilities.

4. Financial management.

a. Budgeting

(1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. LUAs also must include an annual budget in the application.

(2) The budget is prepared according the functions and objects in the GADOE chart of accounts. The budget must be amended if there are changes in the amount of funds available; items are added to the budget after approval; expenditures in a budget category exceed 120 percent of the approved amount.

b. Accounting

(1) Program code 2824 has been assigned to this program in the GADOE chart of accounts.

(2) This program is accounted for in special revenue fund number 404, Special Education.

(3) The project period is July 1-June 30.

(4) LUAs may carryover unobligated funds from the previous year to use in the current year.

(5) There is no limitation on the amount of funds that may be carried over.

(6) LUAs have until June 30 of the next fiscal year in which to obligate the prior fiscal year's funds, i.e., carryover funds.

(7) Generally, this program requires that funds that the Georgia Department of Education (GADOE) uses for direct and support services (discretionary) must be matched on a program basis from funds other than federal funds. Additionally, LUAs must assure that expenditures for special education in the current year are at least equal to expenditures in the most recent preceding fiscal year for which information is available.

(8) While this program does not require a dollar for dollar match, there is an excess cost requirement that must be met. The calculation of excess costs is made by the LUA in the preparation of its Annual Special Education Comprehensive Plan. The GADOE issues instructions to LUAs to enable them to calculate excess costs. Briefly, the fiscal personnel in the LUA must use the annual financial report for the previous fiscal year submitted to the GADOE to complete the form included in the comprehensive plan. By following the steps in the plan, the LUA can calculate the minimum target amount which is the minimum amount that must be spent for disabled students. The LUA fiscal personnel then must use its annual financial report submitted to the GADOE to calculate the total amount actually spent for disabled students. The calculation is included in the comprehensive plan submitted to the GADOE. The excess-cost requirement must be met in order for the GADOE to approve the application for funds. Part B funds may be spent only on the excess costs above the minimum target amount.

(9) LUAs must return unobligated funds at the end of the next fiscal year, June 30.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. The LUA is required to submit a completion report (CR), in the Grants Accounting On-line Reporting System (GAORS) no later than 90 days after the end of the project period. Current Year Budgets are approved in the Consolidation Application prior to carryover being recorded or input into GAORS.

(2) The LUAs obtain cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, in the Grants Accounting On-line Reporting System (GAORS).

LUAs must return all unobligated funds to the Grants Accounting section with the final CR. If the LUA has not drawn all the cash it is entitled to at the time the final CR is filed, GAORS' automated process will request the funds when CR is submitted.

SPECIAL EDUCATION - PRESCHOOL GRANTS (84.173)

1. Program description. To provide federal funds to assist states in providing a free appropriate public education (FAPE) to preschool children aged three through five years.

2. How the program is funded. This is an entitlement program with funds awarded by formula grant as a per-child amount. Local units of administration (LUAs) must report the number of students by age and area of disability served on December 1 of each year. The LUA submits an application for funds (the comprehensive plan) annually. LUAs earning an entitlement of less than $7,500 must submit a consolidated application with another LUA. The comprehensive plan includes assurances regarding the provision of a FAPE for students with disabilities, LUA financial information and budgets which describe proposed expenditures. FAPE includes procedural safeguards and the development of an individualized education program for each disabled student.

3. Use and use restrictions of funds. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.) Additionally, funds may be withheld from systems which do not demonstrate compliance with the Individuals with Disabilities Education Act. Compliance is verified by periodic comprehensive program reviews conducted by the Evaluation and Assessment Unit in the Division for Exceptional Students. The comparability requirement in Part B also applies to this program.

4. Financial management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. LUAs also must include an annual budget in the application.

      (2) The budget is prepared according the functions and objects in the GADOE chart of accounts.

The budget amendments requirements of Part B apply to this program as well.

b. Accounting

(1) Program code 2620 is assigned to this program in the GADOE chart of accounts to enable LUAs to account for expenditures.

(2) A separate special revenue fund is not assigned in the GADOE chart of accounts. This program is accounted for in the general fund.

(3) The project period is July 1-June 30.

(4) LUAs may carryover unobligated funds from the previous year to use in the current year.

(5) There is no limitation on the amount of funds that may be carried over.

(6) LUAs have until June 30 of the next fiscal year in which to obligate the prior fiscal year's funds, i.e., carryover funds.

(7) Generally, this program requires that funds that the Georgia Department of Education (GADOE) uses for direct and support services (discretionary) must be matched on a program basis from funds other than federal funds. Additionally, LUAs must assure that expenditures for special education in the current year are at least equal to expenditures in the most recent preceding fiscal year for which information is available.

(8) While this program does not require a dollar for dollar match by LUAs, there is an excess cost requirement that must be met. The determination of excess costs is a very complex and difficult analytical process. The GADOE issues guidance to LUAs to assist them in the calculation of excess costs. The excess-cost requirement must be met in order for the GADOE to approve the application for funds.

(9) LUAs must return unobligated funds at the end of the next fiscal year, June 30.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. The LUA is required to submit a completion report (CR), in the Grants Accounting On-line

Reporting System (GAORS) by September 30 for current year funds.

(2) The LUAs obtain cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, in GAORS.

LUAs must return all unobligated funds to the Grants Accounting section with its final CR. If the LUA has not drawn all the cash it is entitled to at the time the final CR is filed, GAORS' automated process will request the funds when CR is submitted.

GEORGIA LEARNING RESOURCES SYSTEM (GLRS)

1. Program description. The Georgia Learning Resources System (GLRS) is a special education support network, consisting of 17 regional centers which serve as fiscal agents for the local units of administration (LUAs) in the region. The purpose of the GLRS is to provide staff development, specialized instructional resources, information dissemination and other services for parents and educators of students with disabilities.

2. How the program is funded. The program is funded through discretionary funds from Title VI-B (CFDA 84.027) of the Individuals with Disabilities Education Act (IDEA) and a QBE categorical grant appropriated annually by the General Assembly. Additionally, the program receives funding to carry out training activities from a federally-funded personnel preparation grant.

3. Use and use restrictions of funds. Funds allocated to GLRS programs are restricted to use for pre-approved project activities. All funds from the three designated sources are subject to annual approval via project applications submitted to the Division of Exceptional Children in the Georgia Department of Education (GADOE) and reviewed by the Grants Accounting section. Funds may be expended for all approved activities, including indirect costs at the restricted rate charged to federal programs. A maximum indirect cost rate is established annually for QBE expenditures.

4. Financial Management.

   a. Budgeting

      (1) These funds are included in the annual budget submitted to the Financial Review section of the GADOE. Each fiscal agent submits an annual application to the Division of Exceptional Students which includes a budget for both the state and federal funds. In addition, each fiscal agent enters into a contract with the State Board of Education for the use of the QBE funds in the GLRS.

(2) The budgets are prepared according to the functions and objects in the GADOE chart of accounts.

b. Accounting

(1) Program code 271X is assigned to this program to enable LUAs to account for revenues and expenditures.

(2) Special revenue fund 530 is assigned in the GADOE chart of accounts to enable the fiscal agents to account for revenues and expenditures.

(3) There are two project periods applicable to this program. The state QBE Title VI-B funds are accounted for on a July-June project year. The personnel preparation funds are accounted for on a September-August project year.

(4) The QBE funds <u>may not</u> be carried over from one fiscal year to another. The Title VI-B funds may be carried over.

(5) There is no limitation on the amount of federal funds that may be carried over.

(6) The federal carryover funds are available for obligation until June 30 of the next fiscal year.

(7) Generally, this program requires that funds that the Georgia Department of Education (GADOE) uses for direct and support services (discretionary) must be matched on a program basis from funds other than federal funds. Additionally, fiscal agents must assure that expenditures for special education in the current year are at least equal to expenditures in the most recent preceding fiscal year for which information is available.

(8) There are no local matching requirements for this program.

(9) At the end of the funding period, unobligated funds must be returned to the GADOE.

c. Reporting

(1) These funds are included in the annual financial report submitted to the Financial Review section of the GADOE. The fiscal agent is required to submit a completion report (CR), in the Grants Accounting On-line Reporting System (GAORS) by July 31.

(2) The fiscal agents obtain cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, in GAORS. Fiscal agents must return all unobligated funds to the Grants Accounting section with the final PCR. If the fiscal agent has not drawn all the cash it is entitled to at the time the final CR is filed, GAORS' automated process will request the funds when CR is submitted.

SPECIAL EDUCATION - EDUCATION OF STUDENTS WITH DISABILITIES IN STATE-OPERATED OR STATE-SUPPORTED SCHOOLS (P.L. 89-313) (CFDA 84.009)

1. Program description. The program is funded through discretionary funds from Title VI-B (CFDA 84.027) of the Individuals with Disabilities Education Act (IDEA).

2. How the program is funded. This is an entitlement program with funds awarded by formula grant (a per-child amount). State schools, institutions and LUAs must report the number of students by age and area of disability served on December 1 of each year to the Georgia Department of Education (GADOE).

   The state school, institution or its state agency submits a project application for funds annually. The project application includes assurances regarding the provision of a FAPE for students with disabilities, project information and budgets which describe proposed expenditures. FAPE includes procedural safeguards and the development of an individualized education program for each disabled student.

3. Use and use restrictions of funds. Allowable costs are described in Office of Management and Budget (OMB) Circular A-87. Educational Department General Administrative Regulations (EDGAR) applies. Expenditures must provide direct special education or related services to students with disabilities or be necessary for the administration and/or operation of the special education program. Additionally, funds may be withheld from state schools and institutions which do not demonstrate compliance with the Individuals With Disabilities Education Act. Compliance is verified by periodic comprehensive program reviews conducted by the Program Review Unit in the Division for Exceptional Students (DES).

4. Financial management.

   a. Budgeting

      (1) The project application includes a required annual budget for approval of expenditure of funds.

      (2) Unlike grants to LUAs in which the budgets are organized according to the chart of accounts adopted by the GADOE, this grant budget is

organized according to the chart of accounts used by the State of Georgia in the Financial Accounting and Control System (FACS) because the expenditures must be recorded on the GADOE's accounting records by objects different from those used for grants to LUAs.

b. Accounting

(1) There is no program code assigned to this program in the GADOE chart of accounts.

(2) This program is not accounted for in a separate special revenue fund.

(3) The project period is July 1 - June 30.

(4) Unobligated funds from the previous year may be used in the current year as carry-over funds.

(5) No more than 15 percent of the funds allocated may be carried over. This does not apply to projects having less than $50,000 for any fiscal year.

(6) Projects have until June 30 of the next fiscal year in which to obligate and expend the prior fiscal year's funds; i.e., carry-over funds.

(7) Generally, this program requires that funds the GADOE uses for direct and support services (discretionary) must be matched on a program basis from funds other than federal funds. Additionally, state schools and institutions must assure that expenditures of non-federal funds for special education in the current year are at least equal to expenditures in the most recent preceding fiscal year for which information is available.

(8) This program does not require a dollar-for-dollar match (other than the requirement stated above) by state schools and institutions.

(9) State schools, institutions and LUAs must return unobligated funds at the end of the fiscal year, June 30. Funds are re-budgeted in the next fiscal year.

c. Reporting

(1) The completion report (CR) is required to be submitted in the Grants Accounting On-line Reporting System September 30 for current-year funds.

(2) The institution's state agency obtains cash to operate the program by submitting DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, in GAORS.

PSYCHOEDUCATIONAL NETWORK

1. Program Description. The psychoeducational network provides comprehensive special educational services for students with severe emotional and behavioral disorders and students with autism, ages birth through 21 years. The network, as part of the local public school continuum of services for students with emotional and behavioral disorders, is comprised of 24 regional, multi-district, day programs. Services are provided with the belief that these students can be maintained in their communities with a specialized educational program focusing on treatment.

2. How the Program is Funded. The Georgia Legislature appropriates funds for the operation of the 24 psychoeducational programs. The funds, a combination of state and federal, allocated for each program, are determined based on a percentage of the population of the most recent census figures for the counties serviced and the geographic area covered. Each of the 24 regional centers submits a proposal, including DE Form 0885, Budget Summary and Detail, outlining the delivery of services and the proposed expenditure of state and federal funds. The State Board of Education authorizes the Georgia Department of Education (GADOE) to enter into a contract with the fiscal agent, which may be either an LUA or RESA.

3. Use and Use Restrictions of Funds. Indirect cost is only allowable on the 0-14 grant less the director's salary and is calculated using the state-approved restricted percentage of the fiscal agent or three percent, whichever is smaller. State funds may not be utilized to buy snacks or rewards for students. Installation of equipment or renovation of a facility on property not legally the property of the fiscal agent is prohibited. Expenditures for purchases or lease of vehicles or reimbursement for pupil transportation is not an allowable budget item. Insurance coverage may be contracted for program contents. Insurance coverage may be contracted for professional liability and/or accident and health when provided to all staff by the fiscal agent.

   The 15-21 grant funds may not be used for facility rental.

4. Financial Management.

   a. Budgeting

      (1) The fiscal agent for each of the 24 programs submits a budget usually by mid-May for the use of funds which is reviewed and approved by the GADOE prior to the release of the funds.
      (2) The budget is prepared in accordance with the functions and objects

in the GADOE chart of accounts.

b. Accounting

(1) Program code 261X is assigned to this program to identify revenues and expenditures.

(2) Special revenue fund 532, Psycho-educational Center, is assigned in the GADOE chart of accounts to enable fiscal agents to maintain separate budgeting and accounting for this fund.

(3) The project period is July-June.

(4) Carryover is not permitted on state funds but is permitted on federal funds.

(5) There is no limitation on the amount of federal carryover funds.

(6) Federal carryover funds are available for obligation by the program until June 30 of the next fiscal year.

(7) Fiscal effort must be maintained with state funds at a level equal to or higher than the preceding year in order to be eligible for federal funds.

(8) There is no requirement that local funds be used to match state or federal funds received from the GADOE.

(9) At the end of the first grant period, any unobligated state or federal funds are returned to the GADOE. Federal funds are then reallocated to LUAs as carryover for the second fiscal year. Federal funds unobligated at the end of the second fiscal year are returned to the GADOE.

c. Reporting

(1) <u>Completion Report</u>, (CR), is prepared by each fiscal agent and filed in the Grants Accounting On-line Reporting System (GAORS). The final CR for federal funds is due September 30. These funds are included in the annual financial report submitted to the Financial Review section of the GADOE.

(2) State funds are disbursed to the fiscal agent in twelve monthly payments beginning July 1 as part of the QBE payment system. Federal funds are requested from the Grants Accounting On-line Reporting System (GAORS), <u>Quarterly Report of Expenditures and</u>

Estimated Requirement for Grant Funds.

MATHEMATICS AND SCIENCE EDUCATION (CFDA 84.366)

1. Program description. This program provides federal funds for grants to local units of administration (LUAs) to improve the skills of teachers and the quality of instruction in mathematics and science, and to increase the accessibility of such instruction to all students.

2. How the program is funded. LUAs apply annually for grants based on an entitlement formula which uses enrollment and Title 1 eligibility to award funds.

3. Use and use restrictions of funds. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments; however, there is a program requirement that computers may be placed in schools only if there is greater than 50% Title 1 enrollment. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial management.

   a. Budgeting

      (1) The LUA application includes a budget, which is submitted in GADOEs Consolidated Application

      (2) The budget is organized according to the functions and objects in the GADOE chart of accounts.

   b. Accounting

      (1) There is no program code specifically assigned to this program in the GADOE chart of accounts; however, LUAs may assign a program code in the 600X series at their discretion. (LUAs should not duplicate a program code currently assigned in the GADOE chart of accounts.)

      (2) LUAs may account for this program in the general fund, using a program code from the series shown above. A separate special revenue fund is not assigned in the GADOE chart of accounts. As an alternative to (1) above, the LUAs may account for this program as a separate special revenue fund in the 580-588 series from the GADOE chart of accounts, but for state reporting it would be rolled

up and reported as fund 580, All Other Special Revenue funds.

(a) The project period is October-September.

(4) This program permits carryover of current year funds, but the GADOE uses the carryover funds to adjust allocations for the following year. The funds are not automatically carried over by the LUA.

(5) There is no limitation on the amount of funds that may be carried over.

(6) LUAs have until September 30 of the next fiscal year in which to obligate the prior fiscal year's funds, i.e., carryover funds.

(7) This program is l00% federally funded. There is no minimum fiscal effort required of the LUA.

(8) There is no matching requirement. However, these funds must supplement and not supplant state or local funds.

(9) LUAs must return unobligated funds to the Grants Accounting section with its completion report (CR).

c. Reporting

(1) LUAs must submit a final CR for carryover funds, due by September 30 of the carryover year, in the Grants Accounting On-line Reporting System.

(2) LUAs obtain cash to operate this program by submitting DE 147, Quarterly Report of Expenditures and Estimated Requirements for Grant Funds, to the Grants Accounting On-line Reporting System.

TITLE I PROGRAMS - LOCAL EDUCATIONAL AGENCIES (CFDA 84.010) (BASIC AND CONCENTRATION GRANTS)

1. Program description. Federally funded, state administered grants to improve the educational opportunities of educationally deprived children by helping them succeed in the regular school program, attain grade level proficiency and improve achievement in basic and more advanced skills. Funds for basic grants provide financial assistance for educationally deprived children in every local unit of administration (LUA). Concentration grants are designed to augment basic grants in LUAs with very high concentrations of children from low-income families. The purposes are accomplished through such means as supplemental educational programs, schoolwide programs, and increased involvement of parents in their children's education.

2. How the program is funded. Under the basic grant formula, LUAs are entitled to grants based on their numbers of formula children multiplied by a cost factor derived from the state per pupil expenditure for elementary and secondary education. The Georgia Department of Education (GADOE) is responsible for allocating county amounts to independent LUAs in cases where LUAs are not coterminous with counties. Unless otherwise specified in a federal appropriation act, the U.S. Secretary of Education reserves for concentration grants the amount of the Title I LUA program appropriation specified by the Title I legislation. The Secretary determines which counties in the state qualify for concentration grant funds and distributes the concentration funds in accordance with the statutory allocation formula. An LUA must submit an application for the use of funds to the GADOE for approval. The application must contain information that meets statutory and regulatory requirements.

3. Use and use restrictions of funds. A LUA may use Title I funds for projects designed to provide supplemental services to meet the special educational needs of educationally deprived children at the preschool, elementary and secondary school levels. Funds may be used only to pay for service authorized by the legislation and approved by the GADOE in a LUA Title I application. The LUA is prohibited from using funds as general aid to benefit an entire school district or, except in schoolwide projects, all children in a school, grade, or class. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior approval has been obtained from the federal grantor agency.)

4. Financial management.

   a. Budgeting.

      (1) The LUA submits a budget that is part of its Title I application.

      (2) The budget is prepared according to the functions and objects in the GADOE chart of accounts.

   b. Accounting.

      (1) There is no program code assigned in the GADOE chart of accounts since it is accounted for as a separate fund.

      (2) Title I funds must be accounted for in special revenue fund 402, Title I assigned in the GADOE chart of accounts.

(3) The project period is July-September. Funds become available for obligation on July 1 preceding the beginning of the federal fiscal year (October 1) for which they were appropriated until September 30 of the next state fiscal year, a period of fifteen months.

(4) If the LUA does not obligate all its allocation by the end of the next federal fiscal year (September 30), it has the authority to obligate the remaining funds, subject to regulatory limitations, during a carryover period of one additional federal fiscal year (October 1-September 30).

(5) No more than 15 percent of the amount allocated to the LUA for the period July 1 -September 30 of basic grant funds and concentration grant funds may be carried over for one additional federal fiscal year unless the LUA requests a one-time waiver during the federal funding authorization period from the GADOE program manager.

(6) The LUA may obligate first year carryover funds until June 30 of the next fiscal year and September 30 of the second carryover year.

(7) An LUA may receive its full allocation of funds if either the LUA's aggregate or per pupil expenditure of State and local funds for free public education in the preceding year was not less than 90 percent of the expenditures for the second preceding year, i.e., expenditures in FY ‘09 not less than 90 percent of FY ‘08. Properly justified, a one-time waiver may be granted by the GADOE.

(8) Title I program does not require that funds be matched with local funds.

(9) At the end of a funding period the LUA refunds to the GADOE any unobligated funds.

c. Reporting.

(1) At the end of each project the LUA submits a preliminary project completion report (PCR), DE Form 0375, to the Grants Accounting section by July 31 for current year funds. A final PCR is due by September 30 for current year funds.

An LUA must submit a separate application, including a budget, to the GADOE for approval to operate a summer project. Summer projects are conducted during the months of June, July, and August.

However, the duration of a summer project may vary. The LUA uses Basic and Concentration grant funds, including carryover, to fund a summer project. If the LUA has a Summer project, a final PCR is due 30 days after the project ends.

Although an LUA has until September 30 to obligate current federal year funds, it cannot carryover more than 15 percent of its current year allocation. (The LUA may include expenditures through September 30, Summer project expenditures and expenditures for the period July-September to meet the 85 percent carryover minimum.) Therefore, the Grants Accounting section reviews the LUA's CR to determine if it will obligate at least 85 percent of its allocation by September 30. If not, the LUA must submit an interim CR, in GAORS by a date specified by Grants Accounting section showing how much was spent by the July-September first year carryover period. Grants Accounting Section uses this information to advise the Title I program manager of those LUAs who are exceeding the 15 percent limitation on carryover funds for the remaining twelve months. The program manager uses this information to reallocate carryover funds in excess of 15 percent.

(2) The LUA submits Quarterly Report of Expenditures and Estimated Requirements of Grant Funds, to the Grants Accounting On-line Reporting System.

TITLE I
STATE PROGRAM IMPROVEMENT GRANTS (CFDA 84.010)

1. Program description. Federally funded state administered grants to local units of administration (LUA) are used for direct educational services in schools implementing required program improvement plans. This grant is currently mandated in the Title I Basic Grant Allocation.

2. How the program is funded. The LUA may submit a separate application to the GADOE Consolidated Application for program improvement funds to be used for direct educational services in schools implementing a program improvement plan.

3. Use and use restrictions of funds. Program improvement funds may not be used for administrative functions related to the Title I program. All program improvement funds must be used to improve direct educational services for children at a school required to have a program improvement plan. This program is governed by the U.S. Department of Education's General Administrative Regulations (EDGAR), which is codified in Title 34 of the Code of Federal Regulations (CFR). The requirement for an annual audit is contained in an Appendix to Part 80 of EDGAR. Allowable costs are governed by OMB Circular A-87, Cost Principles for State and Local Governments. (See Exhibit V-41-1 which lists unallowable costs unless prior

approval has been obtained from the federal grantor agency.)

4. Financial Management.

   a. Budgeting.

      (1) The LUA submits a budget to fund an approved application for use of program improvement funds.

      (2) The budget is prepared according to the functions and objects in the GADOE chart of accounts.

   b. Accounting.

      (1) There is no program code assigned in the GADOE chart of accounts since it is accounted for as a separate fund.

      (2) Program improvement funds must be accounted for in special revenue fund 402, Title I, assigned in the GADOE chart of accounts. A separate bank account is not required.

      (3) The project period is July-June.

      (4) Title I regulations provide a 15- month period during which funds are available for obligation. Title I funds become available on July 1 preceding the beginning of the federal fiscal year for which they are appropriated and remain available until September 30. If the LUA does not obligate all of its state program improvement grant by September 30, the GADOE has the authority to reallocate the excess funds to other LUAs based on an application. If the GADOE re-allocates the funds to another LUA, the LUA has until September 30 of the next fiscal year to obligate the funds.

      (5) There is no limitation on the amount of program improvement funds that the GADOE may carry over.

      (6) The GADOE may obligate carryover funds until September 30 of the second succeeding state fiscal year.

      (7) If the LUA meets the maintenance of effort requirement to receive Title I Basic and Concentration grants it may receive program improvement funds.

      (8) To receive program improvement funds a LUA is not required to provide matching local funds.

(9) At the end of a funding period, the LUA refunds to the GADOE any unobligated funds.

c. Reporting.

(1) At the end of each project the LUA submits a completion report (CR) to the Grants Accounting On-line Reporting System by September 30 for current year funds.

(2) The LUA submits DE Form 0147, Quarterly Report of Expenditures and Estimated Requirements of Grant Funds, to the Grants Accounting On-line Reporting System to obtain cash to operate.

INTEREST ON FEDERAL FUNDS

Federal programs subject to the U.S. Department of Education's General Administrative Regulations (EDGAR) must draw funds from the GADOE as close as administratively feasible to the disbursement date. The GADOE uses DE Form 0147, Quarterly Report of Expenditures and Estimated Requirement for Grant Funds, as its mechanism for disbursing funds to local units of administration (LUA) for those state and federal programs which are not on a reimbursement basis. The instructions on the form require the LUAs to estimate their cash disbursements by month for the next quarter. For example, cash disbursements for each month in the quarter of July-September are due to the GADOE by June 15. A payment schedule is set up by the GADOE to electronically transfer funds monthly through the automated clearing house (ACH) according to DE Form 0147, Quarterly Report of Expenditures and Estimated Requirements for Grant Funds.

The Georgia Department of Audits performs an audit test on the LUA's cash draw procedures to determine if excess cash is being drawn from the GADOE. If the test shows that the cash balances exceed a certain tolerance (currently 4% of the annual grant amount), the LUA is cited for having excess cash on hand. The LUA must file a corrective action plan (CAP) setting forth the changes it will make to conform to the required cash draw procedures.

INTEREST ON STATE FUNDS

The GADOE has no regulation governing interest earned on state funds disbursed to local units of administration (LUA). Funds for most state programs are either on a reimbursement basis or are earned on a per student basis.

These funds take on the character of local funds upon receipt and may be invested according to the LUA's local investment practices.

ACCOUNTING FOR STATE AND FEDERALLY FUNDED TANGIBLE PERSONAL

PROPERTY (EQUIPMENT) AND SUPPLIES

INTRODUCTION

The reader should review Chapter I-12, Inventory Accounting for Consumable Supplies; Chapter 16, Capital Assets; Chapter III-4, Inventories; and Chapter IV-7, Implementing a Capital Assets Management System for an overall understanding of accounting for, and reporting assets and supplies.

Tangible Personal Property (Equipment) is one component of the accounting term capital assets. The other components of capital assets include buildings and land acquired by outright purchase or acquired through capital lease-purchase agreement(s). Once capital lease payments are completed, the assets are legally owned. However, from an accounting position, they are owned when the capital lease is entered into.

Under generally accepted accounting principles (GAAP), capital assets should be recorded as an expenditure when purchased by a governmental fund and should be reported in the Capital Assets on the Balance Sheet. Fixed assets purchased by a proprietary fund type should be recorded as assets of that fund at the time of purchase. For example, some local units of administration (LUAs) operate a building trades program where students build houses and sell them, usually at cost, to finance further construction. Other LUAs may operate a school supplies store for the convenience of students. Normally these activities would be accounted for in a proprietary fund classified as an Enterprise Fund. Any assets acquired with resources from these activities would be capitalized as assets of these funds.

DEFINITION OF TANGIBLE PERSONAL PROPERTY (EQUIPMENT). It is important that a consistent definition be applied to each LUA transaction covering tangible personal property. The GADOE uses LUA financial information for many different purposes including an annual summary of LUA expenditures submitted to the federal government. This summary is used in a variety of publications which report on the condition of public education in the United States. An important statistic in these publications is a calculation of current expenditures per pupil. Not only is current expenditure per pupil an important measure of fiscal effort each state is providing to public education, it is used also in calculating state entitlements for Title I, Individuals with Disabilities and other federal programs.

Expenditures for property including land, buildings, and equipment (charged to object codes 700 - 799 inclusive) are <u>excluded</u> from the calculations of current expenditures. Therefore, it is important that LUAs follow specific criteria in determining whether a transaction for tangible personal property is an equipment expenditure or a supply expenditure. For programs funded in whole or in part by state funds or U. S. Department of Education (USDE) federal program funds that pass through GADOE, tangible personal property (equipment) is defined as follows:

Equipment is a material item of a non-expendable nature, such as a movable unit of furniture or furnishings, an instrument or apparatus, a machine (including attachments), an instructional skill training device, or a set of small articles whose parts are replaceable or repairable, the whole retaining its identity and utility over a period of time which is characteristic of and definable for items of its class. It has a life expectancy of two or more years and a unit cost of $5,000.00 or more.

Another exception in USDA funded programs is that equipment purchased for the Nutrition Education and Training Program and the School Breakfast Start-up funds is defined as tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of $5,000 or more. LUAs participating in these programs should follow this definition.

LUAs should test each transaction covering tangible personal property against these criteria to ensure that equipment is being classified properly.

LEASING. In government, leases are classified as either capital or operating. The accounting and reporting principles differ for each, as explained below.

LEASE PURCHASE OF EQUIPMENT. GAAP requires that equipment acquired through a lease purchase agreement (i.e., a capital lease) be capitalized. Governmental GAAP adopts the criteria set forth in the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting (SFAS) No. 13, Accounting for Leases. SFAS No. 13 sets forth criteria for determining whether a lease is capital or operating. The first two criteria are commonly used. At least one of the criteria should be met for the lease to be classified as a capital lease. The criteria follow:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.

2. The lease contains a bargain purchase option.

3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

4. The present value at the beginning of the lease term of the minimum lease payments excluding that portion of the payments representing executory costs to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. A lease shall compute the present value of the minimum lease payments using (the lessee's) incremental borrowing rate unless (i) it is practicable for [the lessee]

to learn the implicit rate computed by the lessor and (ii) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both of these conditions are met, the lessee shall use the implicit rate.

In governmental fund types, GAAP requires that LUAs report on the operating statement the present value of future minimum lease payments (usually this is equal to the cost of the leased property) as an expenditure and as "other financing sources" in the year the lease is entered into. Subsequent lease payments should be reported as debt service payments.

OPERATING LEASES. If a lease does not meet the capital lease criteria illustrated above, it is classified as an operating lease. If no payments are made at the inception of the lease agreement, no entry is required on the LUA's books.

DONATED EQUIPMENT. Donated equipment is recorded in the capital asset inventory system like any other capital assets. In the accounting records, no entry is required to report the donation on the LUA's operating statement. The donation is reported in the capital assets by source. Donated fixed assets should be valued at fair market value on the date donated and added to the inventory system, primarily for insurance coverage purposes.

LOANED EQUIPMENT. Loaned equipment is recorded in the capital asset inventory system like any other capital assets. Obviously, no purchase price is added to the system.

EQUIPMENT FUNDED IN WHOLE OR IN PART WITH FEDERAL FUNDS. The Federal Office of Management and Budget (OMB) has published regulations that establish uniform administrative rules for federal grants and cooperative agreements and sub-awards to state, local and Indian tribal governments. These revised regulations, known as the Common Rule, must be adopted by all federal agencies unless the enabling law for a specific grant program prescribes policies or requirements that differ from the Common Rule, then the provisions of the enabling legislation govern. Although the applicability of the Common Rule to all federal programs is clouded somewhat by the exclusions written into it, the GADOE adopts the provisions of the Common Rule in respect to the use, management, and definition of equipment purchased in whole or in part with federal funds--except that the definition of equipment for property management purposes shall follow the state's definition, which is more restrictive than the federal definition.

The following requirements are adopted from USDOE's Title 34 of the Code of Federal Regulations (CFR), Part 80, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, which is a codification of the common rule referred to above. This part will govern the use, management and disposition of tangible personal property purchased in whole or in part with federal funds made available to LUAs through the GADOE from the USDE. 34 CFR 80 governs most elementary and secondary education programs administered through the GADOE.

In addition, the USDA publishes regulations governing tangible personal property in 7 CFR 3015, Uniform Federal Assistance Regulations, which differ in minor ways from the regulations published by the USDOE. The USDA regulations prescribe specific actions an LUA must take when equipment is damaged, lost, or stolen. If any USDA-funded equipment is damaged, lost or stolen, the LUA must contact the Accounting Services Division in GADOE for instructions. Otherwise, the USDOE regulations cited above may be applied to the use, management and disposition of tangible personal property financed in whole or in part by funds from the USDE or the USDA.

LUAs may receive federal grants directly from many other sources such as the Department of Defense, the Environmental Protection Agency, National Science Foundation and other federal agencies. Also, LUAs may receive federal grants from City or County governments, state agencies, colleges, and others. LUAs should ensure that the terms of such grants provide guidance for accounting for equipment if the definition for equipment differs from these guidelines. In lieu of such guidance the provisions of this chapter should be followed.

TITLE. Title to state or federally funded equipment acquired by an LUA shall rest with the LUA with two exceptions.

1. The federally funded migrant program is a state operated program and title to all equipment acquired through this grant remains with the state.

2. Title to all computer equipment purchased with state funds remains with the state for the accounting and student information reporting system.

USE. Equipment shall be used by the LUA in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by federal funds.

The LUA also shall make equipment available for use on other projects or programs currently or previously supported with federal funds, providing such use will not interfere with the work on the projects or program for which it originally was acquired. First preference for other use shall be given to other programs or projects supported by similar federally funded programs.

The LUA must not use equipment acquired with federal funds to provide services which are funded by a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by the terms of the grant.

When acquiring replacement equipment, the LUA may use the equipment to be replaced as a trade-in or sell the equipment and use the proceeds to offset the cost of the replacement equipment.

MANAGEMENT REQUIREMENTS FOR EQUIPMENT FUNDED IN WHOLE OR IN PART WITH STATE OR FEDERAL FUNDS

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with state or federal funds, until disposition takes place will, as a minimum, meet the following requirements:

1. Equipment records must be maintained that include a description of the equipment, a serial number or other identification number, the vendor, title holder, acquisition date and cost, source of funding, percentage of federal participation in the cost of the equipment, the location, use and condition, and any ultimate disposition data including the date of disposal and sale price of the equipment.

2. A physical inventory of the equipment must be taken and the results reconciled with equipment records annually.

3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft shall be investigated by the LUA. Thefts should be immediately reported to a law enforcement agency. A copy of the investigative report should be retained with the inventory records as proof of loss. LUAs should carry adequate insurance to protect assets.

4. Adequate maintenance procedures must be developed to keep the equipment in good condition.

5. If the LUA is authorized or required to sell the equipment, sales procedures must be established to ensure the highest possible return.

FEDERALLY OWNED EQUIPMENT. In some federal grants the government furnishes equipment to the LUA. In the event an LUA is provided such equipment (other than surplus property) then:

I. Title will remain vested in the federal government.

2. LUAs will manage the equipment in accordance with federal agency rules and procedures, and submit an annual inventory listing to the federal grantor.

3. When the equipment is no longer needed, the LUA will request disposition instructions from the federal agency.

4. The federal awarding agency may reserve the right to transfer title to the federal government or a third party named by the awarding agency when such a third party is otherwise eligible under existing statutes. Such transfers shall be subject to the following standards:

(a) The property shall be identified in the grant or otherwise made known to the LUA in writing.

(b) The federal awarding agency shall issue disposition instructions within 120 calendar days after the end of the federal support of the project for which it was acquired. If the federal awarding agency fails to issue disposition instructions within the 120 calendar-day period, the LUA shall follow the instructions below under DISPOSITION.

5. When title to equipment is transferred to another entity, the LUA shall be paid an amount calculated by applying the percentage of local funds in the purchase to the current fair market value of the equipment.

DISPOSITION. When original or replacement equipment acquired with state or federal funds no longer is needed for the original project or program or for other activities currently or previously supported by state or federal funds, disposition of the equipment will be made as follows:

1. Items of equipment with a current fair market value of less than $5,000 per unit may be retained, sold or otherwise disposed of with no further obligation to the GADOE.

2. Items of equipment with a current fair market value in excess of $5,000 per unit may be retained or sold. The GADOE shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the GADOE's share of the initial funds used to purchase the equipment.

RECORD RETENTION OF EQUIPMENT FUNDED IN WHOLE OR IN PART WITH STATE OR FEDERAL FUNDS

Records supporting the acquisition of equipment as defined herein shall be maintained for a period of five years from the date of the disposition or replacement or transfer. This retention period applies to all state and federally funded programs. Microfilm or digital records are acceptable as original records.

<u>SUPPLIES FUNDED IN WHOLE OR IN PART WITH STATE OR FEDERAL FUNDS</u>

1. TITLE. Title to supplies acquired with state or federal funds will vest, upon acquisition, in the LUA except as noted in 2. below.

2. DISPOSITION. If there is a residual inventory of unused supplies exceeding $5,000 in total aggregate fair market value upon termination or completion of the grant, and if the supplies are not needed for other federally sponsored programs or projects, the LUA shall compensate the federal government for its share. The LUA has no obligation to compensate GADOE for the value of unused supplies

purchased with state funds.

Exhibit V-41-1

UNALLOWABLE COSTS OF FEDERAL PROGRAMS

The following expenditures are generally unallowable as charges to federal programs. There are exceptions, of course, and the LUA should be informed of specific exceptions or additional restrictions when it receives notice of a grant award. If there is any doubt as to the allowability of a specific cost not identified in this exhibit, the LUA should contact the GADOE (either the program manager or the Grants Accounting section for guidance; for USDA programs LUAs should contact either the School/Community Nutrition Division or Accounting Services Division).

1. Bad Debts. Any losses arising from uncollectible accounts and other claims, and related costs.

2. Contingencies. Contributions to a contingency reserve or any similar provision for unforeseen events. (Editor's note: Contributions to an unemployment compensation reserve are not considered a contingency and are allowable provided all programs are assessed equitably.)

3. Contributions and donations.

4. Entertainment. Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities.

5. Fines and penalties. Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations.

6. Chief executive's expenses. The salaries and expenses of the chief executive, i.e., superintendent.

7. Interest and other financial costs. Interest on borrowings, bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith unless authorized by Federal legislation. With the advent of lease purchasing, the payments of which may include a stated or unstated interest rate, the Federal government is beginning to allow interest costs. The Title I program now allows this cost. If an LUA's grant should include equipment which may be obtained by lease purchase, the LUA should consult the GADOE program manager to determine if interest costs of the lease purchase are allowable.

8. Legislative expenses. Salaries and other expenses of the local school board, whether incurred for purposes of legislation or executive direction.

9. Underrecovery of costs under grant agreements. Any excess cost over the Federal contribution under one grant cannot be charged to another Federal grant.

EXHIBIT V-41-2
FEDERAL REGULATIONS APPLICABLE TO EDUCATION AND SCHOOL NUTRITION PROGRAMS

A brief explanation of the purpose of the federal regulations governing the financial management of education and school nutrition programs is provided below. In addition, there are specific federal program regulations not included here that also govern both education and school nutrition programs. LUA personnel working with federal programs should also be cognizant of the regulations which GADOE program managers promulgate for federally-funded education programs. These regulations often contain financial management requirements.

EDUCATION PROGRAMS

Regulations covering education programs funded by the U.S. Department of Education (USDE) are codified in the Code of Federal Regulations, (CFR), Title 34, as follows:

Part 74 establishes uniform requirements for the administration of grants and principles for determining costs applicable to activities for all grantees other than state and local governments and Indian tribal organizations.

Part 76 establishes general requirements that a State must meet to apply for a grant under a program covered by this part.

Part 77 defines terms that apply to USDOE regulations.

Part 79 establishes procedures for the intergovernmental review of federal programs. Simply put, this regulation is intended to make sure that a proposed federal program is reviewed by interested agencies at the state level so that there is no overlapping of funding or interests. For example, a project to build a dam is being funded by one federal agency while another federal agency is funding a project to build an interstate through the same area.

Part 80 establishes uniform administrative rules for federal grants and cooperative agreements and subawards to State, local and Indian tribal governments. Part 80 and OMB Circular A-102 are the same regulation. A-102 is the OMB designation, but the USDOE codified it in Part 80 of 34 CFR.

Part 81 describes the enforcement provisions of the General Education Provisions Act (EDGAR) All of the parts described herein comprise EDGAR.

Part 82 sets forth the prohibition against lobbying by recipients of federal funds.

Part 85 sets forth government-wide debarment and suspension procedures and establishes requirements for maintenance of a drug-free workplace.
Part 86 implements a federal law that requires as a condition of receiving federal funds a recipient must certify that it has adopted and implemented a drug prevention program.

Circular A-87, Cost Principles for State and Local Governments, is the authority for determining allowable costs of federally-funded public education programs. Unlike A-102 and A-128 which are codified in Part 80 of CFR 34, Circular A-87 is a stand-alone regulation that is simply referenced in Part 80.22.

The importance of this document in managing the expenditures of federal programs cannot be minimized. LUA personnel who have responsibility for approving federal program expenditures should be knowledgeable of the contents of this document. A-87 is too lengthy to include in this chapter, but the section listing unallowable costs is reproduced as Exhibit V-41-1 and will serve as a reference source to ensure that specific unallowable costs are not charged to federal programs. In some instances costs listed as unallowable in Circular A-87 may be approved by the federal grantor agency. LUAs should inquire of the GADOE program manager if any such costs have been approved before incurring the expenditure. LUAs which are interested in obtaining the entire publication may receive two free copies by writing to the

Superintendent of Documents
Publications Office
732 North Capitol Street NW
Washington DC 20401

or the publication may be obtained at the following web address: http://www.whitehouse.gov/omb/circulars/a087/a087-all.html

OMB Circular A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, sets for the administrative requirements for federal grants programs and covers such topics as financial administration, property, equipment, reports, records, etc. This circular is codified as subpart A in 34 CFR Part 80.

OMB Circular A-128, Audit Requirements for State and Local Governments, establishes the single audit as the mechanism for auditing federal programs. This circular is codified as subpart E in 34 CFR Part 80.

SCHOOL NUTRITION PROGRAMS

Part 3015, Uniform Federal Assistance Regulations, of Title 7 of the CFR sets forth the requirements applicable to all grants and cooperative agreements funded by the U. S. Department of Agriculture (USDA). This part generally parallels the requirements set forth in 34 CFR for education programs. Like EDGAR the purpose is establish USDA-wide uniform requirements for the administration of grants and cooperative agreements and sets forth the principles for determining allowable costs. LUA personnel working with federal programs should also be cognizant of the program regulations which the GADOE School and Community Nutrition Division promulgates. These regulations often contain financial management requirements.

There are twenty subparts to Part 3015, each dealing with a specific aspect of financial management of USDA programs, as follows:

SUBPART	**TOPIC**
A	General
B	Cash Depositories
C	Bonding and Insurance
D	Record Retention and Access Requirements
E	Waiver of "Single" State Agency Requirements
F	Grant Related Income
G	Cost-Sharing or Matching
H	Standards for Financial Management Systems
I	Audits
J	Financial Reporting Requirements
K	Monitoring and Reporting Program Performance
L	Payment Requirements
M	Programmatic Changes and Budget Revisions
N	Grant and Subgrant Closeout, Suspension and Termination
O-P	Reserved
Q	Application for Federal Assistance
R	Property
S	Procurement
T	Cost Principles
U	Miscellaneous
V	Intergovernmental Review of Department of Agriculture Programs and Activities

The document may be viewed at the following web address:
http://www.access.gpo.gov/nara/cfr/waisidx_05/7cfr3015_05.html

Chapter V – 2 School Nutrition Program Accounting Procedures

INTRODUCTION

This chapter provides fiscal personnel in the central office who work in the School Nutrition Program with detailed instructions on accounting and reporting of these funds. This information was previously included in the Recordkeeping Guide furnished to each local school system; it has been updated for inclusion in this manual.

In other chapters of this manual, local school systems are referred to as local units of administration. The Quality Basic Education law, in O.C.G.A. 20-2-242, defines local school systems and regional educational service agencies as "local units of administration", abbreviated as LUA. However, for the purpose of this chapter, the LUA will be referred to as the School Food Authority (SFA) as this term designates the LUA for all matters relating to the School Nutrition Program (SNP).

All acronyms are spelled out the first time; thereafter, the acronym is used.

While this chapter relates specifically to the SNP program, the reader is encouraged to consult the entire manual as the other chapters contain information that covers all aspects of financial management and governmental accounting.

In most of the Georgia school districts, the SNP Fund is reported as a Special Revenue Fund, in which revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become measurable and available. The term "measurable" means the amount of revenue is known or can be estimated. The term "available" means that the revenue is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures should be recognized in the accounting period in which the fund liability is incurred. Some districts elect to treat the SFN as an Enterprise Fund, where revenues are recognized when earned and expenses are recorded when incurred. See Chapter 19 of this manual. For purposes of discussion here, SFN is treated as a Special Revenue Fund.

A subsidiary ledger must be maintained for each school and for the central office operation, using the revenues, expenditures and balance sheet accounts in the Chart of Accounts (see Appendix C) published by the Georgia Department of Education (GADOE). In most computerized accounting systems, this objective is achieved by assigning sub-fund codes to each entity, i.e., 601, 602, etc. On a monthly basis, the subsidiary ledger accounts are combined into a general ledger for the SNP program. The amounts reflected in the accounting records are to be used for all financial reporting.

SCHOOL NUTRITION PROGRAM ACCOUNTING PROCEDURES

Instructions on accounting principles and procedures are provided in alphabetical order, by topic, for the types of transactions which may be expected to occur in the operation of the SNP program. Since electronic reporting is required for the annual financial reports to the GA DOE, it will be necessary for account balances from separate SNP accounting systems or manual records to be entered into the school food authority's (SFA) computer at fiscal year-end before transmitting the financial report to the GA DOE.

ACCOUNTS PAYABLE

Expenditures are to be recorded in the accounting records when they are incurred. Incurred means that the goods and services have been received and will be paid for from current resources. Past due amounts that should be payable from current resources are included in the definition. Invoices should be recorded in the appropriate expenditure accounts when received, or at least weekly. In all instances, invoices must be recorded by the end of the month. The expenditure is offset by an accounts payable credit. In the illustrated journal entries that follow, special revenue fund 601 is used; SFAs would use the account code assigned to the SNP special revenue fund.

Description	Account No.	DR	CR
Supplies	601-9990-3100-61000	$ 100	
Accounts payable	601-0000-0421		$ 100

To record purchase of supplies for SNP

When the vendor check is written (either in the current month or in a later month), the accounts payable amount is cleared:

Description	Account No.	DR	CR
Accounts payable	601-0000-0421	$ 100	
Cash in bank	601-0000-0101		$ 100

To record payment of supplies invoice

Labor costs, including salaries paid to employees who are not 12-month employees, must be reported as expenditures in the reporting period that the labor costs are incurred. Hourly rates are multiplied by the number of hours worked in the reporting period to which the matching benefits are added. The amount withheld for summer salaries must be set up as a liability in the accounts payable account. It is recommended that an "accounts payable/summer salaries" account be used in lieu of the regular accounts payable account, e.g., 0422. If any account number other than 0421 is used, it will be necessary to roll the account number into 0421 prior to transmitting the year-end financial report o the GADOE. This balance is to be reported each month, along with all other payables, as Total Liabilities on the Form DE0106 Balance Sheet Tab.

By recording and reporting the total labor costs and other expenses incurred each month, the SFA enables the GADOE to allocate monthly expenditures to the meals served in the respective month to develop a more accurate plate cost. This information is also used in monitoring net worth and other aspects of financial management. Detailed instructions for accruing summer salaries are given under the topic "Summer Salaries."

A detailed listing by vendor and amount must be maintained of the accounts payable account; the total of which must agree with the total of the accounts payable account in the general ledger.

ACCOUNTS RECEIVABLE

Revenues which are earned but not received by the end of a month must be accrued. An accounts receivable entry is posted, by school, to record the revenue. The following entry will be required for the month's breakfast and lunch accrued revenue:

Description	Account No.	DR	CR
Intergovernmental accts receivable	601-0000-0141	$ 500	
SNP Grants, Lunch (All federal funds except breakfast)	601-9990-4510		$ 350
SNP Grants, Breakfast (All federal breakfast funds)	601-9990-4511		150

To record lunch and breakfast revenue for September

All receivables for earned revenues from sources other than governmental agencies should be debited to account 0153, Accounts Receivable.

In the succeeding accounting period, when the check is received for the accounts receivable amount, the following entry should clear the balance in the receivable account, unless there is other revenue not yet collected. For example:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 500	

Intergovernmental accts receivable	601-0000-0141	$ 500

To record receipt of September lunch and breakfast revenue

State reimbursement is not normally accrued, since the funds are usually received during the month when due. However, if the State reimbursement for a particular month has not been received before the last day of the month, it should be accrued in the accounting records.

BANK RECONCILIATIONS

Monthly bank reconciliations are required and should be performed as soon as possible after receipt of the statement. The bank statement will contain transactions through the last day of the month and the balance should be reconciled to the cash balance in the general ledger and subsidiary ledgers as shown on the books as of the last day of the month. The format on the reverse side of most bank statements may be used or a form may be established by the SFA for reconciliation purposes.

If it is determined that corrections are required by the bank, the bank should be notified immediately. If it is determined that corrections are required in the SFA's accounting records, the corrections should be made immediately in the current month's accounting records.

A recommended format for bank reconciliations is shown below:

BALANCE PER BANK STATEMENT, (Date)		________________
PLUS DEPOSITS IN TRANSIT	+ ________________	
LESS OUTSTANDING CHECKS		- ________________
BANK CORRECTIONS NEEDED (+ or -)		________________
RECONCILED BANK BALANCE		________________*
BALANCE PER ACCOUNTING RECORDS, (Date)		________________
PLUS INTEREST EARNED		+ ________________
LESS BANK CHARGES, ETC.	- ________________	
ACCOUNTING CORRECTIONS NEEDED (+ or -)		________________
RECONCILED BOOK BALANCE		________________*

*These amounts must be in agreement. Entries should be made to post interest earned and bank charges to the cash account. In addition, any bank corrections needed should also be posted.

It is recommended that the signature or initials of the person reconciling the bank statement, along with the date of the reconciliation, be included in the reconcilement.

CHANGE FUNDS

When a change fund is desired at a school cafeteria, a check is written to the person who will be responsible for the funds with the notation "change fund." For example:

Jane Doe
Change Fund for Pinetree Elementary

The person to whom the check is issued is responsible for the use and safe-keeping of the change fund. The accounting entry to record the check is as follows:

Description	Account No.	DR	CR
Change fund	601-0000-0104	$ 200	
Cash in bank	601-0000-0101		$ 200

To record establishment of change fund at Pinetree Elementary

The check is cashed and the change fund is established. The change fund must be kept in a secure locked storage place at all times when not being used for making change. At the end of the fiscal year (June 30) it is necessary to return the cash to the bank account. The accounting entry to record the deposit is as follows:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 200	
Change fund	601-0000-0104		$ 200

To close change fund at Pinetree Elementary

CONTRACTED MEALS

When a SFA provides meals on a contracted basis (such as to Head Start), an invoice should be issued at month-end for the total amount due for the meals. The invoice should be recorded in the accounting records before the books are closed at month end as follows:

Description	Account No.	DR	CR
Accounts receivable	601-0000-0153	$ 750	
Contracted meals	601-9990-1623		$ 750

To record billing for contracted meals

When the payment is received from the contracting agency and deposited, it should be recorded as follows:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 750	
Accounts receivable	601-0000-0153		$ 750

To record receipt of contracted meals payment

DAILY CAFETERIA RECEIPTS

Each day, the cafeteria receipts for student income, adult income and supplemental sales income should be verified and recorded by category. The funds should be deposited daily and the deposit slips retained with the income records for documentation, along with the daily cash report. The daily cash receipts should be verified by more than one person (for example, the manager and the cashier).

It is recommended that a weekly form be developed, which lists the daily receipts by account. This form should be submitted to the central office each week, along with copies of deposit slips which verify deposit of the total collections each day. A weekly total by account should be shown and should balance to the sum of the daily totals. The weekly total should be recorded in the accounting records, using the dates in the description of the transaction as follows:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 2,315.50	
Student sales - breakfast and lunch progs.	601-9990-1611		$ 1,408.25
Supplemental sales - breakfast and lunch progs.	601-9990-1621		231.75
Adult sales - breakfast and lunch progs.	601-9990-1622		675.50

To record deposit of SNP revenue for the week of / mm/dd/yy - mm/yy/dd for Pinetree Elementary

When a school has charged meals for students and/or adults, a record should be kept of the charged meals and collections should be made on a regular basis.

FOOD INVENTORIES

To comply with generally accepted accounting principles (GAAP), SFAs should record food inventories on the balance sheet of their financial statements. Revenues and expenditures related to the United States Department of Agriculture (USDA) donated commodities program should also be recorded in the financial statements.

There are two allowable methods to account for inventories under GAAP: the purchases method and the consumption method (See Chapters I-12, I-17 and III-4).

Generally accepted auditing standards (GAAS) usually require the auditor to be present at the time of the physical inventory count and observe the effectiveness of the methods of taking inventory and the measure of reliance placed upon the quantities and physical condition of the inventories. However, proper internal controls can compensate for the auditor's absence when the year-end physical inventory is taken. GAAP require the use of the consumption method at the government-wide level.

PURCHASES METHOD

Under the purchases method, food acquisitions are charged to expenditures when purchased and the amount of actual inventories on hand at the end of the month must be reported on the balance sheet of the financial statements. A count of the items in the food inventories would be taken at month-end and costed, based upon an accepted method of valuation.

Description	Account No.	DR	CR
Inventory for consumption	601-0000-0171	$ 5,000	
Fund balance-reserved for inventories	601-0000-0751		$ 5,000

To record value of purchased food inventory at month-end

Description	Account No.	DR	CR
Inventory of USDA commodities	601-0000-0173	$ 3,000	
Fund balance-reserved for inventories	601-0000-0751		$ 3,000

To record value of USDA commodities inventory at month-end. At the end of each month, these accounts would be debited or credited to reflect the actual values of inventory on hand. During the FY, as purchased food and USDA commodities are received, the journal entries are:

Description	**Account No.**	**DR**	**CR**
Purchased food	601-9990-3100-6300	$ 750	
Accounts payable	601-0000-0421		$ 750
To record purchased food received			
Food Acquisitions - USDA	601-9990-3100-6350	$ 1,250	
Revenue attributable to USDA commodities	601-9990-4900		$ 1,250
To record USDA commodities received			

Note – USDA inventory values are usually posted on the GADOE portal by mid-June for the ensuing fiscal year.

Then, based upon a physical inventory at the end of the fiscal year, the food inventories would be entered on the balance sheet of the financial statements by the following entry:

Description	**Account No.**	**DR**	**CR**
Inventory for consumption	601-0000-0171	$ 5,325	
Fund balance-reserved for inventories	601-0000-0751		$ 5,325
To reserve value of food inventory at 6/30/XX			
Inventory of USDA commodities	601-0000-0173	2,200	
Fund balance-reserved for inventories	601-0000-0751		2,200
To reserve value of USDA commodities at 6/30/XX			

Note: Under the purchases method, physical inventories would be taken at the end of each month.

These entries would be reversed at the beginning or end of the next FY:

Description	Account No.	DR	CR
Fund balance-reserved for inventories	601-0000-0751	$ 5,000	
Inventory for consumption	601-0000-0171		$ 5,000
Fund balance-reserved for inventories	601-0000-0751	3,000	
Inventory of USDA Commodities	601-0000-0173		3,000

CONSUMPTION METHOD

When the consumption method is used, purchased food and USDA commodities are recorded in the Inventory for consumption account in the general ledger at the time of the purchase:

Description	Account No.	DR	CR
Inventory for consumption	601-0000-0171	$ 1,200	
Accounts payable	601-0000-0421		$ 1,200
To record purchased food received			
Inventory of USDA commodities	601-0000-0173	745	
Revenue attributable to USDA commodities	601-9990-4900		745
To record USDA commodities received			

As the foods are used, the inventory accounts are reduced and the food expenditure accounts are charged with the expenditures:

Description	Account No.	DR	CR
Purchased food	601-9990-3100-63000	$ 700	
Inventory for consumption	601-0000-0171		$ 700

To record purchased food used

Description	Account No.	DR	CR
Food Acquisitions - USDA	601-9990-3100-63500	300	
Inventory of USDA commodities	601-0000-0173		300

To record USDA commodities used

At a minimum, the inventory charges to the expenditure accounts, i.e., Purchased Food and Food Acquisitions - USDA, should be posted on a monthly basis.

Note: Under the consumption method, perpetual inventories would be maintained.

INTEREST EARNED

Interest earned on SNP investments or checking accounts must be credited as revenue in the SNP fund. The entry to record the revenue is:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 79	
Earnings on investments or deposits	601-9990-1500		$ 79

To record interest earned

When the interest amount is known but not received by the end of the month (such as with a maturing certificate of deposit), the amount should be accrued before closing the books for the month. An example of the entry to record the revenue accrual is:

Description	Account No.	DR	CR
Interest receivable	601-0000-0114	$ 115	

Interest earned	601-9990-1500	$ 115

To record interest earned but not received

Refer to the topic "ACCOUNTS RECEIVABLE" for further information on accruals of revenue and subsequent receipt of the amount accrued.

It is recommended (but not required) that a separate checking account be maintained for SNP. When SNP funds are maintained in the general operating account with other funds, it is necessary to credit the SNP fund with the pro-rata share of interest for the SNP funds.

INTERNAL CONTROL PROCEDURES

The SFA's accounting and administrative internal control policies and procedures generally should include:

- Proper authorization of transactions and activities
- Adequate segregation of duties
- Adequate documentation and records
- Adequate safeguards over access and use of assets and records
- Independent verifications on performance

The following procedures are recommended to insure good internal control:

- The bank statement should be reconciled promptly by someone other than the person who writes checks or records the cash transactions.

- Bank reconciliations should be reviewed by an administrative officer who is not directly connected with the regular cash operations.

- Duties of employees should be structured so that the following functional responsibilities are separated:

a. Recordkeeping

b. Physical handling of cash and checks

c. Authorization of disbursements

- All blank checks should be stored under the control of someone other than the check preparer or the bookkeeper.

- Checks should be prepared by someone other than the bookkeeper.

- Vouchers should be approved for payment before checks are written by someone other than the preparer.

- The check signing function should be assigned to someone other than the person who prepares the voucher for payment.

- Prepared checks should be reviewed by someone other than the preparer before the signature is affixed.

- The signature of the superintendent, or some other official not directly associated with the cash records, should be required on all checks.

- If a signature plate is used, control of the plate should be maintained by someone independent of cash records.

- All signed checks should be mailed promptly by employees other than those having access to cash and cash records.

- The responsibilities of purchasing and approving purchases should be separated from the receiving and storing of goods.

The procedures adopted by the SFA should be in writing and made available to all personnel involved, as well as to state or independent auditors. Periodically, actual accounting practices should be monitored to assure compliance with the established internal control procedures. See chapters III-1 and III-2 for additional discussion of internal control systems.

INVESTMENTS

A SNP fund may have sufficient cash available for investments such as time deposits, savings certificates, etc. It is lawful to invest in securities of the state, United States, municipalities of the state or bank certificates of deposit (insured by F.D.I.C.). Investment in credit unions is not allowable. Note: Any investment in excess of $ $250,000.00 (until 12/31/2013) must be collateralized at 110% by the financial institution. The collateralized instruments should be pledged in the name of the LUA. See chapter IV-6, Managing Cash and Investments, for a detailed discussion of authorized investments.

When an investment is purchased, the transaction is recorded as follows:

Description	Account No.	DR	CR
Investments	601-0000-0111	$ 20,000	

Cash in bank	601-0000-0101		$ 20,000

To record investment in a certificate of deposit

At the time an investment matures, the transaction should be recorded in the accounting records, regardless of whether it will be "rolled over," re-purchased or retained in the checking account. Assume that the above $20,000 certificate of deposit (CD) matures and the SFA receives a check or has its bank account automatically credited in the amount of $20,600, which includes $ 600 interest. The entry to record the automatic credit or the deposit in the SFA's bank account is as follows:

Description	**Account No.**	**DR**	**CR**
Cash in bank	601-0000-0101	$ 20,600	
Investments	601-0000-0111		$ 20,000
Earnings on investments or deposits	601-9990-1500		600

To record maturity of CD

If the money is not re-invested, no further entry is required. If a check is written for a new investment, an entry would be made to debit the investment account and credit the bank account; however, if the SFA allows the bank to "roll over" the investment and the accumulated interest, an entry to record the interest earned through the date of maturity would be needed as follows:

Description	**Account No.**	**DR**	**CR**
Investments	601-0000-0111	$ 600	
Earnings on investments and deposits	601-9990-1500		$ 600

To record interest on re-investment of CD

Interest earned on any investment is always recorded in the Earnings on Investments or Deposits revenue account (1500). Federal regulations require that interest earned by SNP deposits or investments must be credited to the SNP fund and used only for the operation or improvement of the SNP program.

OPENING A NEW SCHOOL

When a new school is opened, a new school number is assigned by the Facilities Division of the GADOE. This number can be obtained from the appropriate contact person in the superintendent's office of the LUA.

If purchased food or USDA food is transferred to the new school, it should be reported on the first transmission of Form DE0106 Financial Inventory Tab for the new school as a plus (+) adjustment to purchased or USDA foods. The school transferring out the purchased food or USDA food would report a minus (-) adjustment to purchased or USDA food.

Any cash received from another school or central office will be reported as a part of the month's ending cash balance along with other Financial Data.

PREPAID MEALS

When students pay in advance for meals, the revenue should be recorded as student income, Student sales - breakfast and lunch programs. Example:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 275	
Student sales -lunch programs	601-9990-1611		$ 200
Breakfast	601-9990-1612		75.00

To record revenue for prepaid meals
Note: Systems may choose combine and record breakfast and lunch sales in account 1611.

It is necessary that a separate record be maintained, by student, to track the prepayments and the meals applied against each student's account.

There are a number of vendors offering services for managing prepaid meal accounts.

RECORD RETENTION

Federal regulations require that records be kept for a minimum of three years after the transmission of the final report, i.e., the Reimbursement Claim Data and the Financial Data for the school year. If the Reimbursement Claim Data and the Financial Data are transmitted for July, then the starting date for the retention period is July. The regulations also state, "If any litigation, claim, negotiation, audit or other action involving the records has been started before the end of the 3-year period, the records shall be kept until all issues are resolved, or until the end of the regular 3-year period, whichever is later."

SFAs operating under the Special Assistance Certification and Reimbursement Alternatives, provision 2, will have to keep their meal applications, policies and guidance materials for a minimum of six years since provision 2 operates on a three-year cycle.

Equipment records must be retained for a minimum of three years after the date of the disposition, replacement or transfer of the equipment.

See chapter V-3, Records Management, for further information on maintaining a records management system.

RETURNED CHECKS

When a check is returned by the bank for insufficient funds, it is necessary to record a transaction to reduce the bank balance. The SFA has the option to reduce the revenue account to which the original deposit was credited or to establish an accounts receivable.

Assume a $20.00 check for student meals is returned. If the SFA chooses to reduce revenue, the entry is as follows:

Description	Account No.	DR	CR
Student sales - breakfast and lunch programs	601-9990-1611	$ 20	
Cash in bank	601-0000-0101		$ 20

To record returned check

When the money is received to replace the check, it will be credited to Student sales - Breakfast and lunch program revenue account, as usual.

If the SFA chooses to establish an accounts receivable, the entry is as follows:

Description	Account No.	DR	CR
Accounts receivable	601-0000-0153	$ 20	
Student Sales breakfast and lunch	601-9990-1611		$ 20

To set up accounts receivable for returned check

When the money is received to replace the check, it will be necessary to clear the accounts receivable balance, as follows:

Description	Account No.	DR	CR
Cash in bank	601-0000-0101	$ 20	
Accounts receivable	601-0000-0153		$ 20

To record replacement of returned check

NOTE: A detailed listing must be maintained for the accounts receivable account. The total of the detailed listing must agree with the total of the accounts receivable account in the general ledger.

Collection of returned checks may be contracted with a private vendor in return for service fees.

SUMMER SALARIES

If SNP employees are paid over a twelve-month period for work performed only during the school year (or any period of time less than twelve months), it is necessary to accrue the portion of earned salaries which is "deferred," or set aside to be paid during the summer, as well as the corresponding employee benefits.

The steps for determining the amount of salaries and benefits to accrue are as follows:

1. Calculate the earned salaries, based upon the number of hours each employee worked during the current month.

2. Determine the gross salaries which will be paid on the monthly payroll.

3. The difference between earned salaries and the paid gross salaries is to be recorded as an expenditure in the current month, with an offsetting credit entry to salaries and benefits payable. Also, the related employee benefits are to be recorded as expenditures with an offsetting credit entry to the salaries and benefits payable.

The entries to record accruals for the month are shown in the following example:

Description	Account No.	DR	CR
SNP cafeteria salaries	601-9990-3100-18400	$ 715.00	
Matching F. I.C.A.	601-9990-3100-22000	54.70	

Matching teacher ret.	601-9990-3100-23000	38.97	
Salaries and benefits payable	601-0000-0422		$ 808.67

To record deferred salaries and benefits for SNP personnel

In the months of December and June, it is likely that the total amount <u>earned</u> for the month might be less than the gross salary <u>paid</u> for the month, because of the low number of hours worked. When this occurs, a negative amount may appear in the deferred (accrued) salary column. This amount will be entered as a debit to accounts payable rather than a debit to expenditures which will decrease the accounts payable account. The same principle applies to the matching cost of employee benefits which is relative to the negative salaries amount.

TRANSFER OF FUNDS

If it becomes necessary to transfer funds between schools within the SNP Fund, the transaction should be recorded in the accounting records as a "transfer out" for the contributing school and a "transfer in" for the receiving school.

Assume that the middle school is transferring money to the high school within the SNP fund. (No check is written.) The middle school is fund 603 and the high school is fund 604. The appropriate accounting entry is as follows:

Description	Account No.	DR	CR
Operating transfers to other funds	603-5000-9300	$ 100	
Cash in bank	603-0000-0101		$ 100
Cash in bank	604-0000-0101	$ 100	
Operating transfers from other funds	604-5000-5200		$ 100

To record transfer of funds the middle and high schools

SCHOOL NUTRITION ONLINE USERS MANUAL

In December, 2008, the School Nutrition Division of the Department of Education distributed the School Nutrition Online Users Manual. Users should refer to this guide in reference to the following instructions. Claim Data for the current month should be transmitted to the Accounting Services Division <u>no later than the 10th calendar day of the month following the claim month</u>.

The reimbursement rates for all meals are entered into SNO by the accounting services division. SFA's are notified of the rate information at the beginning of each fiscal year. Below is a listing of the key data required to file a Form DE0106 Claim and the forms that can be used to compile this information.

Avg. Daily Attendance - Enter the school's average daily attendance for the claim month.

Number of Days Lunch Served - Enter the number of days lunches were served.

Number of Days Breakfast Served - Enter the number of days breakfasts were served.

Number of Days Snacks Served – Enter the number of days snacks were served.

Number of Days SSNP Served – Enter the number of days SSNP meals were served.
Number of Lunches

Paid - Enter the number of paid reimbursable lunches served to students. (Column 2 of the Daily Record of Number of Lunches Served, Form DE 0118)

Free - Enter the number of free reimbursable lunches served to students. (Column 3 of Form DE0118) A current, approved free meal application must be on file to document the eligibility of each student served unless the student has been directly certified.

Reduced - Enter the number of reduced price reimbursable lunches served to students. (Column 4 of Form DE0118) A current, approved reduced-price meal application must be on file to document the eligibility of each student served.

If Seamless Summer Nutrition Program (SSNP) meals were served, enter number of SSNP meals in the appropriate fields.

Number of Breakfasts

Paid - Enter the number of paid reimbursable breakfasts served to students. (Column 2 of the Daily Record of Number of Breakfasts Served - Form DE0112).

Free - Enter the number of free reimbursable breakfasts served to students.(Column 3 of Form DE0112). A current, approved free price meal application must be on file to document the eligibility of each student served unless the student has been directly certified .

Reduced - Enter the number of reduced-price reimbursable breakfasts served to students. (Column 4 of Form DE0112). A current, approved reduced price meal application must be on file to document the eligibility of each student served.

If Seamless Summer Nutrition Program (SSNP) breakfasts were served, enter number of SSNP breakfasts in the appropriate fields.

Number of Snacks (Regular or At Risk)

Paid - Enter the number of paid reimbursable snacks served to students. (Column 7 of the Daily Record of Number of Lunch Served – Form DE0113).

Free - Enter the number of free reimbursable snacks served to students. (Column 8 of Form DE0113). A current, approved free price meal application must be on file to document the eligibility of each student served unless the student has been directly certified or is participating in an At Risk Snack Program .

Reduced - Enter the number of reduced-price reimbursable snacks served to students. (Column 9 of Form DE0113). A current, approved reduced price meal application must be on file to document the eligibility of each student served unless the student is participating in an At Risk Snack Program.

If Seamless Summer Nutrition Program (SSNP) Snacks were served, enter number of SSNP Snacks in the appropriate fields.

Enter Non-reimbursable Meal Counts.
Enter Non-reimbursable Meal Counts for Adult and Other Non-Reimbursable. This information can be found: Lunch Form DE0118, Breakfast Form DE0112, Snack Form DE0113.

INSTRUCTIONS - EDIT DE107 CLAIM DATA

Lunch - Number of Schools

Enter the total number of schools participating in the National School Lunch Program of the School Nutrition Program. If two schools, an elementary and middle, for example, share the same cafeteria and are reported as only one school lunch program, they should be considered here as two schools, since each school participates in the program.

Breakfast - Number of Schools

Enter the total number of schools participating in the School Breakfast Program. If two schools share the same cafeteria and are reported as only one school breakfast program, they should be considered as two schools, since they each participate in the program.

School Board Expenditures - Non-Equipment

Information reported in this item is optional, with the exception of labor costs. However, failure to report all costs will distort the true cost of operating the program. Any charges paid for by the General Fund and charged to Function 3100 should be reported here. Examples of such expenditures include the following:

- Salaries and Employee Benefits (Reporting is mandatory)

Enter the cost of salaries paid by the board for system level personnel with direct program responsibility for supervisory, clerical, or accounting services employed on a full or part-time basis, for the school nutrition program (SNP) only. This includes:

a. Salaries paid from the general fund for school personnel who perform SNP services on a full or part-time basis.

b. Employee benefits and fixed payroll charges for SNP personnel. This covers amounts paid from the general fund for items such as matching F.I.C.A., Medicare, insurance, sick leave, or annual leave. These costs should be documented by payroll records, monthly or quarterly reports, and SFA policy statements covering these items.

- Costs Other Than Salaries (Reporting is Optional)

a. Payment of utilities used by the SNP.

b. Payment of extermination and pest control.

c. Payment for SNP equipment maintenance.

d. Payment for outside contract for commodity storage and handling for the SNP.

e. Travel of SNP personnel.

f. Other costs benefiting the SNP.

Highest Number of Students Eligible During Month

Enter the highest number of students eligible for free and reduced-price meals on file during the month. This information is obtained by summarizing the information in Items A1 and A2 on the Daily Record of Number of Lunches Served (Form DE0118).

Number of Students Eligible on October 31

Enter the total number of students eligible for free or reduced-price meals as of October 31.

Enrollment on October 31

Enter the total student enrollment as of October 31. If enrollment data is unavailable, you may report the SFA's most recent FTE count.

NOTE! THE INFORMATION FOR NO. OF STUDENTS ELIGIBLE ON OCTOBER 31 AND ENROLLMENT ON OCTOBER 31 APPEARS ONLY ON THE OCTOBER SCREEN.

After the Form DE0107 has been submitted, it must be printed and retained for audit/review purposes.

INSTRUCTIONS - EDIT DE FORM 0106 FINANCIAL

In December 2008, the School Nutrition Division of the Department of Education distributed the School Nutrition Online Users Manual. Users should refer to this guide in reference to the following instructions. All users should refer to the SNO Manual in conjunction with the following instructions. Data for the current month should be submitted no later than the 15th calendar day of the month following the claim month.

INSTRUCTIONS

Lunch Data

Cost of Purchased Foods - Enter the total cost of purchased foods used for breakfasts from column 12 of DE Form 0112.

Cost of USDA Donated Foods - Enter the total cost of USDA donated foods used for breakfasts from column 13 of DE Form 0112.

Gross Labor Cost - Enter the total gross labor cost for the breakfast program from either Line 4a. or Line 3b. of the reverse side of DE Form 0112.

Number of Hours Worked - Enter total hours worked for the Breakfast Program from Line 3a. on the reverse side of DE Form 0112. Residual amounts should be reduced to the next highest number.

REVENUE TAB

Local Revenue Sources

The amounts entered in this section are the monthly totals obtained from your accounting records.

1500 Investment Income – Enter the amount of income from investments from Revenue Source 1500.

1621 Non-Reimbursable Sales - Enter the income for Non-Reimbursable Sales from Revenue Source 1621.

1622 Adult Sales - Enter the income for adult meals from revenue source 1622.

1623 Contracted Sales – Enter the income from Contracted Sales from revenue source 1623.

1700 – 1999 Other - Enter all other cash income (sale of assets, jury duty, fees, etc.) from revenue sources 1700 - 1999. Income received from students for a second meal is to be reported as other income.

NOTE: Effective December 1, 2008, lunch and breakfast revenue was separated into revenue sources 1611 and 1612, however there is the option to combine and record both as revenue source 1611 for Form DE0106 purposes.

1611 Lunch -Enter the amount of income for reimbursable student lunches from Revenue Source 1611.

1612 Breakfast -Enter the amount of income for reimbursable student breakfasts from Revenue Source 1612.

1613 Snack -Enter the amount of income for reimbursable student snack from Revenue Source 1613.

1614 Special Milk - This program is available only to schools which do not participate in either the school lunch or breakfast programs. Enter the income for Special Milk from Revenue Source 1614

State Revenue Sources

3510 Salary Supplement- Enter the state funds income from Revenue Source 3510.

3995 Other State Agencies- Enter the Other State Agencies income from Revenue Source 3995.

Federal Revenue Sources

4510 Lunch Reimbursement) - Enter the federal reimbursement for lunches from Revenue Source 4510.

4512 CACFP Reimbursement - Enter the federal reimbursement from Revenue Source 4512.

4520 – 4899, 4995 Other - Enter the federal reimbursement from Revenue Sources 4520 – 4899, 4995.

4511 Breakfast Reimbursement - Enter the federal reimbursement from Revenue Source 4511.

4513 Snack Reimbursement - Enter the federal reimbursement from Revenue Source 4513.

4900 USDA Food Received - Enter the federal revenue from Revenue Source 4900.

Other

5200 – 5299 Transfer In - Enter transfers from other funds or other schools from function 5000 Revenue Source 5200 - 5299.

5300 - 5995 Other - Enter other funds from Revenue Source 5300 - 5995.

EXPENDITURE TAB

100-299 Labor - Enter the labor expense from objects 100-299.

630 Purchased Food - Enter the purchased food from object 630.

635 USDA Food Received - Enter the Food Received-USDA from object 635.

730 – 735 Equipment > $5,000 - Enter the equipment cost from objects 730 - 735.

300-879 Others (Except 630, 635, 730-735, & 880) - Enter expenditures from objects 300 through 879, with the exception of purchased food, USDA food received, equipment and indirect cost.

930 Transfer Out - Enter transfers to other funds or other schools from function 5000, object 930.

SECTION III - FOOD INVENTORY

If single inventory is selected in the School Approval Module in SNO, the USDA food inventory fields will be “grayed” out and not available for data entry. For Single

Inventory, USDA information should be combined with purchased and entered in the purchased inventory fields.

PURCHASED

Beginning Inventory - this value is rolled over from the Ending Inventory field in the previous month.

Purchased Food Received – enter the monthly amount from Purchased food (object 630) from the trial balance or general ledger. (Include 635 if on single inventory.)

Transfers In (+): Enter the value of food transferred into the school.

Transfers Out (-) Enter the value of food transferred out of the school Inventory Adjustment (+) Enter positive adjustments when necessary.

Inventory Adjustment (-) Enter negative adjustments when necessary.

Breakfast Usage – Enter value of food used for breakfast for reporting month. If system utilizes DE Form 0112, the value will be found on that form.

Snack Usage – Enter value of food used for Snack Program for reporting month. If system utilizes DE Form 0113, the value will be found on that form.

Non-Reimbursable Food Cost - Enter the total of non-reimbursable food and milk used from column 4 of the production record for Non Reimbursable foods, DE Form 0120.

Ending Inventory - Enter the total ending inventory of purchased foods from column 8 of the Monthly Inventory of Purchased Foods (DE Form 0115). (Include USDA ending inventory from DE Form 0116 if on single inventory.)

If system is not on Single Inventory, follow the steps above for USDA Food inventory.

BALANCE SHEET TAB

The amounts reported in this section are the year-to-date balances from the accounting records. A negative cash balance must be entered with a minus (-) sign.

Assets
0101-0103 Cash - Enter the account balance in Cash In Bank from accounts 0101 - 0103.
0114 -0153Accounts Receivable - Enter the combined account balances from account 0114 – 0153.

0171 Value - Purchased Food Inventory - Enter the account balance from account 0171.
0173 Value -USDA Food Inventory - Enter the account balance from account 0173.
0111 Investments - Enter the account balance in from account 0111.
0104 Change Fund - Enter the account balance from account 0104.
0174 – 0199 Other: Enter the account balance from accounts 0174 – 0199.

Liabilities
0401 - 0421 Accounts payable: Enter the total account balances from Accounts payable 0401 through 0421
0499 Other Liabilities: Enter the total account balance from account 0499. 0422 Accrued Salaries/Benefits: Enter the total account balance from account 0422.

Fund Balance
753- 790 Reserved Fund Balance: Enter the total account balance from Accounts 753 – 790.
0751 Reserved for Inventory: Enter the total account balance from Account 0751. Value should equal the total of Purchased Food Ending Inventory 0171 and USDA Ending inventory 0173 for reporting month.

NOTE: After the Form DE0106 Financial data has been submitted, it must be printed and retained for audit/review purposes.

Chapter V – 3 Records Management

INTRODUCTION

The computer provides enormous amounts of detailed information to enable Local Unit of Administration (LUA) personnel to do their jobs better and faster. Computerized records have also created new kinds of record media that must be integrated into filing and security systems. Georgia Code 50-18-99 requires "all records created or received in the performance of a public duty or paid for by public funds by a governing body are deemed to be public property and shall constitute a record of public acts".

GEORGIA LAW

The Georgia General Assembly, recognizing the importance of the adoption of sound records management principles by state and local governments, in 1972 passed the Georgia Records Act (O.C.G.A. §50-18-90 through 50-18-135).

STATE RECORDS MANAGEMENT PROGRAM

O.C.G.A. §50-18-99 through 50-18-121 requires that local governments, including LUAs, shall establish by resolution or ordinance a records management plan which includes:

1. The name of the person or title of the officer who will coordinate and perform the responsibilities of the governing body;
2. Each retention schedule approved by the governing body; and
3. Provisions for maintenance and security of the records.

Although the responsibility for coordinating the records management program rests with the Department of Archives and History, each LUA must adopt an effective records management program to preserve records vital to Georgia's public education program. The Secretary of State through the Department of Archives provides a listing of commonly held records and suggested minimum retention schedules. The Georgia Archives publishes *Retention Schedules for Local Government Paper and Electronic Records (Retention Schedules)* located at http://sos.georgia.gov/archives/pdf/state_spec_reports/Local_Government_Schedules_Nov_07.pdf. If documents exist that are not covered by the schedule published by Archives, the local governing body must adopt a retention schedule for those documents. The local government may request the documents be added to the schedule maintained by Archives according to procedures included in the above document.

Retention schedules have been approved for a large assortment of records. Special records, including those related to education are also included. For specific records and associated retention requirements, refer to the Retention Schedules document.

The GA DOE has adopted the position that state and federally funded state-administered programs retain records for five (5) years after final disposition of non-expendable personnel property to be consistent with CFR, Title 34, Part 76.734, which governs most education programs. LUAs should observe the 5-year retention period for state and federally funded programs where applicable. Electronically duplicated records are acceptable as original records.

VITAL RECORDS

The Secretary of State, Archives Division, has created a publication, Archives Advice No. 12, Identifying and Protecting Vital Records, to help local governments identify and protect those records vital to operations and protection of the rights of citizens. Go to the following link -

http://sos.georgia.gov/archives/pdf/records_and_information_management_services/ArchivesAdvice12.pdfAs

STORING VITAL RECORDS

Archives Advice #12 suggests that vital records be duplicated and stored in another (off-site) location from the original record. Duplication can be accomplished through either microfilming or electronic storage. Originals may be stored in a fire-proof vault and environmentally controlled space. The Department of Archives will store both electronic and microfilm electronic copies free of charge.

Other Resources

The Archives website includes much more useful information relating to Records Management including guidance regarding electronic records, and microfilm. See Publications for more information.

Summary

Records management is a critical responsibility of LUAs. The Georgia Archives provides a number of resources to help districts manage these resources.

Chapter V – 4 School Activity Accounts

HISTORY

Most school districts have cash funds or bank accounts at individual schools under the control of school principals or club advisors. These funds present a unique control challenge to school districts given their decentralized nature and the production of financial records and reports by non-accounting personnel.

Historically, little attention has been given to accounting for activity funds in school districts. The nature of activity funds, however, makes them especially vulnerable to error, misuse, and fraud. In addition, activity funds often total to large sums of money, especially when capturing the amounts that flow through an educational organization in the form of school board funds, student-generated funds, receipts and disbursements related to athletics, and the myriad of co-curricular and extracurricular events sponsored by school districts. As a result, policies and procedures for improving controls over these funds and to promote the capturing all student activity-related monies in the district's financial records should be implemented.

Georgia law recognizes the importance of School Activity Accounts by requiring the following:

<u>O.C.G.A. 20-2-962.</u> Quarterly Reports by principals; audits by local boards.

The principal of each public school shall make a quarterly report to the local board of education immediately upon the end of each quarter of the fiscal year, and such report shall contain an account of all receipts and expenditures of such funds during the past quarter. The principal shall also make an annual report of the complete property inventory of the school. The local board may at any time during the school year inspect all receipts, expenditures, and property of each public school.

The Governmental Accounting Standards Board has adopted Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2018. GASB 84 is effective for school district financial reporting beginning fiscal year 2020. This Handbook chapter has been revised to include the criteria of GASB 84 for school activity accounts classified as fiduciary funds in the financial analysis report and the prepared financial statements presented for audit.

<u>TYPES OF ACTIVITY FUNDS AND PROPER CLASSIFICATION</u>

School Activity Accounts are established to direct and account for monies used to support extra-curricular and co-curricular student activities. Generally:

- Extra-curricular activities encompass a wide variety of other *district-directed* activities, typified by organized sports, drama productions, music concerts and other non-academic interscholastic competitions.

- Co-curricular activities are any kinds of school-related activities outside the regular classroom that directly add value to the formal or stated curriculum. Co-curricular activities involve a wide range of student clubs and organizations.

A system of classification for purposes of program cost accumulation and reporting mechanism is necessary. (Accounting System)

Activity funds are unique to school districts. Two classifications are commonly recognized:

District activity funds which belong to the school district and are used to support district programs. District activity funds should be included with all other district funds and reported as governmental funds.

Student activity funds which belong to the students and support student clubs and organizations. Student activity funds remain under the control of the school principal and are accounted for at the school site.

Activity funds are categorized as either governmental funds or fiduciary funds. Effective July 1, 2019, any activity funds that are fiduciary in nature are classified as *custodial funds*, as defined by GASB Statement Number 84.

CONTROLS FOR ESTABLISHING AND MAINTAINING ACTIVITY FUNDS

Public trust demands an efficient system of accounting for all money received and expended through school activity fund accounts. The system of safeguarding and accounting for activity funds is dependent on the soundness and effectiveness of board of education policies and guidelines. The board has the responsibility of ensuring accurate accounting for all accounts, as well as ensuring activity funds are expended as intended by the policies in place for each activity.

The dispersed nature of student activity funds and the multiple site collections for some district activity fund revenues dictate a need for orderly controls on all activity funds. These controls include establishing lines of authority and a set of policies to guide the operation of all activity funds.
(Note: these guidelines are minimum controls on which local school districts may expand and are dependent upon the organizational structure of the school system.)

Lines of Authority
Proper control begins with the appropriate recognition of lines of authority over all monies handled by the district. The local board of education should adopt a set of guidelines and regulations that include minimum requirements (see figure 1) for the approval and oversight of the activity funds. Below is an example of minimum requirements, with the assumption of the illustrated organizational structure:

- *Board of Education.* The board of education should adopt policies to govern the establishment and operation of all activity funds. The district's auditors should review these policies for sound accounting and reporting principles.

- *Superintendent.* The superintendent should be directly responsible to the board of education for administering all board policies.

- *Chief Financial Officer / Finance Director.* The chief financial officer should have overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the board. The chief financial officer is also responsible for implementing and enforcing appropriate internal control procedures.

- *Principal.* The principal at each school site should be the designated activity fund supervisor for that school building. The activity fund supervisor has overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and adequately supervising all bookkeeping responsibilities. The activity fund supervisor should be a signatory for all disbursements, including checks drawn on the activity fund should the disbursement function be decentralized.

- *Sponsors.* The sponsor of each student organization is responsible for supervising all activities of the organization, including approving student activity fund transactions. Sponsors should be employees of the district and under the direct control of the activity fund supervisor.

Lines of Authority

Figure 1

Board of Education
↓
Superintendent
↓
Chief Financial Officer
↓
Principal Principal Principal Principal
↓ ↓ ↓ ↓
Sponsors Sponsors Sponsors Sponsors

General Policies and Procedures for the Establishment and Operation of Activity Funds

Policies relating to student and district activity funds should be in writing and distributed to all activity fund supervisors, sponsors, and accounting personnel. A useful set of general policies includes at least the following:

- Each activity type should be established and approved by the board of education. Specific board approval of a club/organization is required if a separate checking account is maintained.

- All activity funds are required to be supervised by an employee of the school district. The activity advisor is approved by the principal of each school, or the superintendent of the school district when necessary. The activity advisor is responsible for adhering to the procedures set by the district, and the principal is responsible for supervising the activity advisor.

- All activity funds should be subject to sound internal control procedures, including segregation of duties for key functions.

- All activity funds should be accounted for on the same fiscal year basis as all other school district funds.

- All activity funds are subject to an external audit and must also be subject to well-defined procedures for internal auditing or review of the activity on a regular basis, no less than annually.

- All employees responsible for handling and recording activity fund monies should be bonded by the district.

- Each school system should have a Board approved policy designating the activity funds supervisor. In most districts, this person will be the building principal.

Each activity fund supervisor (principal) should maintain a checking account for the School, where the disbursement function is decentralized.

- Someone other than the fund supervisor (principal) should be authorized to sign checks, either the superintendent or chief financial officer.

- Depositories for student activity funds should be approved by the board of education and be further subject to the same security requirements as all other board funds. (i.e. collateralization of deposit requirements.)

- School Activity Accounts should not be used for salary supplements or similar payments to compensate school employees for any activity related to school resources or students if the activity accounts are decentralized from the payroll process. Employee compensation <u>must</u> always go through the district's payroll process and is subject to both employer and employee deductions.

- All activity funds should operate on a cash basis, meaning that no commitments or indebtedness may be incurred without board approval.

- A system of purchase orders and vouchers should be applied to all activity funds that requires written authorization for payment and should be strictly enforced.

- A system for receipting cash should be adopted that includes using pre-numbered receipt forms for recording cash and other negotiable instruments received.

- All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and should not be used for making change or disbursements of any kind.

- All receipts should be deposited daily to adhere to best business practices. Each district should prepare a plan detailing how undeposited funds will be secured until a deposit can be made. In no event should undeposited funds exceed 5 days from the date of the receipt.

- Most fund accounting software now includes laser printing of checks, purchase orders and other district issued documents. Accordingly, these documents are printed on blank stock and check or document numbers are software assigned in numerical order. The Board approved signatures are electronically printed on the checks and the software tracks the last and next document numbers. In the event the user assigns the check or document numbers, a perpetual check number log should be maintained to provide an audit trail.

Bank statements for activity funds should be reconciled as soon as they are received. The reconciliation should be prepared by an individual that is independent of the receipt and check issuance processes. The school district should ensure the school level accountants do not prepare their own bank reconciliations, allowing for adequate segregation of duties.

- Using activity fund receipts to cash checks to accommodate individuals, to make any kind of loan, to pay any form of compensation directly to employees, or to extend credit should be strictly prohibited.

Monthly financial reports on all activity funds should be prepared and submitted to the administration and the board of education. (State Law 20-2-962 requires at least quarterly reporting).

- A full reporting of activity funds should be included in the district's annual financial statements. The detail of each activity that is summarized on the general ledger should be available for internal and external audit review.

- Student activity fund monies should benefit those students/activities who have contributed to the accumulation of such monies, for the purposes defined for each activity/club. The policy should address the use of funds raised by each activity in the event the activity ceases to exist in future periods. Specifically, how are the funds allowed to be spent, and can the funds be transferred to supplement other activities and clubs.

- A board-approved process, or board-designated approval process should be specified for all fundraising activities, and any fundraising event should require advance approval. Please note that this requirement does not automatically translate to the Board having administrative control of the activity. The policy should specify the level of approval required. If the Board is simply approving the students' decision for fund-raising activities, administrative control does not lie with the Board.

- A board-approved process, or board-designated approval process should be specified for all field trips or competitions attended by an activity. Please note that this requirement does not automatically translate to the Board having administrative control of the activity. The policy should specify the level of approval required. If the Board is simply approving the students' decision for fund-raising activities, administrative control does not lie with the Board.

SEGREGATION OF DUTIES RELATED TO ACTIVITY FUNDS

The volume of activity fund transactions and the amounts on deposit are substantial in most school districts. Because significant amounts of activity fund cash receipts are collected as currency, not checks, internal control procedures designed to safeguard monies collected should be especially emphasized. Although the foregoing general principles are helpful in addressing concerns about safeguards, additional attention should be given to segregating the duties related to activity funds. Specifically, three critical duties should be segregated for internal control purposes:

(1) signing checks in a decentralized disbursement environment
(2) maintaining fund accounting records
(3) reconciling bank statements.

The segregation of duties demands that more than one person be involved in satisfying accounting procedures. As a rule, although the school principal is appointed as activity fund supervisor, other positions normally carry out the actual work of processing the activity. It is particularly important to identify, describe, and monitor the duties of the activity fund accountant in relation to the segregation of duties.

The activity fund accountant is typically assigned the task of collecting activity fund monies. Associated tasks include preparing the deposit slip and depositing monies. In addition, maintaining the activity fund accounting records generally falls to this same person, as does preparing checks for disbursements. These tasks demand adequate training and require the accountant to have a thorough knowledge of fund structure; the differences between district and student activity funds; and the process of accounting, auditing, and reporting. As described earlier, the activity fund accountant should be bonded.

The work of any individual handling money should be subject to appropriate checks and balances. Signature controls are an important aspect of accounting procedures. Recommended signatures are the principal of the school and someone other than the activity fund accountant. The district should develop written procedures indicating the proper authorizations for the expenditure process. Procedures should indicate which positions are responsible for entering invoices to be paid, authorizing the disbursing of funds, and also the authorizing signature, along with the school principal, is affixed to the check.

Reconciling accounting records for the activity funds is a critical aspect of a system of checks and balances. A third person (someone other than the accountant or activity fund supervisor) should be responsible for reconciling bank statements and verifying receipts and expenditures. Essential to this process are internal accounting controls over the activity fund cash collections. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include using pre-numbered forms and receipts, purchase orders and vouchers, and a perpetual inventory of pre-numbered forms and receipts and tickets; depositing receipts intact; and making timely deposits. State-specific statutory controls, such as quarterly reporting and the types of allowable funds sources, should be strictly observed when disbursing student and district activity funds should be strictly observed.

PREPARATION AND REVIEW OF MONTHLY ACTIVITY FUND REPORTS

O.C.G.A. 20-2-962 requires the principal of each public school to make a **quarterly** report to the board of education immediately upon the end of each quarter of the fiscal year and include all receipts and expenditures of the past quarter. Financial Review recommends a monthly report of cash receipts and disbursements of the activity fund should be prepared and reviewed by the activity fund supervisor (principal) and submitted to the school district office. Column headings should include the following:

- Beginning cash balance,

(*which should agree with the ending cash balance on the prior month*'*s report)*

- Cash receipts
- Cash disbursements
- Ending cash balance
- Unpaid purchase orders
- Unencumbered cash

The activity fund accountant also should prepare a monthly financial report for each student organization, showing the organization's cash receipts and disbursements. These reports should be reviewed by the activity fund supervisor (principal) and advisor. Each advisor should then compare the report prepared by the activity fund accountant with the advisor's records. Any discrepancies should be resolved immediately. Additionally, the school finance office should periodically perform internal audits of the reports and supporting records.

ACCOUNTING FOR THE SCHOOL ACTIVITY ACCOUNTS IN THE SCHOOL DISTRICT ACCOUNTING RECORDS

Application of GASB Statement 34 to School Activity Funds

GASB Statement 34 made significant changes in financial reporting for all governments, including school districts. However, GASB 34 did not *ADD* the requirement for including school activity accounts. School activity accounts have always been required to be included in the school district's financial statements, but GASB 34 is the first statement to add penalties for failing to include them in the district wide financial statements.

The purpose of the government-wide statements is to provide a broad overview of the entity. Because fiduciary fund resources are not available for use by the government, fiduciary activities are excluded from the entity-wide financial statements. In accordance with the new reporting model, fiduciary activities, which may include student activity funds, are reported only in the fund financial statements. The impact of Statement 34 on district and student activity funds is summarized below:

- If student activity funds are classified as fiduciary (custodial) funds; they are not reported in the government-wide financial statements. Instead, these balances are reported only in the fund financial statements.

- District activity funds that are classified as governmental (special revenue) funds are consolidated with all governmental activities in the government-wide financial statements. District activity funds will also be presented in the governmental fund financial statements.

- Fiduciary funds are presented in the fund financial statements by fund type. Student activity funds, as custodial funds, report no operating activity and are, therefore, presented only in the statement of fiduciary fund net position. <u>Effective with the implementation of GASB Statement 84 in FY 2020</u>, the custodial funds will report a Statement of Changes in Fiduciary Net Position. This statement will include the total additions and deletions of the custodial fund activity.

<u>Account Classifications for Revenues and Expenditures</u>

Many school districts and individual school sites derive significant revenue from enterprise activities and alternative sources: vending machines, school stores, class ring sales, and a wide variety of fundraising activities such as magazine sales, candy sales, and school pictures. In addition, large sums of money are generated through interscholastic sports in the form of gate receipts and other contributions. These revenues are typically associated with activities conducted at the school level that generate revenues to be used for the benefit of the school. In many instances, particular student organizations oversee one or more such enterprise activities. In other instances, the district administers the revenues for its own programs. If a student organization is in charge of the administrative operations of an enterprise activity, the money should be accounted for through that organization's separate activity fund. If the district determines the use of the funds, the money should be accounted for with other district funds in the district's governmental fund accounts. <u>However, in all instances, the funds should be recorded on the district's financial records.</u>

Expenditures of the activity funds must be reported using the same format as all other expenditures of a school district and follow the defined chart of accounts for school districts. Expenditures generally include costs of activity events such as conferences, competitions, and field trips. An activity will also have expenditures related to the cost of fundraisers and supplies. The district should determine if the costs are for activities directly related to instruction, community service, or fundraising. Most expenditures of activity accounts are reported in functions 1000 – Instruction; 3200 – Enterprise Operations; or 3300 – Community Services. Other functional categories may apply, depending on the type of activity of the student organization or club.

GASB 61 and Potential Component Units

School districts and student groups are also increasingly benefited by affiliated organizations that support curricular, co-curricular, and extra-curricular activities. Affiliated organizations include groups such as Parent-Teacher Associations (PTA's), Parent-Teacher Organizations (PTO's), school foundations, athletic booster clubs, and so on. Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.

In the case of revenue from affiliated organizations such as booster clubs and foundations that support the schools, board authorization to receive such funds is needed. In some cases, based on the requirements of GASB Statement 39 and GASB 61, *determining whether certain organizations are component units,* these affiliated organizations may be reflected in the financial statements of the school district as discretely presented component units. Whether or not the organizations are included as component units, decisions regarding allocation of the donations should be made based on whether the curricular or co-curricular program is the primary beneficiary, as well as on the basis of fundamental fairness in resource allocation. Due to disbursement control issues, the actual accounting of receipts and disbursements for these affiliated organizations should not be maintained by school district employees.

GOVERNMENTAL OR FIDUCIARY DETERMINATION

Prior to July 1, 2019

Prior to GASB Statement 84, the distinction between the two fund types was based on the *purpose* of the funds, that is, the programs supported by the funds. The following test was considered when determining fund type:

- District Activity Funds *(Governmental Funds 500 or 505)* belong to the district, are used to support its co-curricular and extra-curricular activities and are administered by the school district. Authority for approval of disbursing district activity fund monies, however, rests only with the school board. In other words, the district determines how the district activity fund monies are spent and the district programs that receive support. *This control may be delegated to the local school principal.*

Examples of Authorized District Activity Funds:

- Athletics
- Band Uniforms
- Book Fair

- Lyceums
- Music Concerts
- School Plays
- School General Fund
- Special Field Trips

- Student Activity Funds *(Agency Funds – 705 or 759)* support activities that are based in student organizations. Students not only participate in the activities of the organization, but also are involved in the administrative function of managing and directing the organization's activities. *An important distinction is that disbursing monies from the student activity fund may be subject to approval by the student organization, rather than by the principal or board of education*.

Examples of Authorized Student Activity Funds:

- Art Club
- Auto Club
- Cheerleaders Club
- Chorus Club
- Class of 200X
- Class of 200Y
- Class of 200Z
- Debate Club
- Drama club
- Foreign language Club
- Journalism Club
- Marching Band
- National Honor Society
- Pep Club
- Photography Club
- Student Council

Subsequent to July 1, 2019 – effective with the implementation of GASB Statement No 84

Per GASB Statement Number 84, *Fiduciary Activities*, an activity is considered a fiduciary activity if **all** the following criteria are met:

a. The assets associated with the activity are controlled by the government;

b. The assets associated with the activity are not derived either: (1) solely from the government's own-source revenues or (2) from government-mandated nonexchange transactions or voluntary nonexchange transactions except for pass-through grants for which the government does not have administrative involvement or direct financial involvement;
c. The assets associated with the activity have one or more of the following characteristics: (1) the assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government. (2) the assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals. (3) the assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

Based on these requirements, a school district must consider whether an activity fund is governmental or custodial in nature. Key questions to ask relate to whether the government (i.e., school district or school) has administrative control of the activity fund.

The following Q&A included in the of the GASB 84 – Fiduciary Activities Implementation Guide, dated December 17, 2018, help demonstrate the difference between activities which are governmental funds and custodial funds:

<u>Example 1</u>
4.17.
Q—A school board is responsible for establishing the fees charged by student clubs to their
members. The clubs are not legally separate from the school district. Assuming that the school board has no other policies in place related to the disbursement of funds for various
student clubs, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. Footnote 1 of Statement 84 provides examples to consider in determining whether
a government has administrative involvement. The establishment of fees related to the generation of funds is analogous from a revenue standpoint to the example provided regarding determining eligible expenditures. In other words, establishing specific guidelines
on how the resources can be spent is analogous to establishing guidelines on the amount at
which fees are set. In that scenario, the school board is establishing the amount at which fees are set, and, therefore, the school district does have administrative involvement and the

criterion in paragraph 11c(2) of Statement 84 is *not* met.

Example 2

4.18

Q—A student club is established in accordance with the school district's operating policies.

The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account held by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. Footnote 1 of Statement 84 provides examples to consider when determining whether a government has administrative involvement. In assessing whether a government has administrative involvement, a "substance versus form" consideration is appropriate. For example, the government's role would have substance if the school board, school administrator, or faculty advisor (who is representing the school district) establishes how the resources can be spent through approved policies. In that scenario, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the school district does not have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is met.

Example 3

4.20

Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor's approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

Example 4

4.21

Q—A school board establishes and approves a policy related to the disbursement of funds for various student clubs that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

Example 5

4.22

Q—Assume the same facts as in Question 4.21, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The school district's role is not considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs can be spent.

Example 6

4.23

Q—Assume the same facts as in Question 4.21, except that the state establishes specific guidelines on how the resources can be spent through administrative policy. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district's role

is considered to be substantive because the school district is required to follow the specific
guidelines established by the state, through legislation or policy, regarding how the resources can be spent.

Key Considerations When Determining Whether or Not an Activity Fund is a Governmental Fund or a Custodial Fund (GASB Statement 84, paragraph 11c):

1. Are the assets administered through a trust in which the school district or school is not the beneficiary, or the benefits are provided to an outside recipient, or legally protected from the school district or school's creditors?
2. Are the assets for the benefit of individuals and the school district or school has no administrative or direct financial involvement?
3. Are the assets for the benefit of an organization that is not legally part of the school district or school?

SCHOOL ACTIVITY ACCOUNTS RECORDED ON THE ANNUAL FINANCIAL REPORT

As stated earlier, School Activity Accounts are required to be reported with the District's financial statements. This information is to be reported in total only and can be accomplished by a journal entry at year-end. Integration of the principal accounts into the School District's financial accounting system is not required. All underlying worksheets and documentation pertaining to these accounts should be retained for audit. In no instance is the District *required* to book each school activity account transaction in the District level accounting records. (Accounting System).

Year-to-date reports for each school, or the district, can be totaled and recorded in the District's financial statements at year-end. It is perfectly acceptable for just the totals of each account to be posted to the District books and the account detail maintained at each individual school. However, all detail transactions along with copies of invoices and receipt documentation at the school level must be maintained according to the records retention policy for local and state audit purposes.

The journal entries to record this activity would follow the following format (Note – the function code used should be the one pertaining to transaction recorded. Function 1000 is used for illustration purposes only):

Governmental Funds (500)

20-500 - XXXX - 101	X,XXX.XX	
20-500 - XXXX - 799	X,XXX.XX	
20-500 - XXXX - 1920		X,XXX.XX
20-500 - 9990 -1000-610-XXXX (School Code)		X,XXX.XX

Student Activity Funds (705)

20-705 -XXXX - 101	X,XXX.XX		
20-705 -XXXX - 799		X,XXX.XX	
20-705 -XXXX - 1225			X,XXX.XX
20-705 -9990- 1000-610-XXXX (School Code)		X,XXX.XX	

Effective for FY 2018, Expenditures for School Activity Accounts must be recorded at the school facility code level for DE 46 reporting. This requirement is necessary to meet the reporting requirements of O.C.G.A. §20-14-49.11, per HB 139 passed during the 2017 legislative session. Therefore, the district must not consolidate the expenditure transactions of the schools prior to posting for transmission for the DE 46. The various activities/student sponsored organizations can be consolidated by school for year-end reporting, however, the school must maintain the accounting records to document the individual activity of each separate club/organization.

School Activity expenditures by must be recorded with each school's state school code as a segment in the account posted to the General Ledger prior to posting the journal entry if posting from external software or from subsidiary ledgers to an integrated accounting software. Please note, the school code is not always the same code as the facility code. The school code is the FTE-reporting code.

As noted in the sample transactions above, the LUA must record the expenditure transactions utilizing the state chart of accounts, including the school codes for DE 46 reporting. However, the LUA must summarize the school activities of each school prior to posting the journal entry for each facility. **It should also be noted that it is not required to post balance sheet accounts and revenues by school code; however, it may facilitate school level income statements and trial balance reporting at the local level**.

Accounting for School Activity Accounts (Principal's Accounts)

School Activity Accounts (Principal Accounts) can generally be divided into two fund types.

- Student Activity Funds (Governmental Funds 500, or Fund 505 for a local charter school within a district)
- Student Activity funds (Custodial Funds 705, or Fund 759 for a local charter school within a district).

Additional fund types that are also used include:

- Principal Account Expendable Trust Fund (Fund 715) where the principle and earnings may be expended for purposes specified in the trust agreement.

- Principal Account Nonexpendable Trust Fund (Fund 725) where only the earnings on the principle may be expended and the principle must remain intact.

The determination of which fund type, depends in part on whether or not the school district or school has a direct administrative role in the activity represented.

Revenue Sources

- Commissions 1205
- Concessions Sales 1210
- Club Dues and Fees 1215
- Donations 1220
- Fundraising 1225
- Gate Receipts 1230

Miscellaneous Sales 1235Expenditure Functions

- 1000 – Instruction
- 2210 – Improvement of Instructional Services
- 3200 – Enterprise Operations
- 3300 – Community Service Activities

Program Numbers
(8000-8999 Local use) - Districts may assign a program number for each type fund. (i.e., 8001-All athletic funds in District) **– Alternately, an LUA may use Program Code 9990 for all School Activity Account Revenue and Expenditures for DE 46 Reporting**. Local use program codes as noted above may be used at the discretion of the LUA and rolled into 9990 for the DE 46 financial reporting to GaDOE.

Reporting of Balance Sheet, Revenues and Expenditures to GDOE will be in the Financial Reporting Format prescribed by State Board Rule 160-5-2-.21. The same chart fields should be populated.

- For balance sheet: Fund-Balance Sheet
- For revenues: Fund-Program-Source
- For expenditures: Fund-Program-Function-Object-School

Accounting for all activity funds is the responsibility of the school district.

<u>SUMMARY</u>

School Activity funds are Board of Education sponsored funds, similar to the general fund or special revenue funds. They are created for the purpose of accounting for monies related to co-curricular activities such as student organizations and athletics. Activity funds may be classified as fiduciary funds, based on the administrative involvement of the school district and/or school.

The collection, disbursement, and accounting for activity fund monies is usually centralized at the school level, with the school principal designated as the activity fund supervisor. The school level accountant normally manages the record-keeping of the activity.

As governments increasingly respond to the demands for fiscal and operational accountability and transparency, best practice dictates the creation of strong internal controls surrounding activity funds, *including assurance that all transactions are recorded and reported in district financial records.* Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error and abuse.

Chapter V – 5 Charter Schools

INTRODUCTION

Charter schools are authorized in the Official Code of Georgia Annotated, Title 20, Chapter 2, Article 31, beginning with §20-2-2060. This Article is referred to as the Charter Schools Act of 1998. The legislative intent is to increase student achievement through academic and organizational innovation by encouraging local school systems to utilize the flexibility of a performance-based contract called a charter.

Article 31A defines state charter schools as a complement to the local public-school system structure. State charter schools serve outside of a local public school's organization and can serve students statewide regardless of educational districts. O.C.G.A. §20-2-2080 establishes the State Charter Schools Commission under the authority of the State Board of Education whose primary focus is the development and support of state charter schools in order to better meet the growing and diverse needs of students in this state and to further ensure that state charter schools of the highest academic quality are approved and supported throughout the state in an efficient manner.

Additionally, O.C.G.A. §20-2-2063 authorizes the State Board of Education to enter into a charter agreement with a local board of education, thus creating a charter system.

This Chapter will discuss reporting requirements for state charter schools and local charter schools. The charter systems requirements and flexibility will be discussed along with Strategic Waiver flexibility contracts with local boards of education in FMGLUA Chapter IV-1.

The charter contract for both start-up and conversion charter schools includes certain required financial information regarding revenues to be provided and financial reporting that is required. It is of utmost importance for school business and finance personnel to have knowledge of the financial components of charter contracts.

A. <u>DEFINITIONS</u>

Charter - a performance-based contract between the charter authorizer(s) and a Georgia nonprofit charter school governing board (nonprofit governing board). By entering into a charter, a nonprofit governing board and the charter authorizer(s) shall be deemed to have agreed to be bound by all the provisions of the Charter Schools Act, O.C.G.A. § 20-2-2060 et. seq., and all State Board of Education rules and guidelines implementing the Charter Schools Act as if such terms were set forth in the charter. A charter for a local charter school, if approved, shall be a three-party agreement between a Georgia nonprofit charter school governing board, a local board of education, and the

State Board of Education. A charter for a Charter System, if approved, shall be a two-party agreement between a local board of education and the State Board of Education.

Charter school - a public school that is operating under the terms of a charter.

a. **State charter school** – a school authorized by the State Charter Schools Commission pursuant to this article whose creation is authorized as a special school pursuant to Article VIII, Section V, Paragraph VII of the Constitution. A state charter school shall be a public school.
b. **Local charter school** – is a start-up charter school or a conversion charter school that is operating under the terms of a charter between a Georgia nonprofit charter school governing board, the local board(s), and the State Board of Education.
    i. **Conversion charter school -** a charter school that existed as a local school prior to becoming a charter school.
    ii. **Start-up charter school** – a charter school that did not exist as a local school prior to becoming a charter school.

Charter attendance zone - the geographical area(s) indicated within a local charter from which students may attend the local charter school. It may include all or any portion of the local school system in which the charter school is located and may include all or any other portion of other local school systems if the charter school is jointly authorized pursuant to O.C.G.A. § 20-2-2063(c) or approved by the board(s) of education of those other school systems. State charter schools have attendance zones that are comprised of an entire district, a partial district, or multiple districts, with some state charter schools operating a statewide attendance zone.

Charter petitioner - a local school, local board of education, private individual, private organization, or state or local public entity that submits or initiates a petition for a charter, except that a charter petitioner for a local charter school shall be a party other than the local board of education. The term "charter petitioner" does not include home study programs or schools, sectarian schools, religious schools, private for profit schools, private educational institutions not established, operated, or governed by the State of Georgia, or existing private schools. In the case of a charter school, the charter petitioner does not become a party to the charter contract unless the petitioner is a Georgia nonprofit corporation.

Fiscal agent – the public entity responsible for receiving and dispersing funds to a local charter school and for the financial oversight of charter schools that it authorizes.

Local board of education - a county or independent board of education exercising control and management of a local school system pursuant to Article VIII, Section V, Paragraph II of the Georgia Constitution.

Local revenue - local taxes budgeted for school purposes in excess of the local five mill share, combined with any applicable equalization grant and budgeted revenues from any of the following: investment earnings, unrestricted donations, and the sale of surplus property; but exclusive of revenue from bonds issued for capital projects, revenue to pay debt service on such bonds and local option sales tax for capital projects. Nothing in this paragraph shall be construed to prevent a local board from including a local charter school in projects specified in the ballot language of a local option sales tax or bond referendum.

Petition - a proposal to establish a charter school.

Special school - a school whose creation is authorized pursuant to Article VIII, Section V, Paragraph VII of the Constitution.

State Board of Education (SBOE) –the constitutional authority that defines education policy for the public K-12 local education agencies in Georgia.

State Charter Schools Commission – a state-level authorizing independent charter school authorizing entity, established pursuant to Article 31A of the Georgia School Code. The State Charter Schools Commission has the power to approve or deny petitions for state charter schools and renew, nonrenew, or terminate state charter school contracts in accordance with Georgia Law.

B. ACCOUNTABILITY AND AUTHORIZER ROLE

All charter schools in Georgia are held responsible for meeting the academic performance goals set forth in the charter contract between the school and its authorizer(s). The grant of a charter to the governing board of an individual charter school is a delegation of authority from the authorizer to that governing board to oversee the management of the affairs of the charter school, consistent with relevant state and federal law and regulation.

The charter school approval process begins with the submission of a charter school petition. The petition is an application for the legal right to operate a charter school, which is then evaluated by the applicable authorizer to determine whether the proposed charter school complies with all applicable laws, rules, regulations, policies and procedures, whether it is a viable school, and whether it is in the public interest. Once the State Board of Education grants or affirms a charter contract, it becomes the document allowing the operation of the school and sets forth the conditions under which it may operate and the terms for which the school is held accountable.

C, STATE CHARTER SCHOOLS

State charter schools are charter schools created as a special school under state law operating under the terms of a charter between the charter holder and the State Charter Schools Commission. State chartered schools shall act as their own Local Education Agency for accountability purposes.

State charter schools are schools that operate as an LEA. The state charter schools must follow the same reporting and accountability guidelines established for LEAs. As such, state charter schools must adhere to all aspects of this manual that are applicable to LEAs. Adherence to this manual is required by the charter contract between the state charter school and the State Charter Schools Commission. Additionally, as this manual represents generally accepted standards of fiscal management for LEAs, noncompliance with this manual may result in the termination of a state charter school contract by the State Charter Schools Commission.

Moreover, state charter schools are responsible for reporting the annual financial and budgetary reports in accordance with State Board Rule 160-5-2-.21 and must follow the State LUA Chart of Accounts.

Additionally, state charter schools are generally funded in the same manner as traditional LEAs, using the QBE funding formula as appropriated each year by the State of Georgia. The QBE formula for state charter schools also includes a Charter Supplement. This supplement is to partially offset the lack of local funding of state charter schools.

In additional to financial reporting, the State Charter Schools Commission annually conducts performance evaluations to measure each state charter school's progress in the areas of academic achievement, operational compliance, and fiscal management.

D. LOCAL START UP CHARTER SCHOOLS

A Local Charter School is a start-up charter school or a conversion charter school that is operating under the terms of a charter between a Georgia nonprofit charter school governing board, its local board(s) of education, and the State Board of Education.

Local charter schools are considered a school within the local school district and are reported to the US Department of Education's National Center for Education Statistics as part of the parent school district.

Local charter schools are eligible for federal, state, and local funds pursuant to O.C.G.A. §20-2-02068.1 and §20-2-2090, as appropriate. For the purpose of local charter schools, the Department shall determine the allotment of state funds and federal funds for the LEA in which the charter school is physically located, pursuant to O.C.G.A. §20-2-2068.1, or to the local board(s) stipulated as the fiscal agent in the charter. The local board and the State Board of Education shall treat a local charter school no less favorably than other local schools located within the applicable local system unless otherwise provided by law, including with respect to the provision of funds for instruction, school administration, transportation, food services and where feasible, building programs. Funds for transportation and food service shall be provided in accordance with Local Units of Administration (LUA) Manual. A local charter school may request the Department to order mediation if it believes the local board is treating the charter school less favorably than other local schools.

E. COLLEGE AND CAREER ACADEMIES

A College and Career Academy is a specialized school governed by a governing board, established as a charter school or pursuant to a contract for a strategic waivers school system or charter system, which formalizes a partnership that demonstrates a collaboration between business, industry, and community stakeholders to advance work force development between one or more local boards of education, a private individual, a private organization, or a state or local public entity in cooperation with one or more postsecondary institutions.

Colleges and Career Academies can be either a school or a program. If an Academy is a school, the academy follows the same guidelines as a local charter school as related to the financial reporting of the activity. If the Academy is a program, it may be overseen by its own governing board and may be operated by the management chosen by its own governing board or the school district, although its financial activity is maintained on the school district's general ledger and its students attending the academy are recorded on the FTE segment counts for the school in which the student is enrolled (since a program does not report FTEs or earn separate funding). Whether it is a school or a program, the CCA is funded as described in the contract that created it, whether as a charter school or as a program within a charter system or strategic waivers school system.

If a 501(c)(3) federal non-profit Foundation is created in support of an Academy that is operating as a program, that Foundation is considered a component unit of the school district. Therefore, GASB Statement Number 39 should be followed to determine if the component unit should be reported as a blended or discretely presented component unit of the school district. The Foundation will be required to convert the financial reporting activity to GASB-based GAAP.

An Academy that is operating as a program is not a separate school. Therefore, the program is required to follow the same guidelines as the school district when reimbursing employees for travel expenditures and other reporting requirements such as the Open Georgia Transparency in Government Act (TIGA) reporting.

F. RESPONSIBILITIES OF LOCAL CHARTER SCHOOL AUTHORIZERS

Under Georgia law, local boards are responsible for the management and control of all local charter schools. The Authorizing Authority requirements are set forth in State Board Rule 160-4-9-.06. Excerpts from the Rule are detailed below:

(a) RESPONSIBILITIES OF LOCAL BOARDS OF EDUCATION. Local boards of education ("local boards") shall provide control and management of local charter schools and charter systems, pursuant to O.C.G.A. § 20-2-2065(b)(2) and State Board of Education Rule 160-4-9-.06.

1. This control and management shall include the following responsibilities (associated with fiscal management) for local charter schools:

(i) Pre-Charter award or charter renewal:

(I) Review and act on local charter school petitions;

(ii) Post-Charter award or charter renewal:

(I) Monitor a new local charter school's pre-operational period for timely implementation of ready-to-open benchmarks related to facilities, school personnel, enrollment procedures, curriculum and instruction, operations and fiscal management, and governance. In the event the charter school governing board does not meet the ready-to-open benchmarks, the local board may postpone the school's opening by up to one year. An assurance to the Georgia Department of Education of a new school having achieved ready-to-open status is required before the new school may open.

(III) Ensure that local charter schools are fiscally sound and operating in accordance with Generally Accepted Government Auditing Standards, including annually reviewing budgets and reviewing working papers as needed;

(IV) Ensure that charter schools comply with Governmental Accounting Standards Board (GASB) Statements and Interpretations, which constitute Generally Accepted Accounting Principles (GAAP) for financial reporting.

(V) Ensure that local charter schools submit required financial information in accordance with the policies and deadlines established by the local school system for inclusion in the system's annual Financial Review Report (DE046) to the Georgia Department of Education;

(Please refer to State Board Rule 160-4-9-.06 for the complete rule regarding the responsibility of the charter authorizers.)

All local charter schools shall submit required information to their local school board. The local board has fiduciary responsibilities as described in OCGA 20-2- 2065(b)(2) and will report local charter school financial data to the SBOE along with the normal submissions currently required. State charter schools shall submit this information directly to the SBOE. In addition to the submission to the SBOE, state charter schools and local charter schools shall submit required information to the GaDOE District Flexibility and Charter Schools Division in accordance with the rules and regulations established in the law and State Board Rule. See Section C for discussion of state charter schools reporting requirements. See local start up charter schools reporting in Section J for financial reporting requirements for local charter schools.

G. CHARTER PETITION REQUIREMENTS

All charter school petitions must meet the petition requirements set forth in State Board Rule 160-4-9.05, Charter Schools Petition Process, for the particular type of charter school proposed. In addition, the charter school petition shall contain information sufficient to demonstrate fiscal feasibility and the existence of required financial controls. All charter school rules can be accessed at http://www/gadoe.org/External-Affairs-and-Policy/Charter-Schools/Pages/Rules-and-Regulations.aspx and charter applications for each type of charter school can be accessed at http://www/gadoe.org/External-Affairs-and-Policy/Charter-Schools/Pages/Rules-and-Regulations.aspx. Additionally, the State Charter Commission maintains specific application requirements for state charter schools, which can be accessed at http://scsc.georgia.gov/petition-application.

The charter applications contain information allowing authorizers to determine the financial viability of the proposed charter school and should be reviewed by local district financial staff when a charter school petition is being considered for approval. Special attention should be paid to the budgets submitted with the charter school petition and the amount of revenues shown, since approval of the charter school petition by a local board of education is approval of the revenue amounts committed by the local district – and those amounts will be incorporated into the charter school contract.

H. APPLICATION PROCESS

All proposed charter school petitioners shall prepare enrollment and financial projections as provided by the District Flexibility and Charter Schools Division of GaDOE or the State Charter Schools Commission.

I. TERMINATIONS

Local Charter Schools – upon termination of the charter for a local charter school, all assets of the terminated charter school purchased using state or federal grant funds, and all unencumbered state or federal grant funds awarded by the State Board of Education, shall revert to the local district and shall not be used by the school or its nonprofit governing board to satisfy liabilities. This excludes assets purchased with funds derived from the federal Charter Schools Program grant, which shall be redistributed to eligible Georgia charter schools including state charter schools authorized by the State Charter Schools Commission and charter schools authorized by local boards of education and the State Board of Education.

State Charter Schools – upon termination of the charter for a state charter school, all assets of the terminated charter school remaining after liabilities have been satisfied shall revert to the State Charter Schools Commission, which will make a determination on redistributing the funds to other state charter schools or return the funds to the state treasury. This excludes assets purchased with or unencumbered funds derived from state or federal grants awarded by the State Board of Education, which shall revert to the Department and shall not be used by the school or its nonprofit governing board to satisfy liabilities.

J. FISCAL RESPONSIBILITIES AND REPORTING REQUIREMENTS FOR CHARTER SCHOOLS

All charter schools are required to develop policies and procedures to ensure fiscal responsibility with a system of proper internal controls. These policies and procedures must be finalized in written form and must be approved by the governing board of the school. A basic structure of the system of internal controls shall be submitted to their charter authorizer(s) as part of the charter school's initial charter application or charter renewal petition, local charter schools shall submit this information to their authorizing school board since that board has fiduciary responsibilities as described in OCGA 20-2-2065(b) (2) and will report local charter school financial data to the SBOE along with the normal submissions currently required. State chartered schools shall submit this information to the State Charter Schools Commission, as well as to the SBOE. In addition to the submission to the SBOE, Commission Charter Schools shall submit information to the Commission in accordance with the rules and regulations established by the Commission.

1. ESTABLISH AN ACCOUNTING SYSTEM

All charter schools must establish an accounting system. Given the time frames for cash disbursement by the LEA and/or the SBOE, charter schools should establish a modified accrual-based accounting system. Modified accrual accounting recognizes revenue when it is available and measurable. Modified accrual accounting recognizes expenditures during the period in which the liability is incurred.

2. BOOKKEEPING

The primary components of any accounting bookkeeping system are the chart of accounts, the general ledger, and a series of journals/sub-journals that are used to track the details regarding specific types of transactions. The chart of accounts is a numbered list of each item that the accounting system tracks. A typical chart of accounts will be comprised of several main categories – such as *Assets*, *Liabilities*, *Equity*, *Revenues* and *Expenses* – each with multiple, numbered sub-accounts that capture specific financial operating details. Schools are required to use the same numbering system as used by the Georgia Department of Education. Additional information can be found on the Department's website at http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx.

3. ESTABLISH INTERNAL FINANCIAL CONTROLS

All charter schools are required to establish internal financial controls approved by the school's governing board. Internal controls are the processes and procedures organizations put in place to minimize the likelihood of financial mistakes, such as improperly recording the money that is received and disbursed, and theft. These controls must be transparent and clear so that an authorizer representative can review them as necessary. Illustrative examples of financial controls include:

- ✓ *Segregation of Duties*: No single individual should have control over two or more phases of a transaction.

- ✓ *Authorization and Processing of Disbursements*: Policies must be established to determine who in the school can authorize payments and under what terms and amounts.

4. ESTABLISH A PAYROLL SYSTEM

All charter schools are required to establish a payroll system to ensure timely payment of personnel obligations. Deciding the criteria by which employees will be paid is one of the first steps when developing a school budget. Charter schools can use the state salary schedule if they so choose, but since that use of the schedule is waived by their charter contract, they are free to design their own compensation criteria.

Appropriate steps should be taken in advance to set up the payroll process. A payroll system will have to be established and maintained regardless of the compensation scheme chosen. Though a small number of charter schools have chosen to contract this service out to an employment provider, it is the duty of the governing board of the school to ensure that all payroll obligations, including payments for retirement and all taxes, are met and that all such payments are made in a timely manner.

5. ALLOTMENT OF FUNDS

For new start-up charter schools, a conservative projection of base FTEs (full time equivalent student count) must be made prior to the start of the fiscal year (July 1). This estimate should include the number of students planning to attend the charter school that presently attend traditional public schools. In addition, this estimate should include an approximation of the number of students that will be newly enrolled in public education (i.e., students who were formerly enrolled in private schools or were homeschooled).

For new state charter schools, a projection of FTEs must be completed prior to the start of the fiscal year (July 1) only for the initial year of operation. The projection will be adjusted with the first FTE count in October after the start of the school year and the state appropriation funding amended for actual enrollment. In addition to the projected FTEs mentioned above, the charter school will report FTEs in the normal reporting cycle starting with the count in October of the initial year. Any initial funding is subject to appropriation. If no initial QBE allotment is granted, then the funding for these schools will be part of the normal QBE Mid-Term adjustment process and funded through the Supplemental Appropriation.

For the method of calculating an approximation of local revenue for the state charter schools, GaDOE and the State Charter Schools Commission will follow the Charter Schools Commission Act. As required by law, the SCSC will calculate the approximate local revenue to which each state charter school is entitled, and the amount will be funded as appropriated. All grants are subject to SBOE approval and appropriation by the General Assembly.

A local charter school may request the State Board of Education to order mediation if it believes the local board is treating the charter school less favorably than other local schools. Funding for approved charter schools will be determined by following the QBE formula through the prescribed data collections of FTE and Certified/Classified Personnel Information (CPI). This process cannot be waived or altered by the charter, except where permissible.

6. DATA REPORTING

In order for charter schools to receive an accurate and appropriate amount of state and local monies, it is essential that they follow all data reporting guidelines. Local charter schools should report through the local authorizing school district in ensuring that all data collections guidelines are followed. The state charter schools should follow data collection guidelines established by the Georgia Department of Education. At a minimum, state charter schools must transmit FTE (Full-Time Equivalent) Student information and Classified and Certified Personnel Information (CPI) data for all three collection cycles. Additional information, including transmission dates can be found on the Department's website at http://www.gadoe.org/Technology-Services/Data-Collections/Pages/Data-Collections-and-Reporting.aspx.

In order to access important information, all charter school administrators should set up a MyGaDOE account. MyGaDOE is an online interface designed to improve your interaction with the applications and services that the Department provides. It can assist charter school administrators in several procedures.

- Consolidate access to applications
- Provide quick access to a variety of new and existing services
- Provide news and tips
- Provide a way for Department staff to communicate with you through messages
- Provide quick access to documentation, online help, and training materials

MyGaDOE portal accounts can be created at the following link: https://portal.doe.k12.ga.us/login.aspx?ssosrc=pro. State charter schools are required to obtain a MyGaDOE portal account no later than July 1 of the first year of operations.

All state charter schools must have a Student Information System (SIS) system in place in order to record and transmit essential data to the Department. This SIS must be compatible with the State Longitudinal Data System as required by the state charter school's charter contract. The local charter schools are required to work with the local board of education in order to correctly transmit student and employee information.

7. STATE AND FEDERAL GRANTS

The Georgia Department of Education has a variety of different state and federal grant programs for which a charter school may be eligible. The eligibility process is different for each grant and may be different depending on the type of charter school. Start up and conversion charters are considered part of the local school system under the authority of the local board of education that approved their charter – or as specified in the charter contract of the local charter school was jointly authorized or approved by more than one local board of education. As such, all grant applications should be approved by the local school district. State charter schools should submit an application directly to the Georgia Department of Education. All rules, regulations, and procedures of each individual grant program must be followed.

A charter does not make a charter school automatically eligible for competitive grants. All requirements for such grants must be met in order to be eligible for those grants. Similarly, all grant program requirements must be met for a school to receive formula grants.

8. TRANSPORTATION FUNDS

Under Georgia law, the local board and the state board are required to treat local start-up charter schools no less favorably than other local schools with respect to the provision of funds for transportation. State charter schools are eligible for transportation funding through the state charter school supplemental grant. The transportation funding is only allotted to those state charter schools that provide transportation services. In determining the amount of funds to which a local charter school is entitled under this requirement, the local school board shall take into account the number of students enrolled in the start-up local charter school and the proportionate share of funds such student earns.

For the purpose of calculating the transportation funding required to be paid to start-up charter schools, local boards shall develop a ratio that takes into account total district spending on transportation and then determine the proportionate share to which any start-up charter school is entitled. Notwithstanding the requirement to provide transportation funding, local boards and start up charter schools may enter into a separate agreement that allows the district to provide transportation services in lieu of the proportionate cash payment otherwise required.

9. FOOD SERVICE FUNDS

Under Georgia law, the local board and the state board are required to treat local start-up charter schools no less favorably than other local schools with respect to the provision of funds for food service. All charter schools will be eligible to participate in the National School Breakfast and Lunch Program to the same extent as any other public school.

K. FINANCIAL REPORTING

All charter schools in Georgia must be accountable financially as well as academically. The school is accountable to a variety of stakeholders: to its parents, to its authorizer, to the state, to the federal government, and to the general public. From a financial standpoint, that accountability is communicated through different types of financial reports. School management needs to have financial information in order to make decisions, both for current expenditures and for future budget planning. Additionally, regulatory agencies, such as the local school district or the state authorizer require financial reports to monitor past financial activity at the school level. As these are two very different needs, financial reporting is usually categorized into both **internal reporting** and **external reporting**.

INTERNAL REPORTING

Internal reporting provides a standardized method of providing financial information to the school administrators and the governing board. Internal reporting should be easily understood and provide accurate and timely financial data. These reports may vary in format, but the following are all acceptable methods of internal reporting.

- Balance Sheets
- Statement of Income and Expenditures vs. Budget
- Income Statement/Profit and Loss Statement/Statement of Revenues and Expenditures
- Statement of Cash Flows

For those reports to be reliable, an appropriate set of controls must be in place. The business office should establish procedures that properly carry out governance board policies. As noted, the procedures established should ensure proper controls by adhering to the concept of segregation of duties. This means that no one person should ever be able to carry out a financial transaction from beginning to end.

EXTERNAL REPORTING

Just as important as being able to produce required financial information for a charter school's governing board, a charter school's management must provide specific information to the Georgia Department of Education and its authorizer(s) in addition to external financial statement users. Two general requirements are discussed below, with directions to resources that can provide more details.

State Charter Schools - Annual Charter Financial and Budget Reports to the Georgia Department of Education

The annual financial and budget reports are required components of financial reporting for State Charter Schools. The Georgia LUA Chart of Accounts is the prescribed format for reporting financial data. This format provides for the classification of revenues, expenditures, and expenses into certain specific categories. State charter schools are required to report financial information in this format each year. A review chart of account codes and the procedures for printing the State's Chart of Accounts can be found on the Georgia Department of Education's website at http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx.

State charter schools shall submit annual budget and financial information in accordance with the requirements of this handbook. Enforcement of any expenditure controls associated with the reporting of this financial and budget data is subject to waivers granted through the charter approval process by the relevant authorizer.

Local Charter Schools – Financial Reporting to their Local School Districts

Reporting for local charter schools that are authorized by a local school district or school districts is complicated in some cases. Many local charter schools maintain the financial records in a separate accounting software system than the authorizing school district. Additionally, local charter schools operate with autonomy in local school governance decisions. However, in Georgia, local charter schools are considered to be a local school of an authorizing school district, just like any other school in that district, for state and federal reporting purposes.

O.C.G.A. §20-2-2062 defines charter schools as a public school that is operating under the terms of a charter.

GAAP reporting requirements for public schools in Georgia are set by the Governmental Accounting Standards Board (GASB). The Implementation Guide for GASB Statement 34 indicates the following:

"Under the ED, entities following the AICPA Not-for-Profit model based on Statement 29 would have been required to apply the criteria for using enterprise funds to determine their appropriate accounting under the new model. However, most would not meet the criteria for using enterprise funds and would be required to create governmental fund and modified accrual information in order to provide the required fund-based statements. For this reason, the Board agreed that these governmental not-for-profits should be "grandfathered" by stating in this standard (see paragraph 147) that they may be reported like business-type activities. ***Not-for-profits that currently use the governmental model or that are created after the date of this Statement would be required to apply this Statement "as is."*** *(June 1999, effective for smaller entities for periods beginning after June 30, 2003.)"*

Further guidance indicates that charter schools meeting the definition of a government entity are required to follow GASB GAAP. Even if a charter school does not meet the definition of a government, it may still be a component unit of a state or local government, including a local school district. Component units are required to be discretely reported or blended with the funds of the primary government. (PPC Guide, Section 1703.69)

The GASB Statement 39 discusses the definitions of component units and the reporting requirements. GaDOE has determined that local charter schools meet the definition of a component unit of a school district due to the fiscal dependency of the local charter on the school district and the services of the charter are for the primary benefit of the school district.

Each local charter school has a separate contract with their charter school authorizer, and the determination on whether the local charter school is a component unit as it relates to financial reporting for CAFR or Audit purposes should be made on an individual basis for each. For financial reporting to the Georgia Department of Education, all local charter schools are considered component units of the school district and all financial activity should be included in the annual financial reports submitted to GaDOE.

The local charter school fiscal year-end financial balances must be reported by the school district to the Department of Education in conjunction with the overall activity of the local school district.

Local school districts are required to report the fiscal year end balances to the Department of Education no later than September 30th after the FYE June 30th. The financial analysis report must be presented in a prescribed format using the adopted LUA Chart of Accounts. Account codes must include fund, function/revenue source, program, expenditure object, and facility/school code. Local charter schools must therefore provide the financial information required by their districts, in the form prescribed by their districts, in accordance with the deadlines established by their district.

Local Start-up Charter Schools shall submit annual budget and financial information to their local board(s) of education. This information shall be submitted in such a way that the local school board can and shall include it in their budget and financial reporting in accordance with this handbook. Although expenditure controls were waived in the charter contract, the requirement to report financial and budget data is not waived.

Fund 599

To specifically identify local charter school activity in a school district's annual financial analysis report, Fund 599 was created in the LUA State Chart of Accounts. The description of Fund 599 is a "special revenue fund for recording the activity of start up local charter schools so that they are included in the financial analysis report of the authorizing school district."

Fund 599 is to be reported by all school districts with local charter schools. The activity is to be recorded at fiscal year-end, using the authorized LUA Chart of Accounts published by GaDOE. The activity must be reported using fund, function/revenue source, program, expenditure object code, and school code.

The school codes must agree with the local charter school codes that are used to report FTE counts by the school district. For example, a local charter school may be housed in a building with a facility code of 1050, but the school code is reported as 2010. The FTEs should be reported to 2010; therefore, the operational expenditure activities for the local charter school should be reported in Fund 599 to school code 2010.

Example:

Year	Fund	Fiscal year	Program	Function	Object	Sub-Object	Facility/ School	Building	Additional Code
17	599	1	1011	1000	110	00	2010	0	000000

Fund 599 should only be used for the expenditures that are recorded directly by the local charter. Any expenditures that are incurred centrally by the school district, for example, professional development costs, should be reported in the appropriate fund using the correct school code.

Example:

Year	Fund	Fiscal year	Program	Function	Object	Sub-Object	Facility/ School	Building	Additional Code
17	100	1	1210	2210	595	00	2010	0	000000

Using the professional development example, if a school district incurs expenditures for providing training to the local charter school staff and the expenditure is paid with General Funds, the district will report that expenditure in Fund 100 to the applicable school code. Expenditures incurred and paid by the local authorizing school district do not need to be reported in Fund 599.

Fund 599 will only report those expenditures incurred by the local charter school and that are not already reported by the school district.

Payments by the School District to the Local Charter School – Object Code 594

The charter school contract approved by a local school board indicates the minimum amount of state and local revenue of the school district that is to be paid on a per-pupil basis to the local charter school in each year of that school's operation. That payment schedule is agreed upon between the local authorizing school district and the local charter school. Payments made by the school district to the local charter school are required to be coded to object code 594.

The description of expenditure object code 594 on the LUA Chart of Accounts indicates the account is to record "payments made by the school district to the local charter schools for their portion of state and local funds."

These payments are essentially an inter-agency transaction of the school district, in which funds are transferred from the centralized operations to the local charter school so that the funds may be budgeted and expended at the discretion of the local charter, based on their specific approved charter contract.

The expenditures charged to object code 594 should agree with the budget and payment plan approved for the local charter school. The payments would be posted to the general ledger as made by the school district as follows:

Example of Payment by Local Authorizing School District to Local Charter School:

	Fund	Program	Function	Object	Sub-Object	Facility/ School	
Debit	100	9990	1000	594	0	2010	10,000.00
Credit	100	N/A	0101	N/A	N/A	N/A	10,000.00

The payment can be posted to the program code 9990, as the expenditures actually incurred with the funds will be reported by the local charter school in Fund 599 on the Annual Financial Analysis Report (DE046) submitted by the school district.

For example, it is not necessary to report how much of the payment by the local authorizing school district is allocated for kindergarten, and how much is allocated for third grade. The reasoning is that the local charter school will report the actual expenditures incurred, and for what purpose, in fund 599. If a local charter school is paid $10,000 from the school district, the actual salaries, benefits, supplies, etc. that were expended with those funds will be reported in Fund 599.

Example of a Kindergarten Teacher Salary Expenditure for a Local Charter School:

	Fund	Program	Function	Object	Sub-Object	Facility/School	
Debit	599	1011	1000	110	0	2010	6,000.00
Credit	599	N/A	0422	N/A	N/A	N/A	6,000.00

Example of a Media Center Supply Expenditure for a Local Charter School:

	Fund	Program	Function	Object	Sub-Object	Facility/School	
Debit	599	1310	2220	610	0	2010	4,000.00
Credit	599	N/A	0421	N/A	N/A	N/A	4,000.00

Revenue received by the Local Charter School from the School District – Revenue Source 5994

The state QBE revenue and the local ad valorem property tax revenue will be reported by the local authorizing school district using the state prescribed revenue source and program codes. It is necessary to report the QBE state allocations based on the programs allotted in the General Fund by the local authorizing school district.

The revenue received by the local charter school is considered a transfer of payment from the local authorizing school district. Because the school district is appropriated state revenue grants, and the Georgia Constitution only authorizes local school systems to levy property taxes, the revenue is the revenue of the local authorizing school district and is required to be reported as such.

When recording the revenue received by the local charter school in Fund 599, the district must ensure that the revenue from state, local, and federal funding sources is not overstated on the annual financial report submitted to GaDOE.

The revenue received by the local charter school directly from the local authorizing school district should be reported in Fund 599 as *"Local Charter School Revenue Received From School District."* Coding the revenue received from the local authorizing school district to an Other Financing Source on the Annual Financial Analysis Report will ensure that the state/local/federal revenue received by the school district is not overstated.

Any other revenue received by the local charter school should be reported in accordance with the LUA Chart of Accounts.

Example of Revenue Received From School District:

	Fund	Program	Source	Object	Sub-Object	Facility/School	
Credit	599	9990	5994	0	0	N/A	58,000.00

Example of a Revenue Received From Other Vendor/Organization:

	Fund	Program	Function	Object	Sub-Object	Facility/School	
Credit	599	1667	3995	0	0	N/A	46,000.00

Local Charter School – Federal Programs

Some local charters receive Title I funds and other federal program funds from the local authorizing school district. These funds will follow the same process as the state/local funds that are detailed in the section on Fund 599. Federal program activity is required to be reported separately, therefore, any expenditures recorded by the local school district in Fund 599 for federal programs must be reported with the Federal program code. For example, all Title I Funds for Academically Disadvantaged Students will be reported using the program code 1750. The payment to the local charter schools will be recorded by the school district in Fund 402 using object code 594. In Fund 599, the charter school will record the revenue received from the school district using revenue source code 5994.

If federal funds are expended at the school district for services provided to the charter school, the expenditures are recorded in the applicable federal fund using the same chart of account structure that is utilized for all expenditures centrally incurred for the schools within the district. Only those expenditures that are incurred directly by the local charter school are recorded in Fund 599. Those incurred by the school district are recorded in other funds using the local charter school's school code.

Local Charter School – School Food Service Activity

In many cases, local charter schools maintain their own school food service program, separate from that program maintained by the local authorizing school board. Even if a local charter school maintains separate records for the National School Lunch Program and the Student Breakfast Program, the School Food Service activity of the local charter school must be recorded by the local authorizing school board. The activity of the local charters should be recorded on the school district's year-end financial statements using a unique fund in the 600 series for each school.

Inclusion of the local charter school's school food service activity will result in a variance for the district when comparing the DE 46 to the DE 106 at fiscal year-end. To mitigate for this variance, all local charter school food service funds shall be mapped to Fund 659. Fund 659 has been identified in the LUA Chart of Accounts as Local Charter School Food Service Funds. If a school system has 20 local charter schools, all of the funds for those charter schools will be reported to GaDOE on the DE 46 within Fund 659. This will allow the programming to omit the local charter school activity when comparing the DE 46 to the DE 106.

Example of School Food Service Expenditure Ledger for Local Charter School:

Fund	Program	Function	Object	Sub-Object	Facility/ School		Amount
659	9990	3100	184	0	2010		28,000.00
659	9990	3100	210	0	2010		7,584.00
659	9990	3100	220	0	2010		3,618.00
659	9990	3100	260	0	2010		1,333.00
659	9990	3100	410	0	2010		6,278.00
659	9990	3100	444	0	2010		1,286.00
659	9990	3100	610	0	2010		10,380.00
659	9990	3100	630	0	2010		46,912.00
659	9990	3100	635	0	2010		16,175.00
659	9990	3100	734	0	2010		5,700.00

Reporting Local Charter School School Activity Funds

School Activity Accounts are required to be reported with the District's financial statements. This information is to be reported in total only and can be accomplished by a journal entry at year-end. Integration of the principal accounts into the School District's financial accounting system is not required. All underlying worksheets and documentation pertaining to these accounts should be retained for audit. In no instance is the District *required* to book each school activity account transaction in the District level accounting records. (Accounting System).

Reporting Local Charter School Capital Assets and Long-Term Debt

There may be cases in which the local charter school owns capital assets, such as buildings, buses, and school food service equipment, that meet the capitalization policy established by the local authorizing school district or the local charter school. If the local charter school does not maintain their own capitalization policy, they must follow the policy of the local authorizing school district. The local charter school should report any capital asset activity of the local charter school in Fund 859 – Local Charter School Capital Assets on the Annual Financial Analysis Report (DE 46) to the Georgia Department of Education. At a minimum, the cost of the assets, the accumulated depreciation, additions, depreciation expense, and deletions must be reported for assets that are owned exclusively by the local charter school. Any assets own by the local authorizing school district but utilized by the local charter school will continue to be reported in the local authorizing school district's capital asset listing and follow the district's capitalization policy. Any assets separately owned by a not-for-profit and not in the name of the entity doing business as the local charter school are not required to be reported on the DE 46.

Local charter schools are not authorized to issue general obligation bonds in Georgia, because local charter schools cannot levy taxes. If the school district has a SPLOST referendum passed by the voters that includes projects for the local charter school, that activity, including SPLOST revenue, projects, and related debt, will continue to be reported by the local authorizing school district.

If a local charter school has incurred other debt such as bonds issued by another entity on its behalf, capital leases, compensated absences, claims and judgements, or any other types of operating loans, the local charter is required to report that activity in Fund 959 – Local Charter School Long Term Debt Account. Any debt maintained separately by a not-for-profit and not in the name of the entity doing business as the local charter school is not required to be reported on the DE 46.

Annual Financial Audit (both state charter schools and local charter schools)

The Charter Schools Act requires all start up charter schools, including state charter schools and local charter schools, to arrange for an annual independent audit by a Georgia licensed auditor. Charter schools must ensure that the Georgia licensed auditor is qualified to conduct an audit of an educational agency. Local charter schools are component units of the local authorizing school district and may be audited as a discretely presented or blended component unit of the school district. Chapter VI-8 of this handbook discusses the role of the Georgia Department of Audits and Accounts in conducting the annual audit of local boards of education in the State of Georgia. The completed audit report is due to the Georgia Department of Education no later than November 1 of each year. If a charter school's audit firm cannot complete the audit in time to submit it by November 1st, the school must submit unaudited financial statements (Statemen of Net Position, Statement of Activities, and all Fund Financial Statements that have yet to be audited) by November 1, along with a letter from their auditor explaining why the deadline will not be met and when it will be completed – and then submit the Audit Report when it is completed.

Because charter schools are legislatively defined as public schools in the State of Georgia, the charter schools are required to maintain the accounting records in accordance with GAAP established by the Governmental Accounting Standards Board. The audit should then be performed using Generally Accepted Governmental Auditing Standards (GAGAS).

State auditors have the legislative authority to review the annual audit of charter schools.

M. SUMMARY

Pursuant to the Charter Schools Act and State Board Rules, charter schools must be granted all allowable waivers from their authorizers. However, financial reporting rules and regulations are not waivable. Furthermore, omission of a topic in this chapter does not suggest that such topic does not apply to charter schools.

Charter schools should use the remaining chapters of the Financial Management for Local Units of Administration handbook as a guide and reference.

Since the charter contract for local start-up charter schools contains important financial information, it is of utmost importance for school business and finance personnel to have knowledge of the financial requirements included in all charter contracts, as well as all State Board Rules regarding financial oversight and reporting.

Chapter V – 6 Statewide Travel Regulations

NATURE AND PURPOSE

In accordance with the Official Code of Georgia Annotated Section 50-5B-5, "The State Accounting Officer in cooperation with the Office of Planning and Budget (OPB) is authorized to and shall adopt rules and regulations governing in-state and out-of-state travel and travel reimbursement that promote economy and efficiency in state government and which treat employees fairly and equitably."

Therefore, annually the OPB and the State Accounting Office (SAO) conduct a review of statewide travel regulations which all state employees must follow; the minimum guidelines are outlined in the *Statewide Travel Policy*. In addition, personnel from local units of administration (LUAs) must follow these regulations. "Personnel" as used in these regulations is defined as persons governed by the rules and regulations of LUAs.

Agencies are not authorized to set more lenient policies than the *Statewide Travel Policy*; however, agencies may establish policies that further restrict an employee's travel if the agency determines that stricter policies are necessary. NOTE, this exception does not apply to the mileage rate established by SAO/OPB in accordance with O.C.G.A. §50-19-7. No other mileage rate may not be adopted.

PER DIEM RATES AND DEFINITION

Personnel traveling on behalf of a LUA must also follow the per diem rates as established annually by the U.S. General Services Administration (GSA). These rates are utilized by the SAO in updating the State Travel Policy's per diem and mileage rates on an annual basis. 'Per diem' is the allowance for lodging, meals and incidental expenses (excluding taxes). The GSA establishes per diem rates for most destinations within the United States.

The statewide travel regulations and the link to GSA Per Diem rates are posted at the following website:

http://sao.georgia.gov/00/channel_createdate/0,2095,39779022_173993666,00.html

Section V Regional Educational Service Agencies

Chapter V – 1 Regional Educational Service Agencies

NATURE AND PURPOSE

Regional Educational Service Agencies (RESAs) were created by the General Assembly to provide shared services to improve the effectiveness of educational programs and services of local school systems, to provide instructional programs directly to selected public school systems, and to provide Georgia Learning Resources System services.

RESAs are neither county nor independent school systems. Rather, they are service agencies, partly funded by the state, created to provide educational and support services to a group of school systems. O.C.G.A. §20-2-270.1 and §20-2-271 enumerates the specific kinds of assistance RESAs must provide to member school systems. RESAs may acquire, lease, purchase, lease purchase, or dispose of real or personal property and may incur debts for those purposes subject to the approval of the board of control. The property will be held in the name of the RESA. RESAs may sell or provide at a reasonable cost goods to Georgia private schools. RESAs also MAY provide services relating to non-educational areas such as sales and service of audio visual equipment, sales of office supplies and consumable educational materials. RESAs have wide latitude to identify and provide within their available resources other non-educational services to member school systems.

GOVERNANCE

Each RESA is governed by a board of control composed of the school superintendent of each member school system, the president or highest administrator of each member postsecondary institution, and a local public or regional library director appointed by the director of the Office of Public Library Services of the Board of Regents of the University System of Georgia RESAs are subject to the rules of the State Board of Education that govern local school systems except where explicitly stated otherwise.

<u>Boards of control shall determine assistance needed by local school systems in the RESA's area, establish priorities based on identified needs, and allocate resources to meet the needs. Annually the boards of control shall review the effectiveness and efficiency of the RESA. The boards of control shall establish procedures and activities by which RESAs achieve their objectives.</u>

STAFFING

Each board of control shall contract with the director of the RESA. The RESA director shall hold a valid Georgia PAL-5 or L-5 or higher certificate in educational leadership. The director is responsible for the administration for programs and services approved by the board of control. The RESA staff shall be comprised of the those individuals the board of control authorizes to provide instructional and support services. RESA staff providing general instruction and curriculum assistance to LEA staff shall hold a valid Georgia PAL-5 or L-5 or higher certificate in educational leadership or a valid Georgia T-5 or higher certificate in the primary field in which employed. Additional curriculum personnel shall meet the same qualifications or hold an instructional supervision endorsement to a valid Georgia T-5 or higher certificate in the subject he or she supervises. Teachers providing services directly to students shall have a valid teaching certificate in the area of service.

FUNDING

O.C.G.A. §20-2-274 authorizes the state board to provide each RESA with a uniform state-wide needs program grant and a documented local needs program grant pending approval by the General Assembly. The needs program grant includes a fixed amount and an amount based on number of local school systems, number of schools, number of students, and number of square miles contained within its member school systems. The RESA must match the uniform state-wide needs grant with an amount equal to one-fourth of the grant. The grant and matching funds will be used to finance the basic administrative overhead of the RESA and to provide the services specified in Code Sections 20-2-270.1 and 20-2-271.

The documented local needs program grant depends on the proportion of the number of local school systems, number of schools, number of students, and number of square miles contained collectively within its member local school systems when compared to these these factors state wide, as well as the adopted operational plan and the budget designed to address documented needs for assistsance to member school systems. The matching requirement for the local needs program grant is an amount of funds equal to 2/3 of that grant.

Grants will be provided by the state board to RESAs for Georgia Learning Resources Systems or to a local school system serving as a fiscal agent for Georgia Learning Resources System.

The board of control will determine the method used to allocate the grants to each member school system. In addition, the board of control will grant funds to RESAs to provide services to all local school systems in the service area of the Georgia Learning Resources System. All other RESA funding will be based on contracts to supply service programs to member local school systems. In addition to state funds, RESAs may solicit funds from other state, federal, and local sources. The board of control will budget all funds of the RESA.

A RESA is not permitted to directly receive funds from the state board that were intended for use directly by a local school system except upon official request by the school system.

PERFORMANCE MEASURES

Each RESA shall submit annually to the department with a copy to the Education Coordinating Council beginning June 30, 2005, or as designated, a long-range regional plan for improvement for three consecutive fiscal years. The plan shall establish goals, specific objectives, and performance indicators to measure the educational efficiency and cost effectiveness of services to its member institutions according to state and locally approved standards. The plan shall include intended improvement objectives, aligned professional learning programs developed by the Network of RESAs, timetables for achieving such objectives, and the means by which performance in attaining such objectives will be assessed. Each plan must include the purposes and description of the services the RESA will provide to schools identified as low performing based on the indicators adopted under Georgia law and to other schools.

It is vital that RESA services to schools meet local needs as well as be closely linked with the Department of Education's statewide system of intensive and sustained support and improvement. To this end, the RESA shall include in their annual regional plans for improvement a description of how the services they provide to schools identified as low performing will be coordinated with and made an integral part of the statewide system of intensive and sustained support and improvement.

Each RESA shall submit to the department by October, or as designated, an annual report which provides specific information on the actual outcomes resulting from RESA services and programs. The report shall describe how the outcomes were measured and assessed on performance in each area, including addressing the actual benefits, i.e., positive outcomes, resulting from the RESA's activities and the costs incurred to provide such services and programs.

RULES

State Board Rule 160-5-1-.13 relates specifically to RESAs; however, RESAs, unless exempt, are subject to all rules governing local school systems. Fiscal personnel must be cognizant of other rules promulgated by the State Board, especially those relating to budgeting, accounting, and reporting (see Fiscal Management section of Georgia Board of Education Rules and Policies) Georgia Department of Education - State Board of Education. Fiscal personnel should be knowledgeable also of the contents of this manual, which is incorporated by reference in the above-cited rules.

BUDGETING

RESAs are required to prepare and submit, after approval by the Board of Control, an annual budget in a form prescribed by the Georgia Department of Education (GA DOE) no later than September 30th.
Since RESAs do not receive a QBE allotment, their budgets are not subject to the local fair share calculation applicable to local school systems.
O.C.G.A. §20-2-272 (b) prohibits RESAs from budgeting a deficit. The State Board will not accept a RESA budget showing a deficit.

FINANCIAL MANAGEMENT AND REPORTING

RESAs cannot expend or contract to spend any funds beyond the amount actually received in any fiscal year (O.C.G.A. §20-2-272 (b).

RESAs are required to submit an annual plan to the GA DOE by June 30 of each year. The plan has a section in which revenues and expenditures are reported, but it is not the official budget RESAs are required to submit to the GA DOE bySeptember 30th. Likewise, RESAs are required to submit an annual financial report to the GA DOE by September 30th. RESA directors are required to be bonded in an amount determined by the Board of Control. In addition, RESA employees whose duties by law or local policy necessitate bond coverage must be bonded.

RESAs are not covered by O.C.G.A. §20-2-167 which limits the amount of surplus fund balance to 15 percent of the total budget. RESAs are audited each fiscal year by the Georgia Department of Audits in the same manner as local school systems.

FEDERAL PROGRAM ACCOUNTING

If a RESA obtains a federal grant through either the GA DOE or directly from other sources, it must comply with all applicable rules and regulations, including the timely submission of fund requisitions and project completion reports.

SUMMARY

RESAs provide shared services to local school systems to enhance the educational process. They are governed by a board of control with members representative of the local school systems, postsecondary education, and regional library. Funding is provided by grants and can be earned through providing addition services to local school systems. Performance measurement is required to monitor results. Both the Offical Code of Georgia and the State Education Rules provide guidance on required reporting and budgeting.

Section VII – Appendices
Chapter VII – 1 Acronyms and Reference Material

NATURE AND PURPOSE

This appendix is provided to assist Local Units of Administration (LUAs) personnel in referencing publications and sites useful for governmental accounting.

ACRONYMS

CAFR	Comprehensive Annual Financial Report
CCRPI	College and Career Ready Performance Index
CPI	Certified/Classified Personnel Information
COA	Chart of Accounts
DE046	Department of Education annual submission reports for actual and budget data
DE147	Department of Education Reimbursement Requests
ESSA	Every Student Succeeds Act
FASB	Financial Accounting Standards Board
FESR	Financial Eficiency Star Rating
FMGLUA	Financial Management for Georgia Local Units of Administration
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GADOE	Georgia Department of Education
GAORS	Grants Accounting On-line Reporting System
GASB	Governmental Accounting Standards Board
GOSA	Governor's Office of Student Achievement
LEA	Local Educational Agency
LUA	Local Unit of Aministration
OPEB	Other Postemployment Benefits
UGG	Uniform Grant Guidance

REFERENCE MATERIAL

www.aicpa.org	Statement on Auditing Standards, Audit and Accounting Guides
www.audits.ga.gov	Georgia Department of Audits and Accounts
www.ecfr.gov	Code of Federal Regulations
www.dch.georgia.gov	Georgia Department of Community Health
www.decal.ga.gov	Georgia Department of Early Care and Learning
www.doas.ga.gov	Georgia Department of Administrative Service
www.ed.gov	US Department of Education
www.gao.gov	Government Auditing Standards (Yellow Book)
www.gasb.org	Statements, Interpretations, Technical Bulletins, and Implementation Guides, Codification of Governmental Accounting and Financial Reporting Standards
www.gfoa.org	Government Accounting, Auditing, and Financial Reporting (GAAFR)
www.irs.gov	Forms and Publications
www.sao.georgia.gov	State Accounting Office of Georgia

Note – www.fasb.org may be referenced when the Governmental Accounting Standards Board has made specific pronouncements applicable to governmental entities.

Chapter VII – 2 Glossary of Terms

NATURE AND PURPOSE

The following explanations of terms are presented to aid in understanding the narratives and illustrations included in this manual and the terminology generally used in governmental accounting, auditing, financial reporting and local units of administration (LUA) financial management.

ABATEMENT A complete or partial cancellation of a levy imposed by an LUA. Abatements usually apply to tax levies, special assessments, and service charges.

ACCOUNTING PERIOD See FISCAL PERIOD.

ACCOUNTING SYSTEM The methods and records established to identify, assemble, analyze, classify, record and report an LUA's transactions and to maintain accountability for the related assets and liabilities.

ACCOUNTS PAYABLE A short-term liability account reflecting amounts owed to private persons or organizations for goods and services received by an LUA.

ACCOUNTS RECEIVABLE An asset account reflecting amounts due from private persons or organizations for goods and services furnished by an LUA (but not including amounts due from other funds or other LUAs).

ACCRUAL BASIS The recording of the financial effects on an LUA of transactions and other events and circumstances that have cash consequences for the LUA in the periods in which those transactions, events, and circumstances occur, rather than only in the periods in which cash is received or paid by the LUA.

ACCRUED INTEREST PAYABLE A liability account reflecting interest costs that have been incurred but are not due until a later date.

ACCOUNT SALARIES AND WAGES PAYABLE A liability account reflecting salaries and wages earned by employees but not due until a later date.

ACCUMULATED DEPRECIATION A contra-asset account used to report the accumulation of periodic credits to reflect the expiration of the estimated service life of fixed assets.

AD VALOREM TAX A tax based on value (e.g., property taxes).

ADVANCE FROM OTHER FUND A liability account used to record noncurrent portions of amounts owed by one fund to another fund within the same LUA. See DUE TO _______ FUNDS.

ADVANCE REFUNDING BONDS Bonds issued to refinance an outstanding bond issue before the date the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fiduciary, invested in U.S. Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date to pay interest on the bonds being refunded or the advance refunding bonds.

ADVANCE TO OTHER FUNDS An asset account used to record noncurrent portions of a loan by one fund to another fund within the same LUA. See DUE FROM ______ FUNDS.

ADVERSE OPINION An opinion stating the auditor's view that financial statements do not present fairly financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles.

ALLOT To divide a budgetary appropriation into amounts that may be encumbered or expended during an allotment period (e.g., an LUA may choose to allot its annual budget to 12 monthly periods). See ALLOTMENT and ALLOTMENT PERIOD.

ALLOTMENT A part of an appropriation which may be encumbered or expended during a given period. See ALLOT and ALLOTMENT PERIOD.

ALLOTMENT PERIOD A period of time during which an allotment is effective. See ALLOT and ALLOTMENT.

ALLOWANCE FOR UNCOLLECTIBLES A contra-asset account used to indicate the portion of a receivable not expected to be collected.

AMORTIZATION (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

AMORTIZATION SCHEDULE A schedule of debt service payments separating the portions of payments attributable to principal and interest.

ANNUAL BUDGET A budget applicable to a single fiscal year. See also BUDGET and OPERATING BUDGET.

ANNUAL FINANCIAL REPORT A financial report applicable to a single fiscal year.

ANNUAL OPERATING BUDGET See OPERATING BUDGET.

APPRAISAL See APPRAISE.

APPRAISE To estimate the value of property. If the property is valued for taxation purposes, the narrower term "assess" is substituted. In Georgia, property is appraised at 40% of market value.

APPROPRIATED BUDGET The expenditure authority created by the action adopting a budget, and the related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations and other legally authorized legislative and executive changes.

APPROPRIATION A legal authorization granted by the school board to make expenditures and to incur obligations for specific purposes. An appropriation usually is limited in amount and as to the time (i.e., the fiscal year) when it may be expended.

APPROPRIATION ACCOUNT A budgetary account set up to record spending authorizations for specific purposes. The account is credited with original and any supplemental appropriations and is charged with expenditures and encumbrances.

APPROPRIATION BILL, RESOLUTION, or ORDER A bill, resolution, or order by means of which appropriations are given legal effect.

ARBITRAGE Classically, the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In LUA finance, the most common occurrence of arbitrage involves the investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

ASSESS To establish an official property value for the purpose of taxation.

ASSESSED VALUATION A valuation set upon real estate or other property by a government as a basis for levying taxes. In Georgia, the assessed value should be 40% of the fair market value.

ASSESSMENT (1) The process of making the official valuation of property for purposes of taxation. (2) The valuation placed upon property as a result of this process.

ASSET Property that has value and can be used to pay debts.

AUDIT A methodical examination of utilization of resources. It concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used. See INTERNAL AUDITING, INDEPENDENT AUDIT, SINGLE AUDIT, and PERFORMANCE AUDITING.

AUDIT FINDING In the context of a financial audit, a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that is presented in the audit report in conformity with GAGAS. A typical audit finding is composed of a statement of the condition (i.e., weakness or instance of noncompliance) and the criterion or criteria used to define it, an explanation of the cause of the condition, a discussion of its results and recommendations for improvement. Findings ordinarily are presented together with a response from management, which states management's concurrence or nonconcurrence with each finding and its plan for corrective action.

AUDIT PROGRAM A detailed outline of work to be done and procedures to be followed in any given audit by the auditor.

AUDIT RESOLUTION The process whereby corrective action is planned, implemented and monitored to remedy weaknesses discovered and reported in conjunction with an audit.

AUDIT SCOPE In the context of a financial audit, the focus of audit testing as well as the reference point used by auditors when evaluating the results of audit tests or otherwise exercising their professional judgment. The minimum acceptable audit scope for LUAs would result in an opinion on the basic (i.e., general purpose) financial statements, with each fund category considered separately when applying materiality evaluations.

AUDITOR'S REPORT In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

AUDITOR'S OPINION A statement signed by an independent auditor in which he or she states that he or she has examined the financial statements in accordance with generally accepted auditing standards (with exceptions, if any) and in which he or she expresses an opinion on the financial position and results of operations of some or all of the constituent funds of the LUA as appropriate. See UNQUALIFIED OPINION.

BALANCE SHEET The financial statement disclosing the assets, liabilities, and equities of an entity at a specified date in conformity with GAAP.

BANK BALANCE In the context of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the amount credited by a financial institution to the LUA's account as opposed to the LUA's own ledger balance for the account (e.g., if checks have been written against an account, but have not yet cleared the bank, the ledger balance would be lower than the bank balance).

BASIC FINANCIAL STATEMENTS Those financial statements, including notes thereto, necessary for the fair presentation of the financial position and results of operations of an entity in conformity with GAAP. The basic financial statements include a Statement of Net Assets, Statement of Activities, Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balances, reconciling schedules between fund balance and net assets and change in fund balance and change in net assets, and notes to the financial statements. See GENERAL PURPOSE FINANCIAL STATEMENTS, and

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

BASIS OF ACCOUNTING A term used to refer to *when* revenues, expenditures, expenses, and transfers -- and the related assets and liabilities -- are recognized in the accounts and reported in the financial statements. Specifically, it relates to the *timing* of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual method.

BASIS POINT One basis point is equal to 1/100 of 1 percent. If interest rates rise from 7.50% to 7.75%, the difference is referred to as an increase of 25 basis points.

BETTERMENT An addition made to, or change made in, a capital asset which is expected to prolong its life or to increase its efficiency over and above that arising from maintenance, and the cost of which therefore is added (i.e., capitalized) to the book value of the asset. The term sometimes is applied to sidewalks, sewers, and highways, but it is preferable to designate these as "improvements."

BLENDING (BLENDED) The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary LUA.

BOND Most often, a written promise to pay a specified sum of money (called the face value or principal amount), at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. Sometimes, however, all or a substantial portion of the interest is included in the face value of the security. See DEEP-DISCOUNT DEBT and ZERO-COUPON DEBT. The different between a note and a bond is that the latter is issued for a longer period and requires greater legal formality. See GENERAL OBLIGATION BONDS PAYABLE and REVENUE BONDS PAYABLE. See also SURETY BOND.

BOND ANTICIPATION NOTES (BANs) Short-term interest-bearing notes issued by an LUA in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related. See INTERIM BORROWING.

BOND DISCOUNT The difference between the present value and the face amount of bonds when the former is less than the latter. In common usage, the term also often includes issuance costs withheld from the bond proceeds by the underwriter.

BOND INDENTURE A formal agreement, also called a deed of trust, between an issuer of bonds and the bondholder.

BOND RESOLUTION A resolution authorizing a bond issue.
BOND PREMIUM The difference between the present value and the face amount of bonds when the former is greater than the latter.

BONDS AUTHORIZED AND UNISSUED Bonds that have been authorized legally but not issued and that can be issued and sold without further authorization.

BONDS PAYABLE Generally, the face value of bonds issued and unpaid. In the case of deep-discount and zero-coupon bonds, however, only the accredited value of the security is reported as bonds payable on the balance sheet.

BOOK VALUE Value as shown by the books of account. In the case of assets subject to reduction by valuation allowances, book value refers to cost or stated value less the appropriate allowance. Sometimes a distinction is made between gross book value and net book value, the former designating value before deduction of related allowances and the latter the value after their deduction. In the absence of any modifiers, however, book value is understood to be synonymous with net book value. See CARRYING AMOUNT.

BUDGET A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term "budget" is used in two senses in practice. Sometimes it designates the financial plan presented to the appropriating body for adoption and sometimes the plan finally approved by that body. It is usually necessary to specify whether the budget under consideration is preliminary and tentative or whether it has been approved by the appropriating body. See ANNUAL BUDGET, CAPITAL BUDGET, CAPITAL PROGRAM, and LONG-TERM BUDGET.

BUDGET DOCUMENT The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority, together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail the information as to past years' actual revenues, expenditures, and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect.

BUDGET-GAAP DIFFERENCES Differences between the GAAP reporting model and an LUA's budgetary practices.

BUDGET MESSAGE A general discussion of the proposed budget as presented in writing by the budget-making authority to the legislative body. The budget message should contain an explanation of the principal budget items, an outline of the LUA's experience during the past period and its financial status at the time of the message, and recommendations regarding the financial policy for the coming period.

BUDGETARY ACCOUNTS Accounts used to enter the formally adopted annual operating budget into the general ledger as part of the management control techniques of formal budgetary integration.
BUDGETARY BASIS DIFFERENCE See BUDGET-GAAP DIFFERENCES.

BUDGETARY COMPARISONS LUA GAAP financial reports should include, as required supplementary information, comparisons of approved budgeted amounts with actual results of operations for the General Fund and each special revenue fund with a legally adopted budget.

BUDGETARY CONTROL The control or management of an LUA or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available revenues.

BUDGETARY ENTITY DIFFERENCES See BUDGET-GAAP DIFFERENCES.

BUDGETARY PERSPECTIVE DIFFERENCES See BUDGET-GAAP DIFFERENCES.

BUDGETARY TIMING DIFFERENCES See BUDGET-GAAP DIFFERENCES.

BUILDINGS A capital asset account reflecting the acquisition cost of permanent structures owned or held by an LUA and improvements thereon.

BUSINESS-TYPE ACTIVITIES Those activities of an LUA carried out primarily to provide specific services in exchanges for a specific user charge.

CAFR See COMPREHENSIVE ANNUAL FINANCIAL REPORT.

CALLABLE BOND A type of bond which permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

CAPITAL ASSETS Long-lived tangible assets with a life of at least one year and exceeding a predetermined amount obtained or controlled as a result of past transactions, events or circumstances. Capital assets include buildings, equipment, improvements other than buildings and land. In the private sector, these assets are referred to most often as property, plant and equipment.

CAPITAL BUDGET A plan of proposed capital outlays and the means of financing them. See CAPITAL PROGRAM.

CAPITAL EXPENDITURES Expenditures resulting in the acquisition of, or addition to the LUA's general capital assets.

CAPITAL GRANTS Grants which are restricted by the grantor for the acquisition and/or construction of capital assets.

CAPITAL IMPROVEMENT PROGRAM See CAPITAL PROGRAM.

CAPITAL LEASE An agreement that conveys the right to use property, plant or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in SFAS No. 13 for lease capitalization.

CAPITAL OUTLAYS See CAPITAL EXPENDITURES.

CAPITAL PROGRAM A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long-term work program or other capital needs. It sets forth each project or other contemplated expenditure in which the LUA is to have a part and specifies the resources estimated to be available to finance the projected expenditures.

CARRYING AMOUNT The amount at which assets and liabilities are reported in the financial statements. Carrying amount also is known as book value. See BOOK VALUE.

CASH EQUIVALENT Short-term, highly liquid investments that are both (1) readily convertible to known amounts of cash and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

CHARACTER CLASSIFICATION Expenditure classification according to the periods expenditures are presumed to benefit. The four character groupings are (1) current operating expenditures, presumed to benefit the current fiscal period; (2) debt service, presumed to benefit prior fiscal periods as well as current and future periods; (3) capital outlays, presumed to benefit the current and future fiscal periods and (4) intergovernmental, when one LUA transfers resources to another.

CHART OF ACCOUNTS The Chart of Accounts is designed to provide Local Units of Administration (LUAs) with a comprehensive account structure for internal financial requirements, as well as external transmissions to the Georgia Department of Education and other agencies. In addition, the Chart of Accounts provides uniform financial reporting for school districts, charter schools and Regional Education Service Agencies (RESAs) to be used in planning, analyzing, comparing, and reporting the financial activities. LUAs are required to utilize the Chart of Accounts for financial reporting per O.C.G.A. §20-2-320, and State Board Rule 160-5-2-.21.

COMPENSATED ABSENCES Absences, such as vacation, illness and holidays, for which it is expected employees will be paid. The term does not encompass severance or termination pay, postretirement benefits, deferred compensation or other long-term fringe benefits, such as group insurance and long-term disability pay.

COMPONENT UNITS Legally separate organizations for which the elected officials of the primary LUA are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary LUA is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

COMPREHENSIVE ANNUAL FINANCIAL REPORTING (CAFR) The official annual report of an LUA. It includes (a) basic financial statements (b) combining statements by fund category, (c) required supplementary information, (d) statistical schedules, and (e) letter of transmittal.. Every LUA reporting entity should prepare a CAFR.

CONSOLIDATED APPLICATION (CONAPP) The Elementary and Secondary Education Act (ESEA) of 1965, as amended by The Every Student Succeeds Act (ESSA) of 2015, requires the Georgia Department of Education (GaDOE) to collect a consolidated local plan or application from each local educational agency (LEA) in the state receiving federal funds. The consolidated local plan contains descriptions, information, assurances, and other materials that are considered by the GaDOE as absolutely necessary to define how the LEA will support its students under the law.

CONSOLIDATION – ADMINISTRATION FUNDS The Elementary and Secondary Education Act (ESEA), as amended by the Every Student Succeeds Act of 2015 (ESSA), allows a local educational agency (LEA) flexibility to consolidate funds for administration of one or more ESSA programs, upon approval of the Georgia Department of Education (GaDOE). Consolidating federal administrative funds may provide LEAs with greater flexibility in the administration of federal ESSA programs by allowing them to charge administrative costs to an administrative pool instead of assigning specific costs to specific programs. As long as the cost is an allowable administrative activity under any one of the programs that have been consolidated, it may be charged to the administrative cost pool. An LEA would not have to keep separate records, by individual program, to account for costs related to administering the programs included in the consolidation. The consolidated funds would be treated as a single cost objective and the LEA would not have to maintain personnel activity reports but rather do semi-annual certifications for employees whose job duties and responsibilities are allowable under the consolidated administrative funds requirements.

CONSOLIDATION – SCHOOLWIDE Section 1114 of Title I of the ESEA allows a school in which 40 percent or more of its students are from low-income families to use its Title I funds, along with other Federal, State, and local funds, to operate a schoolwide program to upgrade the entire educational program in the school to improve the academic performance of all students, particularly the lowest-achieving students. The purpose of consolidating funds is to help a schoolwide program school effectively design and implement a comprehensive plan to upgrade the entire educational program in the school based on the school's needs identified through its comprehensive needs assessment. By consolidating funds from Federal, State, and local sources, a schoolwide program school can address its needs using *all* of the resources available to it. This gives a school more flexibility in how it uses available resources to meet the specifically identified needs of its students.

CONTINGENT LIABILITY Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders and uncompleted contracts. Contingent liabilities should be disclosed within the financial statements (including the notes) when there is a reasonable possibility a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

CONTRIBUTED CAPITAL The permanent fund capital of a proprietary fund. Contributed capital forms one of two classifications of equity found on the balance sheet of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction. Contributions restricted to capital acquisitions and construction and fixed assets received from developers and customers, as well as amounts of tap fees in excess of related costs, also would be reported as contributed capital.

COUPON RATE The interest rate specified on interest coupons attached to a bond. The term "nominal interest rate" is also used in this sense.

CURRENT REFUNDING Transaction where new debt is issued and the proceeds are used to repay old debt immediately.

CUSTODIAL FUNDS Assets held by an LUA in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. If governmental entity controls the activity and the assets, the fund is not custodial in nature but should be reported as a Governmental Fund. GASB Statement No. 84 clarified the definition of custodial funds effective July 1, 2019. Activity in the Custodial Funds must meet all of the following criteria per GASB 84:

- The assets associated with the activity are controlled by the government.
- The assets associated with the activity are not derived either:
  - Solely from the government's own-source revenues or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement.
- The assets associated with the activity have one or more of the following characteristics:
  - The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legal protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. Additionally, the assets are not derived from the government's provision of goods or services to those individuals.

  - The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. Additionally, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

DEBT An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of LUAs include bonds and notes. See ACCOUNTS PAYABLE, BOND, NOTE PAYABLE, LONG-TERM DEBT and GENERAL LONG-TERM DEBT.

DEBT PROCEEDS The difference between the face amount of debt and the issuance discount or the sum of the face amount and the issuance premium. Debt proceeds differ from cash receipts to the extent issuance costs, such as underwriters' fees, are withheld by the underwriter.

DEEP DISCOUNT DEBT Debt issued with a stated interest rate of less than 75% of the effective interest rate.

DEFEASANCE The legal release of a debtor from being the primary obligor under the debt, either by the courts or by the creditor. Also referred to as a legal defeasance. See IN-SUBSTANCE DEFEASANCE.

DEFERRED CHARGES Expenditures which are not chargeable to the fiscal period in which made but are carried on the asset side of the balance sheet pending amortization or other disposition. An example is Discount on Bonds Issued. Deferred charges differ from prepaid expenses in that they usually extend over a long period of time (more than five years) and are not regularly recurring costs of operation. See PREPAID ITEMS.

DEFERRED COMPENSATION PLANS Plans that offer employees the opportunity to defer receipt of a portion of their salary and the related liability for federal income taxes. Several sections of the Internal Revenue Code authorize certain state and local governments to provide deferred compensation plans for their employees.

DEFERRED INFLOW OF RESOURCES An acquisition of net assets by the LEA that is applicable to a future reporting period. For example, deferred revenue and advance collections.

DEFERRED OUTFLOW OF RESOURCES A consumption of net assets by the LEA that is applicable to a future reporting period. For example, prepaid items and deferred charges.

DEFERRED REVENUES Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of
accounting, such amounts that are measurable but not available are one example of deferred revenue.

DEFICIT (1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period; or, in the case of proprietary funds, the excess of expense over revenue during an accounting period.

DELINQUENT TAXES Taxes remaining unpaid on and after the date on which a penalty for nonpayment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or cancelled, the unpaid balances continue to be delinquent taxes until abated, cancelled, paid or converted into tax liens.

DEMAND BONDS Long-term debt issuances with demand ("put") provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To ensure their ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term "takeout" agreements.

DEMAND DEPOSIT Accounts with financial institutions or cash management pools where cash may be deposited or withdrawn at any time without prior notice or penalty.

DEPOSITORY INSURANCE Insurance on deposits with financial institutions. FDIC, FSLIC and some state governments provide this insurance.

DEPRECIATION (1) Expiration in the service life of capital assets, other than wasting assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset other than a wasting asset which is charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

DIRECT DEBT The debt which an LUA has incurred in its own name or assumed through the annexation of territory or consolidation with another LUA. See OVERLAPPING DEBT.

DISBURSEMENT A payment in cash or by check.

DISCLAIMER OF OPINION Statement issued on financial statements when the auditor is unable to form or has not formed an opinion as to the fairness of presentation of the financial statements in conformity with generally accepted accounting principles. The reason for the disclaimer of opinion will be included in the opinion letter.

DISCOUNT In the context of bonds payable and investments, the amount by which par value exceeds the price paid for a security. The discount generally represents the difference between the nominal interest rate and the actual or effective rate of return to the investor.

DISCRETE PRESENTATIONS (DISCRETELY PRESENTED) The method of reporting financial data of component units in a column(s) separate from the financial data of the primary LUA. An integral part of this method of presentation is that individual component unit supporting information is required to be provided either in condensed financial statements within the notes to the reporting entity's financial statements, or in combining statements in its GPFS.

DISCUSSION MEMORANDUM (DM) A document issued by either the GASB or the FASB as a basis for written comments by respondents, leading to the issuance of one or more GASB or FASB pronouncements. In a DM, neither the GASB nor the FASB attempts to reach any conclusions about the issues and related arguments and implications presented. A DM is not an authoritative document and should not be used to justify departures from GAAP.

DOUBLE ENTRY A system of bookkeeping which requires for every entry made to the debit side of an account or accounts an entry for a corresponding amount or amounts to the credit side of another account or accounts.

DUE FROM ________ FUND An asset account used to indicate amounts owed to a particular fund by another fund in the same LUA for goods sold or services rendered. This account includes only short-term obligations on open account and not noncurrent portions of long-term loans. See ADVANCE ______TO ______ FUND.

DUE FROM ______ LUA An asset account reflecting amounts due to the reporting LUA from another LUA. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by the reporting unit for another LUA.

DUE TO FISCAL AGENT A liability account reflecting amounts due to fiscal agents, such as commercial banks, for servicing an LUA's maturing interest and principal payments on indebtedness.

DUE TO _______ FUND A liability account reflecting amounts owed by a particular fund to another fund in the same LUA for goods sold or services rendered. These amounts include only short-term obligations on open account and not noncurrent portions of long-term loans. See ADVANCE FROM ________ FUND.

DUE TO __________ LUA A liability account reflecting amounts owed by the reporting LUA to the named LUA.

ECONOMIC GAIN/LOSS In the context of an advance refunding, the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

ECONOMIC OBSOLESCENCE The loss of value of property resulting from influences external to the property itself.

EFFECTIVE INTEREST RATE The rate of earning on a bond investment based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

ENCUMBRANCES Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances do not constitute expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed. Chapter I-8 discusses encumbrances.
ENDOWMENT Funds or property donated with either a temporary or permanent restriction as to the use of principal.

ENTERPRISE FUND A fund established to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the school board is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the school board has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ENTITY (1) The basic unit upon which accounting and/or financial reporting activities focus. The basic governmental legal and accounting entity is the individual fund. (2) That combination of funds that constitutes the reporting entity for financial reporting purposes and alone may issue CAFRs and GPFS.

ENTRY The record of a financial transaction in the appropriate book of account.

EQUIPMENT See MACHINERY AND EQUIPMENT.

EQUITY ACCOUNTS Those accounts presenting the excess of assets over liabilities in the fund.

EQUITY INTEREST A financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating LUA.

ESTIMATED LIFE The expected economic useful life of an asset from the date placed in service to the projected retirement date.

EXPECTED LIFE See ESTIMATED LIFE.

EXPENDITURES Decreases in net financial resources. Expenditures include current operating expenses requiring the present or future use of net current assets, debt service, and capital outlays, and intergovernmental grants, entitlements and shared revenues.

EXPENSES Outflows or other using up of assets or incurrences of liabilities (or a

combination of both) from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations.
EXPOSURE DRAFT (ED) A proposed statement or interpretation issued for public comment by the GASB or the FASB.

EXTERNAL AUDIT See INDEPENDENT AUDIT.

FACE VALUE As applied to securities, this term designates the amount of liability stated in the security document. See PAR VALUE.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) A federal institution that insures deposits of federally chartered banks.

FEDERAL FINANCIAL ASSISTANCE For purposes of applying the provisions of the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of State and Local Governments*, assistance provided by a federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. Federal financial assistance does *not* include direct federal cash assistance to individuals.

FIDELITY BOND A written promise to indemnify against losses from theft, defalcation, and misappropriation of public monies by LUA officers and employees.

FIDUCIARY FUND CATEGORY The trust and agency funds used to account for assets held by an LUA unit in a trustee capacity or as an agent for individuals, private organizations, other government units and/or other funds.

FINANCIAL AUDIT An audit made to determine whether the financial statements of an LUA are presented fairly in conformity with GAAP.

FINANCIAL BENEFIT Legal entitlement to, or the ability to otherwise access, the resources of an organization.

FINANCIAL BURDEN An obligation, legal or otherwise, to finance the deficits of, or provide financial support to, an organization; or an obligation in some manner for the debt of an organization.

FINANCIAL EFFICIENCY STAR RATING O.C.G.A. §20-14-33 requires the Governor's Office of Student Achievement (GOSA), in coordination with GaDOE, to create a financial efficiency rating. The law requires that GOSA and the GaDOE collaborate to "adopt and annually review, and revise as necessary, indicators of the quality of learning by students, financial efficiency, and school climate for individual schools and for school systems." Financial efficiency "may include an analysis of how federal and state funds spent by local school systems impact student achievement and school improvement, and components used to determine financial efficiency may include actual achievement, resource efficiency, and student participation in standardized testing." The FESR utilizes a three-year average of per pupil expenditures and College and Career Ready Performance Index (CCRPI) scores to determine the rating. The ratings will be displayed as supplemental information to CCRPI scores. In addition, the rating must be based upon five stars. The FESR applies a scale of one-half star to five stars, in which a rating of one-half star designates a high-spending district with a low CCRPI and a rating of five stars designates a low-spending district with a high CCRPI. The FESR is designed to provide information on the relationship between per pupil expenditure (PPE) and academic achievement. The FESR should be one measure that a user evaluates in conjunction with all other information

FINANCIAL REPORTING ENTITY A primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

FINANCIAL RESOURCES Cash and other assets that, in the normal course of operations, will become cash.

FINANCIAL STATEMENTS See BASIC FINANCIAL STATEMENTS.

FISCAL AGENT A fiduciary agent, usually a bank, who performs the function of paying debt principal and interest for the LUA when due.

FISCAL FUNDING CLAUSES A clause in a lease agreement providing that the lease is cancelable if the legislature or other funding authority does not appropriate the funds necessary for the LUA unit to fulfill its obligations under the lease agreement.

FISCAL PERIOD Any period at the end of which an LUA determines its financial position and the results of its operations. See ACCOUNTING PERIOD.

FISCAL YEAR A 12-month period to which the annual operating budget applies and at the end of which an LUA determines its financial position and the results of its operations. July 1 through June 30 is the fiscal year for Georgia LUAs.

FISCALLY INDEPENDENT/FISCALLY DEPENDENT LUA A government is fiscally *independent* if it can (1) determine its budget without another government having the substantive authority to approve and modify that budget, (2) levy taxes or set rates or charges without substantive approval by another government and (3) issue bonded debt without substantive approval by another government. A government is fiscally *dependent* if it is unable to complete one or more of these procedures without the substantive approval of another government.

FIXED BUDGET A budget setting forth dollar amounts that are not subject to change based on the volume of goods or services to be provided.

FIXED COSTS Costs of providing goods or services that do not vary proportionately to the volume of goods or services provided (e.g., insurance and contributions to retirement systems).

FIXTURES Attachments to buildings which are not intended to be removed and which cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

FLEXIBLE BUDGET A budget whose dollar amounts vary according to the volume of goods or services to be provided.

FLOW OF CURRENT FINANCIAL RESOURCES A measurement focus that recognizes the net effect of transactions on current financial resources by recording accruals for those revenue and expenditure transactions which have occurred by year end that are normally expected to result in cash receipt or disbursement early enough in the following year either (a) to provide financial resources to liquidate liabilities recorded in the fund at year end or (b) to require the use of available expendable financial resources reported at year end.

FLOW OF ECONOMIC RESOURCES The measurement focus used in the commercial model and in proprietary and similar private-purpose trust funds to measure economic resources, the claims to those economic resources and the effects of transactions, events and circumstances that change economic resources and claims to those resources. This focus includes depreciation of capital assets, deferral of unearned revenues and prepaid expenses, and amortization of the resulting liabilities and assets. Under this measurement focus, all assets and liabilities are reported on the balance sheet, whether current or noncurrent. Also, the accrual basis of accounting is used, with the result that operating statements report expenses rather than expenditures.

FORECLOSURE The seizure of property as payment for delinquent taxes. Ordinarily, property foreclosed is resold to liquidate delinquent taxes, but on occasion governments retain possession for their own needs. In Georgia, normally the county government (or the government that has responsibility for collecting its taxes) will use the foreclosure procedure.

FORFEITURE The automatic loss of cash or other property as a punishment for not complying with legal provisions and as compensation for the resulting damages or losses. This term should not be confused with confiscation. The latter term designates the actual taking over of the forfeited property by the government. Even after property has been forfeited, it cannot be said to be confiscated until the government claims it.

FORMAL BUDGETARY INTEGRATION The management control technique through which the annual operating budget is recorded in the general ledger through the use of budgetary accounts. It is intended to facilitate control over revenues and expenditures during the year.

FULL FAITH AND CREDIT A pledge of the general taxing power of an LUA for the payment of debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds. In Georgia, all general obligation bonds must be approved through a voter referendum.

FUNCTION A group of related activities aimed at accomplishing a major service or regulatory program for which an LUA is responsible. For example, instruction is a function.

FUNCTIONAL BASIS COMBINING The process of grouping or combining similar funds and/or component units on a functional basis (e.g., transportation, economic development) for financial reporting purposes.

FUNCTIONAL CLASSIFICATION Expenditure classification according to the principal purposes for which expenditures are made. Examples are instruction, school administration, pupil transportation, etc.

FUND A fiscal and accounting entity with a self-balancing set of accounts recording certain assets, related liabilities and residual equities or balances, and changes in them, which are segregated for specific activities or to meet certain legal or administrative restrictions.

FUND BALANCE The difference between fund assets and liabilities of governmental funds and similar trust funds.

FUND BALANCE - RESTRICTED FOR ADVANCE TO _________ FUND An account used to segregate a portion of a fund balance to indicate that noncurrent portions of long-term interfund receivables do not represent "available spendable resources" because they are not current assets.

FUND BALANCE - RESTRICTED FOR DEBT SERVICE An account used to segregate a portion of fund balance for Debt Service Fund resources legally restricted to the payment of general long-term debt principal and interest amounts maturing in future years.

FUND BALANCE - ASSIGNED FOR ENCUMBRANCES An account used to segregate a portion of fund balance of expenditure upon vendor performance.

FUND BALANCE - ASSIGNED FOR NONCURRENT LOANS RECEIVABLE An account used to segregate a portion of fund balance to indicate that noncurrent portions of long-term loans receivable do not represent "available spendable resources" because they are not current assets.

FUND BALANCE - NONSPENDABLE An account used to segregate a portion of fund balance to indicate that prepaid items do not present "available spendable resources" even though they are a component of net current assets.

FUND BALANCE SHEET A balance sheet for a single fund. See FUND and BALANCE SHEET.

FUND CAPITAL ASSETS Those capital assets associated with proprietary or trust funds. See CAPITAL ASSETS.

FUND CATEGORY Any one of three categories into which all funds are classified in governmental accounting. The three fund categories are: Governmental, Proprietary, and Fiduciary.

FUND FINANCIAL STATEMENTS Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.

GENERIC FUND TYPE The three fund categories are further subdivided into generic fund types as follows: Governmental - general, special revenue, debt service, capital projects, and permanent; Proprietary - enterprise, internal service, and Fiduciary - trust and agency.

GENERAL CAPITAL ASSETS Capital assets that are not assets of any fund, but of the government unit as a whole. Most often these assets arise from the expenditure of the financial resources of governmental funds.

GENERAL FUND The fund used to account for all financial resources except those required to be accounted for in another fund.

GENERAL JOURNAL A journal in which are entered all entries not recorded in special journals. See JOURNAL and SPECIAL JOURNAL.

GENERAL LEDGER A record containing the accounts needed to reflect the financial position and the results of operations of a government. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances). See SUBSIDIARY LEDGER and SUBSIDIARY ACCOUNT.

GENERAL LONG-TERM DEBT Long-term debt expected to be repaid from governmental funds. See LONG-TERM DEBT.

GENERAL OBLIGATION BONDS PAYABLE Bonds backed by the full faith and credit of government. See FULL FAITH AND CREDIT.

GENERAL OBLIGATION BONDS Bonds for the payment of which the full faith and credit of the issuing government are pledged.

GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS) Government-wide statements, fund statements, two reconciliations between the government-wide and fund statements, notes to the financial statements, management's discussion and analysis, and budgetary comparison schedule constitute the minimum financial reporting needed for fair presentation in conformity with GAAP. See BASIC FINANCIAL STATEMENTS, and "LIFTABLE" GENERAL PURPOSE FINANCIAL STATEMENTS. The government-wide statements include the Statement of Net Assets and Statement of Activities. The fund statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. The two reconciliations are the Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is the GASB.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS) Standards established by the AICPA for the conduct and reporting of financial audits. There are 10 basic GAAS, classed into three broad categories: general standards, standards of field work and standards of reporting. The Auditing Standards Board of the AICPA publishes SAS to comment and expand upon these basic standards. These SAS, together with the 10 basic standards, constitute GAAS. These GAAS set forth the objectives of the audit and establish measures that can be applied to judge the quality of its performance.

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS) Standards established by the GAO in its publication Government Auditing Standards ("yellow book") for the conduct and reporting of both financial and performance audits. GAGAS set forth general standards applicable to both types of audits and separate standards of field work and reporting for financial and performance audits. The GAGAS standards of field work and reporting for financial audits incorporate and build upon GAAS.

GOVERNMENTAL ACCOUNTING The composite activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of governments, including LUAs.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) The authoritative accounting and financial reporting standard-setting body for government entities.

GOVERNMENTAL FUND CATEGORY Funds used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities -- except those accounted for in proprietary funds and fiduciary funds. In essence, these funds are accounting segregations of financial resources. Expendable assets are assigned to a particular governmental fund type according to the purposes for which they may or must be used. Current liabilities are assigned to the fund type from which they are to be paid. The difference between the assets and liabilities of governmental fund types is referred to as fund balance. The measurement focus in these fund types is on the determination of financial position and changes in financial position (sources, uses and balances of financial resources), rather than on net income determination. The statement of revenues, expenditures and changes in fund balance is the primary governmental fund category operating statement. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers and other changes in fund balance. Under current GAAP, there are five governmental generic fund types: general, special revenue, debt service, permanent, and capital projects.

GOVERNMENT-WIDE FINANCIAL STATEMENT The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements should report information about the overall government without displaying individual funds or fund types; exclude information about fiduciary activities, including component units that are fiduciary in nature (such as certain public employee retirement systems); distinguish between the primary government and its discretely presented component units ; distinguish between governmental activities and business-type activities of the primary government; and measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.

GRANTS Contributions or gifts of cash or other assets from the State of Georgia or the federal government to be used or expended for a specified purpose, activity, or facility. See also CAPITAL GRANTS and OPERATING GRANTS.

GRANTS-IN-AID See GRANTS.

GROSS BONDED DEBT The total amount of direct debt of an LUA represented by outstanding bonds before deduction of any assets available and earmarked for their retirement.

HISTORICAL COST See COST

IMPOSITION OF WILL The ability to significantly influence the programs, projects, activities or level of services performed or provided by an organization.

IMPREST ACCOUNT An account into which a fixed amount of money is placed for minor disbursements or disbursements for a specific purpose (e.g., payroll). When disbursements are made, a voucher is completed to record their date, amount, nature and purpose. From time to time, a report with substantiating vouchers is prepared; the account is replenished for the exact amount of the disbursements and the appropriate general ledger accounts are charged. The total of cash plus substantiating vouchers always should equal the total fixed amount of money set in the imprest account. See PETTY CASH.

IMPROVEMENTS OTHER THAN BUILDINGS Attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains and sewers. Sidewalks, curbing, sewers and highways are sometimes referred to as betterments, but the term "improvements" is preferred.

INCOME A term used in proprietary fund type accounting to represent (1) revenues or (2) the excess of revenues over expenses. See OPERATING INCOME, INCOME BEFORE OPERATING TRANSFERS, and NET INCOME.

INCOME BEFORE OPERATING TRANSFERS Proprietary fund operating and nonoperating revenues minus operating and nonoperating expenses.

INCURRED BUT NOT REPORTED (IBNR) CLAIMS/LOSSES Claims for insured events that have occurred but have not yet been reported to the government entity, insurer or reinsurer as of the date of the financial statements. IBNR claims also may include expected future developments on claims already reported.

INDEPENDENT AUDIT An audit performed by an independent auditor, such as the Georgia Department of Audits.

INDIRECT CHARGES See OVERHEAD.

INDIRECT COST RATE The indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable indirect costs that each federal program or activity should bear. In general, an indirect cost rate is the ratio of total indirect costs to total direct and unallowable costs, excluding extraordinary or distorting expenditures such as capital outlay, debt service, etc. An indirect cost rate does not increase the grant award. It simply allows a portion of the grant to reimburse the LEA for indirect cost such as for centralized accounting, auditing, payroll, etc. With an approved indirect cost rate issued by GADOE, LEAs can transfer a certain percentage of funds from each applicable grant to the district’s general fund as compensation for the indirect costs incurred in managing the federal grants. Federal law or grant conditions may limit the amount of indirect costs, require use a different rate than the negotiated indirect cost rate, or prohibit any recovery of indirect costs. Recovery of indirect costs from grants is determined by the terms and conditions of the applicable grants and is subject to the availability of funds.

FUND STATEMENTS Statements of position and results of operations prepared using the basis of accounting and measurement focus applicable to the category of funds. Focus is on major category of funds.

INFRASTRUCTURE ASSETS Public domain capital assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the government unit.

INSUBSTANCE DEFEASANCE An advance refunding in which the LUA is not legally released from being the primary obligor on the refunded bonds, but the possibility of the LUA's having to make additional payments is considered remote under criteria provided by SFAS No. 76. See ADVANCE REFUNDING.

INSURANCE The transfer of risk of loss from one party (the insured) to another party (the insurer) in which the insurer promises (unusually specified in a written contract) to pay the insured (or others on the insured's behalf) an amount of money (or services, or both) for economic losses sustained from an unexpected (accidental) event during a period of time for which the insured makes a premium payment to the insurer.

INTEREST METHOD In the context of bonds, a method of periodic amortization of issuance costs and premium or discount over the term of the related debt. The objective of the interest method is to arrive at a periodic interest cost (including amortization) that will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and issuance costs at the beginning of each period. The difference between the periodic interest cost so calculated and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.

INTEREST RECEIVABLE ON INVESTMENTS An asset account reflecting the amount of interest receivable on LUA investments.

INTERFUND ACCOUNTS Accounts in which transfers between funds are reflected. See INTERFUND TRANSACTIONS.

INTERFUND LOAN Loans made by one fund to another.

INTERFUND TRANSACTIONS Transactions between funds of the same LUA.

INTERGOVERNMENTAL REVENUES Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

INTERIM BORROWING (1) Short-term loans to be repaid from general revenues during the course of a fiscal year. (2) Short-term loans in anticipation of tax collections or bond issuance. See BOND ANTICIPATION NOTES and TAX ANTICIPATION NOTES.

INTERIM FINANCIAL STATEMENTS Financial statements prepared as of a date or for a period during the fiscal year and including only financial transactions during the current year to date.

INTERNAL AUDITING An independent appraisal of the diverse operations and controls within an LUA entity to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically and the organization's objectives are being achieved. The term covers all forms of appraisal of activities undertaken by auditors working for and within an organization.

INTERNAL CONTROL STRUCTURE Policies and procedures established to provide reasonable assurance that specific LUA objectives will be achieved.

INTERNAL SERVICE FUND A fund used to account for the financing of goods or services provided by one department or agency to other departments or agencies of an LUA, or to other LUAs, on a cost-reimbursement basis.

INVENTORY (1) A detailed list showing quantities, descriptions and values of property and, frequently, units of measure and unit prices. (2) An asset account reflecting the cost of goods held for resale or for use in operations.

INVENTORY OF STORES FOR RESALE An asset account which reflects the cost of goods held for resale rather than use in operations.

INVENTORY OF SUPPLIES An asset account which reflects the cost of goods on hand for use in operations.

INVESTMENTS Most commonly, securities and real estate held for the production of revenues in the form of interest, dividends, rentals or lease payments. The term does not include fixed assets used in LUA operations.

JOINT VENTURES A legal entity or other contractual arrangement in which an LUA participates as a separate and specific activity for the benefit of the public or service recipients and in which the LUA retains an ongoing financial interest.

JOURNAL A book of original entry. See GENERAL JOURNAL and SPECIAL JOURNAL.

JOURNAL VOUCHER A standard form provided for the recording of certain transactions or information in place of, or supplementary to, the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries and the signature or initials of one or more properly authorized officials.

JUDGMENT An amount to be paid or collected by an LUA as the result of a court decision, including a condemnation award in payment for private property taken for public use.

LAND A capital asset account which reflects the cost of land owned by an LUA.

LAND IMPROVEMENTS Buildings, other structures, and other attachments or annexations to land which are intended to remain so attached or annexed, such as sidewalks, trees, driveways, drains, and sewers.

LAPSE As applied to appropriations, this term denotes the automatic termination of an appropriation. Except for indeterminate appropriations and continuing appropriations, an appropriation is made for a certain period of time. At the end of this period, any unexpended or unencumbered balance thereof lapses, unless otherwise provided by law.

LEASEHOLD The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

LEASE-PURCHASE AGREEMENTS Contractual agreements which are termed "leases," but which in substance amount to purchase contracts. See CAPITAL LEASES.

LEDGER A group of accounts in which are recorded the financial transactions of an entity. See GENERAL LEDGER and SUBSIDIARY LEDGER.

LEGAL LEVEL OF BUDGETARY CONTROL The level at which spending in excess of budgeted amounts are not authorized by the local board.

LEGAL OPINION (1) The opinion of an official authorized to render it, such as an attorney general or LUA attorney as to legality. (2) In the case of governmental bonds, the opinion of a specialized bond attorney as to the legality of bond issue.

LEGALLY SEPARATE ORGANIZATION An organization created as a body corporate or a body corporate and politic or otherwise possessing similar corporate powers. An organization that has separate legal standing has an identity of its own as an "artificial person" with a personality and existence distinct from that of its creator and others.

LETTER OF CREDIT A financial institution's written guarantee of a customer's drafts, up to a specified amount, for a certain period of time.

LEVEL OF BUDGETARY CONTROL One of the three possible levels of budgetary control and authority to which organizations, programs, activities and functions may be subject. These levels of budgetary control are (a) appropriated budget, (b) legally authorized nonappropriated budget review and approval process, which is outside the appropriated budget process or (c) nonbudgeted financial activities, which are not subject to the appropriated budget and the appropriation process or to any legally authorized nonappropriated budget review and approval process, but still are relevant for sound financial management and oversight. See LEGAL LEVEL OF BUDGETARY CONTROL.

LEVY (Verb) To impose taxes or service charges for the support of LUA activities. (Noun) The total amount of taxes, special assessments, or service charges imposed by a government.

LIABILITIES Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date. This term does not include encumbrances.

"LIFTABLE" GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS) The GPFS are designed to be "liftable" from the Financial Section of the comprehensive annual financial report (CAFR) for inclusion in official statements for securities offerings or for widespread distribution, along with an independent auditor's opinion, to users requiring less detailed information than is contained in the full CAFR. In order to be "liftable," the GPFS must include all disclosures necessary for their fair presentation in conformity with GAAP including certain specified disclosures related to individual funds. See GENERAL PURPOSE FINANCIAL STATEMENTS.

LIQUIDITY The ability to convert assets to cash quickly, without significant losses.

LOANS RECEIVABLE An asset account reflecting amounts which have been loaned to individuals or organizations external to an LUA, including notes taken as security for such loans. Loans to other LUAs should be recorded and reported separately.

LONG-TERM DEBT Any unmatured debt that is not a fund liability.

MACHINERY AND EQUIPMENT Property that does not lose its identity when removed from its location and is not changed materially or consumed immediately (e.g., within one year) by use.

MAJOR FUND Governmental and enterprise fund financial statement focus is on major funds. Major funds are defined as those that satisfy *both* of the following criteria (A). 10% Threshold—Total assets, liabilities, revenues, or expenditures/expenses of the governmental (enterprise) fund are equal to or greater than 10 percent of the corresponding element total (assets, liability, and so forth) for all funds that are considered governmental funds (enterprise funds). (B). 5% Threshold—The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and Enterprise Funds combined.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) MD&A information should "provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions." It is considered required supplementary information.

MARKET RISK The risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent to which collateral exceeds the amount invested and how often the amount of collateral is adjusted for changing market values.

MATURED BONDS PAYABLE A liability account reflecting unpaid bonds which have reached or passed their maturity date.

MATURED INTEREST PAYABLE A liability account reflecting unpaid interest on bonds which have reached or passed their maturity date.

MAINTENANCE The upkeep of physical properties in condition for use or occupancy. Examples are the inspection of equipment to detect defects and the making of repairs.

MEASUREMENT FOCUS The accounting convention that determines (1) which assets and which liabilities are included on an LUA's balance sheet and where they are reported there, and (2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenues and expenses).

MILLAGE Rate used in calculating taxes based upon the value of property, expressed in mills per dollar of property value.

MODIFIED ACCRUAL BASIS The accrual basis of accounting adapted to the governmental fund-type measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, that is, when they become both "measurable" and "available to finance expenditures of the current period." "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred except for (1) inventories of materials and supplies that may be considered expenditures either when purchased or when used, and (2) prepaid insurance and similar items that may be considered expenditures either when paid for or when consumed. All governmental funds are accounted for using the modified accrual basis of accounting.

MODIFIED AUDIT OPINION Audit opinions that are issued to LEA's financial statements when the auditor found that those statements were not prepared and present fairly in accordance with Generally Accepted Accounting Principles (GAAP). The three modified opinions which are issued to financial statements, based on the level of the findings are Qualified, Adverse and Disclaimer opinions.

NET BONDED DEBT Gross bonded debt less any cash or other assets available and earmarked for its retirement (e.g., sinking fund accumulations) and all self-supporting debt.

NET BOOK VALUE See BOOK VALUE.

NET INCOME Proprietary fund excess of operating revenues, nonoperating revenues, and operating transfers-in over operating expenses, nonoperating expenses, and operating transfer-out.

NET POSITION The residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position.

NET PROFIT See NET INCOME.

NET REVENUE See NET INCOME.

NET REVENUES AVAILABLE FOR DEBT SERVICE Proprietary fund gross operating revenues less operating and maintenance expenses but inclusive of depreciation and bond interest. "Net revenue available for debt service" as thus defined is used to compute "coverage" on revenue bond issues.

NOMINAL INTEREST RATE The contractual interest rate shown on the face and in the body of a bond and used to compute the amount of interest to be paid, in contrast to the effective interest rate. See COUPON RATE.

NONOPERATING EXPENSES Proprietary fund expenses which are not directly related to the fund's primary service activities.

NONOPERATING REVENUES Proprietary fund revenues which are incidental to, or by products of, the fund's primary service activities.

NOTE PAYABLE In general, an unconditional written promise signed by the maker to pay a certain sum in money on demand or at a fixed or determinable time either to the bearer or to the order of a person designated therein. See TEMPORARY LOANS.

NOTE RECEIVABLE A legal right to receive payment of a certain sum of money or demand or at a fixed or determinable time, based on an unconditional written promise signed by the maker.

NOTES TO THE FINANCIAL STATEMENTS The summary of significant accounting policies and other disclosures required for a fair presentation of the basic financial statements of an entity in conformity with GAAP which are not included on the face of the basic financial statements themselves. The notes to the financial statements are an integral part of the basic financial statements.

OBJECT As used in expenditure classification, this term applies to the specific article purchased or the specific service obtained; for example, clerical salaries would be an object within the object class, personal services. See CHARACTER CLASSIFICATION, FUNCTION, and OBJECT CLASS.

OBJECT CLASS Expenditure classification according to the types of items purchased or services obtained; for example, personal services, materials, supplies, and equipment.

OBJECT OF EXPENDITURE See OBJECT.

OBLIGATIONS Amounts which an LUA may be required legally to meet, out of its resources. They include not only actual liabilities, but also unliquidated encumbrances.

OBSOLESCENCE The decrease in the value of capital assets resulting from economic, social, technological, or legal changes.

OFFICIAL STATEMENT A document published by an LUA planning to issue bonds that provides information on the proposed bond issue, the purpose of the issue, and the means of servicing the indebtedness, as well as other information about the issuer that may be helpful in evaluating creditworthiness.

ONGOING FINANCIAL INTEREST An equity interest or any other arrangement that allows a participating LUA to have access to a joint venture's resources.

ONGOING FINANCIAL RESPONSIBILITY (1) A participating LUA is obligated in some manner for the debts of the joint venture or (2) a joint venture's existence depends on continued funding by the participating LUA.

OPERATING BUDGET Plans of current expenditures and the proposed means of financing them. The annual operating budget (or, in the case of some state governments, the biennial operating budget) is the primary means by which most of the financing, acquisition, spending, and service delivery activities of an LUA are controlled. The use of annual operating budgets is usually required by law. Even when not required by law, however, annual operating budgets are essential to sound financial management and should be adopted by every LUA. See BUDGET.

OPERATING EXPENSE Proprietary fund expenses which are related directly to the fund's primary service activities.

OPERATING GRANT Grants that are restricted by the grantor to operating purposes or which may be used for either capital or operating purposes at the discretion of the grantee.

OPERATING INCOME The excess of proprietary fund operating revenues over operating expenses.

OPERATING LEASE A lease agreement that does not meet the criteria for capitalization set forth in SFAS No. 13.

OPERATING REVENUE Proprietary fund revenues which are directly related to the fund's primary service activities. They consist primarily of user charges for services.

OPERATING STATEMENT The financial statement disclosing the financial results of operations of an entity during an accounting period in conformity with GAAP.

OPERATING TRANSFERS All interfund transfers (e.g., legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended).

ORGANIZATIONAL UNIT A responsibility center within an LUA.

ORGANIZATION UNIT CLASSIFICATION Expenditure classification according to responsibility centers within an LUA's organization structure. Classification of expenditures by organizational unit is essential to fulfilling stewardship responsibility for individual LUA resources.

OTHER FINANCING SOURCES Governmental fund general long-term debt proceeds, amounts equal to the present value of minimum lease payments arising from capital leases, proceeds from the sale of general capital assets, and operating transfers in. Such amounts are classified separately from revenues on the governmental operating statement.

OTHER FINANCING USES Governmental fund operating transfers out and the amount of refunding bond proceeds deposited with the escrow agent. Such amounts are classified separately from expenditures on the governmental operating statement.

OUTLAYS Synonymous with EXPENDITURES. See CAPITAL OUTLAYS.

OVERDRAFT (1) The amount by which checks, drafts, or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. (2) The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

OVERHEAD Those elements of cost necessary in the production of an article or the performance of a service which are of such a nature that the amount applicable to the product or service cannot be determined accurately or readily. Usually they relate to those objects of expenditure which do not become an integral part of the finished product or service such as rent, heat, light, supplies, management, supervision, etc.

OVERLAPPING DEBT The proportionate share of the debts of local governments located wholly or in part within the limits of the reporting government which must be borne by property within each government. The amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the LUA, and (2) applying this percentage to the total debt of the overlapping jurisdiction.

PAR VALUE In the case of bonds, the amount of principal which must be paid at maturity. Par value is referred to as the face value of the security.

PAYING AGENT An entity responsible for paying of bond principal and interest on behalf of the LUA.

PENSION TRUST FUND A Trust Fund used to account for public employee retirement systems. Pension trust funds are accounted for in essentially the same manner as proprietary funds, but with an important expanded emphasis on required net asset reserves.

PER CAPITA DEBT The amount of an LUA's debt divided by population, which is used as an indication of the LUA's credit position by reference to the proportionate debt borne per resident.

PERFORMANCE AUDITING A systematic process of objectively obtaining and evaluating evidence regarding the performance of an organization, program, function or activity. Evaluation is made in terms of its economy and efficiency of operations, effectiveness in achieving desired regulations, for the purpose of ascertaining the degree of correspondence between performance and established criteria and communicating the results to interested users. The performance audit function provides an independent, third-party review of management's performance and the degree to which the performance of the audited entity meets prestated expectations.

PERPETUAL INVENTORY A system whereby the inventory of units of property at any date may be obtained directly from the records, without resorting to an actual physical count, for each item or group of items to be inventoried. This system provides an ongoing record of goods ordered, received and withdrawn and the balance on hand, in units and frequently also in value.

PETTY CASH A sum of money set aside on an imprest basis for the purpose of making change or paying small obligations for which the issuance of a formal voucher and check would be too expensive and time consuming. Petty cash accounts are sometimes referred to as petty cash "funds." However, they are not "funds" in the sense of governmental accounting's seven fund types. Petty cash accounts should be reported as assets of the fund of ownership. See IMPREST ACCOUNT.

PETTY CASH VOUCHER A voucher used to record individual disbursements of petty cash. See IMPREST ACCOUNT.

PLEDGED REVENUES The funds obligated for payment of debt service and other deposits required by the bond contract.

POINT In the context of bond issuances, one percent of the par value of the bond.

Because bonds are quoted as a percentage of $1,000, a point is equal to $10. See BASIS POINT.

POSTING The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book or document of original entry.

POTENTIAL COMPONENT UNIT A separate government unit, agency or nonprofit corporation that needs to be evaluated to determine if it is to be included with other component units and the oversight unit to constitute the reporting entity.

PREMIUM The excess of the price of a security over its face value, excluding any amount of accrued interest bought or sold.

PREPAID ITEMS Payment in advance of the receipt of goods and services in an exchange transaction. Prepaid items (e.g., prepaid rent and unexpired insurance premiums) differ from deferred charges (e.g., unamortized issuance costs) in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operations.

PRIMARY GOVERNMENT A state government or general purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

PRINCIPAL In the context of bonds other than deep-discount debt, the face value or par value of a bond or issue of bonds payable on stated dates of maturity. See FACE VALUE and PAR VALUE.

PROGRAM BUDGET A budget wherein expenditures are based primarily on programs of work, and secondarily on character and object class budget, on the one hand, and the performance budget, on the other.

PROPRIETARY FUND CATEGORY Sometimes referred to as income determination or commercial-type funds, the classification used to account for an LUA's ongoing organizations and activities that are similar to those often found in the private sector (i.e., enterprise and internal service funds). All assets, liabilities, equities, revenues, expenses and transfers relating to the LUA's business and quasi-business activities are accounted for through proprietary funds. The GAAP used is generally that applicable to similar businesses in the private sector and the measurement focus is on determination of net income, financial position and changes in financial position. However, where the GASB has issued pronouncements applicable to those entities and activities, they should be guided by these pronouncements.

PUBLIC ACCOUNTING The practice of holding oneself out to be a CPA or public accountant and at the same time performing for a client one or more types of services rendered by public accountants (e.g., auditing). This term should not be confused with governmental accounting.

PURCHASE ORDER A document which authorizes the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

PURCHASES METHOD The method under which inventories are recorded as expenditures when acquired.

QUALIFIED OPINION A modified opinion stating that "except for" the effect of the matter to which the qualification relates, the financial statements present fairly the financial position, results of operations and (when applicable) changes in financial position in conformity with GAAP. Such an opinion is expressed when a lack of sufficient, competent evidential matter or restrictions on the scope of the auditor's examination have led the auditor to conclude that an unqualified opinion cannot be expressed, or when the auditor believes, on the basis of his examination, that (1) the financial statements contain a departure from GAAP, the effect of which is material, (2) there has been a material change between periods in accounting principles or in the method of their application or (3) there are significant uncertainties affecting the financial statements, and the auditor has decided not to express an adverse opinion or to disclaim an opinion. See ADVERSE OPINION and DISCLAIMER OF OPINION.

QUASI-EXTERNAL TRANSACTIONS Inter-fund transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the LUA. For example, payments in lieu of taxes from an enterprise fund to the general fund; internal service fund billings to departments; routine employer contributions from the general fund to a pension trust fund; and routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund should be accounted for as revenues, expenditures, or expenses in the funds involved.

RATINGS In the context of bonds, normally an evaluation of creditworthiness performed by an independent rating service.

RECEIPTS Cash received.

REFUND (Noun) An amount paid back or credit allowed because of an over collection or because of the return of an object sold. (Verb) To pay back or allow credit for an amount because of an over collection or because of the return of an object sold. (Verb) To provide for the payment of an obligation through cash or credit secured by a new obligation.

REFUNDING BONDS Bonds issued to retire bonds already outstanding. The refunding bonds may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds. See ADVANCE REFUNDING BONDS.

REGISTERED BOND A bond whose owner is registered with the issuing LUA. A registered bond cannot be sold or exchanged without a change of registration.

REGULAR SERIAL BONDS Serial bonds in which all periodic installments of principal repayment are equal.

REIMBURSEMENTS (1) Repayments of amounts remitted on behalf of another party. (2) Inter-fund transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund, e.g., an expenditure properly chargeable to a special revenue fund was initially made from the general fund, which is subsequently reimbursed. They are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

RELATED ORGANIZATION An organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the primary government appoints a voting majority of the organization's governing board.

REMAINING LIFE The number of years from present to anticipated retirement date.

REPLACEMENT COST The amount of cash or other consideration that would be required today to obtain the same asset or its equivalent. See REPRODUCTION COST.

REPORTING ENTITY The oversight unit and all of its component units, if any, that are combined in the CAFR/GPFS.

REPRODUCTION COST The cost as of a certain date of reproducing an exactly similar new property in the same place. Sometimes this term is designated as "reproduction cost new" to distinguish it from "depreciated reproduction cost," which is the reproduction cost of a given property less the estimated amount of accumulated depreciation applicable to it. In the absence of any modifier, however, the term "production cost" is understood to be synonymous with "reproduction cost new." See REPLACEMENT COST.

REPURCHASE AGREEMENT A generic term for an agreement in which a government entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities or for different securities.

REQUIRED SUPPLEMENTARY INFORMATION Consists of statements, schedules, statistical data or other information which, according to the GASB, is necessary to supplement, although not required to be a part of, the general purpose financial statements.

REQUISITION A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

RESTRICTED NET ASSETS Monies or other resources, the use of which is restricted by legal or contractual requirements. In governmental accounting, special treatments are applied to restricted assets arising out of revenue bond indentures in Enterprise Funds. These are sometimes also called restricted "funds" but such terminology is not preferred.

REVENUE BONDS Bonds whose principal and interest are payable exclusively from earnings of an enterprise fund. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the Enterprise Fund's property.

REVENUES (1) Increases in the net current assets of a governmental fund type from other than expenditure refunds. Also, general long-term debt proceeds and operating transfers-in are classified as "other financing sources" rather than revenues. (2) Increases in the net total assets of a proprietary fund type from other than expense refunds. Also, operating transfers-in are classified separately from revenues.

RISK MANAGEMENT All the ways and means used to avoid accidental loss or to reduce its consequences if it does occur.

SABBATICAL Type of leave from normal duties granted by some employers so employees can perform research or public service or can obtain additional training to enhance the reputation of or otherwise benefit the employer.

SALARY-RELATED BENEFITS Benefits and payments that are directly related to salary payments such as taxes, pension payments and employee insurance premiums.

SALVAGE VALUE An estimate of residual value of the asset or property at the end of its estimated useful life. Also, the amount that would be realized if property was sold for its recovery value.

SECURITIES Bonds, notes, mortgages, or other forms of negotiable or nonnegotiable instruments. See INVESTMENTS.

SELF INSURANCE A term often used to describe the retention by an entity of a risk of loss arising out of the ownership of property or from some other cause, instead of transferring that risk to an independent third party through the purchase of an insurance policy. It is sometimes accompanied by the setting aside of assets to fund any related losses.

SERIAL BONDS Bonds whose principal is repaid in periodic installments over the life of the issue. See REGULAR SERIAL BONDS and STRAIGHT SERIAL BONDS.

SHARED REVENUES Revenues levied by one LUA or other government but shared on a predetermined basis, often in proportion to the amount collected at the local level, with another LUA or government or class of LUAs or governments.

SHORT-TERM DEBT Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes bond anticipation notes, tax anticipations notes, and revenue anticipation notes.

SINGLE AUDIT An audit performed in accordance with the Single Audit Act and Office of Management and Budget (OMB) Circular A-133, *Audits of State and Local Governments*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal grantor agencies.

SINKING FUND See DEBT SERVICE FUND.

SPECIAL JOURNAL A journal in which are entered all entries of a particular type. Examples include cash receipts journals, cash disbursement journals, purchases journals, etc. See JOURNAL and GENERAL JOURNAL.

SPECIAL REVENUE FUND A fund used to account for the proceeds of specific revenue sources (other than special assessments or for major capital projects) that are legally restricted to expenditure for specified purposes. Under GAAP, the use of special revenue funds is required only when legally mandated.

STANDARD COST The predetermined cost of performing an operation or producing a product when labor, materials, and equipment are utilized efficiently under reasonable and normal conditions. Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed, or the time or method of performing it.

STATE AND LOCAL GOVERNMENT SERIES (SLGS, "slugs") Direct obligations of the U.S. government that the U.S. Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service arbitrage limits.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS A financial presentation summarizing an entity's cash transactions in an accounting period. This statement is not currently required by GAAP.

STATEMENT OF FINANCIAL POSITION See BALANCE SHEET.

STATEMENT OF REVENUES AND EXPENDITURES The financial statement that is the governmental fund GAAP operating statement. It presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in an entity's net current assets.

STATEMENT OF REVENUES AND EXPENSES The financial statement that is the proprietary and fiduciary funds GAAP operating statement. It presents increases (revenues, gains and operating transfers in) and decreases (expenses, losses and operating transfers out) in an entity's net total net assets.

STATISTICAL TABLES Presentations included in the statistical section of the CAFR/CUFR providing detailed data on the physical, economic, social and political characteristics of the reporting LUA. They are intended to provide CAFR/CUFR users with a broader and more complete understanding of the LUA and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section. Statistical tables usually cover more than two fiscal years and often present data from outside the accounting records. Therefore, in contrast to financial section information, statistical section data are not usually susceptible to independent audit.

STORES Goods subject to requisition and use that are on hand in storerooms.

STRAIGHT SERIAL BONDS Serial bonds in which the annual installments of bond principal are equal or nearly equal.

SUBSIDIARY ACCOUNT One of a group of related accounts which support in detail the debit and credit summaries recorded in a control account. An example is the individual accounts receivable detail for the accounts receivable control account in the general ledger. See SUBSIDIARY LEDGER.

SUBSIDIARY LEDGER A group of subsidiary accounts, the sum of the balances of which is equal of the balance of the related control account. See GENERAL LEDGER and SUBSIDIARY ACCOUNT.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP) A disclosure of accounting policies, required by GAAP, that should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, changes in financial position or results of operations. In general, the disclosure should encompass important judgments as to the appropriateness of principles relating to the recognition of revenue and allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following: (1) a selection from existing acceptable alternatives, (2) principles and methods peculiar to the LUA and (3) unusual or innovative applications of accounting principles, including those peculiar to the LUA.

SUPPORTING SCHEDULES Financial presentations used: (1) to demonstrate compliance with finance related legal and contractual provisions; (2) to aggregate and present in greater detail information spread throughout the financial statements (e.g., cash balances, investments, current and delinquent taxes) (3) to present in greater detail information reported in the financial statements (e.g., additional revenue sources detail, changes in general capital assets by function); and (4) to present information not disclosed in GAAP financial statements (e.g., cash receipts and disbursements, changes in Agency Fund assets and liabilities).

SURETY BOND A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document, through nonperformance or through defalcation. For example, a surety bond might be required of an independent contractor. Surety bonds also include fidelity bonds covering LUA officials and employees.

TAX ANTICIPATION NOTES Notes (or warrants) issued in anticipation of collection of taxes, usually retired only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

TAX ANTICIPATION WARRANTS See TAX ANTICIPATION NOTES.

TAX CERTIFICATE A certificate issued by an LUA as evidence of the conditional transfer of title to tax delinquent property from the original owner on the holder of the certificate. If the owner does not pay the amount of the tax arrearage and other charges required by law during the specified period of redemption, the holder can foreclose to obtain title. Also called tax sale certificate and tax lien certificate in some jurisdictions. See TAX DEED.

TAX DEED A written instrument by which title to property sold for taxes is transferred unconditionally to the purchaser. A tax deed issued upon foreclosure of the tax lien obtained by the purchaser at the tax sale. The tax lien cannot be foreclosed until the expiration of the period during which the owner may redeem the property by paying the delinquent taxes and other charges. See TAX CERTIFICATE.

TAX DIGEST In the case of real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner also usually are shown. In the case of personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property, and its assessed value.

TAX EXEMPT BONDS State and local government securities whose interest is exempt from taxation by the federal government or within the jurisdiction issued.

TAX LIENS Claims governments have upon properties until taxes levied against them have been paid. This term is sometimes limited to those delinquent taxes for the collection of which legal action has been taken through the filing of liens.

TAX LIENS RECEIVABLE Legal claims against property which have been exercised because of nonpayment of delinquent taxes, interest, and penalties. Amounts accumulated in this account include delinquent taxes, interest and penalties receivable thereon, and costs of converting delinquent taxes into tax liens.

TAX NOTES See TAX ANTICIPATION NOTES.

TAX RATE The amount of tax stated in terms of a unit of the tax base, e.g., a mill.

TAX RATE LIMIT The maximum rate at which an LUA may levy a tax. In Georgia, the limit applies to maintenance and operations purposes, and is limited by the Constitution to 20 mills. A separate levy for debt service purposes is not subject to the 20 mills limit.

TAX ROLL The official list showing the amount of taxes levied against each taxpayer or property.

TAXES RECEIVABLE - DELINQUENT Taxes remaining unpaid on and after the date on which a penalty for nonpayment attaches. Delinquent taxes receivable are classified as such until paid, abated, cancelled, or converted into tax liens.

TEMPORARY LOANS Short-term obligations representing amounts borrowed for the short periods of time and usually evidenced by notes payable or warrants payable. They may be unsecured, or secured by specific revenues to be collected. See TAX ANTICIPATION NOTES.

TERM BONDS Bonds that mature, in total, on one date.

TERMINATION BENEFITS Benefits provided to employees in connection with their termination of employment. They may be either *special termination benefits* offered only for a short period of time or *contractual termination benefits* required by the terms of a plan only if a specified event occurs.

TITLE AD VALOREM TAX (TAVT) Vehicles, purchased on or after March 1, 2013 and titled in Georgia, are subject to Title Ad Valorem Tax (TAVT). It replaced the sales tax and annual ad valorem tax (annual motor vehicle tax), and is paid every time vehicle ownership is transferred or a new resident registers the vehicle in Georgia for the first time. TAVT is a one-time tax that is paid at the time the vehicle is titled.

TRADE DISCOUNT An allowance, usually varying in percentage with the volume of transactions, made to those engaged in certain businesses and allowable without respect to the time when the account is paid. These discounts are commonly considered a reduction of the sales or purchase price and not earnings. The term is not to be confused with "cash discount."

TRANSFERABILITY Federal Transferability for State and Local Educational Agencies (State and Local Transferability Act) is authorized under Subpart 2 of Part A of Title VI of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Every Student Succeeds Act (ESSA) of 2015. The ESSA amended the transferability authority by changing
the programs from and to which a local educational agency (LEA) may transfer funds and removing limits on the amount of funds that may be transferred. Transferability is a flexibility authority that permits local educational agencies (LEAs) to transfer a portion of

the funding they receive by formula under certain federal programs to their allocations under
other programs.

TRIAL BALANCE A list of the balances of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a control account, the ledger from which the figures are taken is said to be "in balance."

TRUST FUNDS Funds used to account for assets held by an LUA in a trustee capacity for individuals, private organizations, other LUAs, and/or other funds. See PENSION TRUST FUND.

TRUSTEE A fiduciary holding property on behalf of another.

UNAMORTIZED DISCOUNTS ON BONDS SOLD A contra-liability account used to reflect that portion of the face value of bonds exceeding the amount received from their sale (excluding amounts paid for accrued interest) which remains to be amortized over the remaining life of such bonds.

UNAMORTIZED PREMIUMS ON INVESTMENTS An asset account used to reflect that portion of the excess of the amount paid for investments (excluding amounts paid for accrued interest) over their face value which remains to be amortized over the remaining life of such investments.

UNBILLED ACCOUNTS RECEIVABLE An account designating the estimated amount of accounts receivable for goods or services that have not yet been billed, e.g., if a utility bills its customers bimonthly but prepares monthly financial statements, the amount of goods sold or services rendered during the first month of the bimonthly period would be reflected in the balance sheet under this account title.

UNDERLYING SECURITIES Securities transferred in accordance with a reverse-repurchase agreement.

UNDERWRITER In the context of bonds, a dealer who purchases a new issue for resale.

UNDERWRITING The process of selecting, classifying, evaluating, rating and assuming risks.

UNIT COST In the context of cost accounting, the cost of producing a unit of product or rendering a unit of service, e.g., the cost of treating and purifying 1,000 gallons of sewage.

UNLIQUIDATED ENCUMBRANCES Encumbrances outstanding. See ENCUMBRANCES.

UNMODIFIED OPINION An auditor's opinion stating that the financial statements present fairly the financial position and results of operations in conformity with GAAP (which includes adequate disclosure). This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an examination made in accordance with GAGAS.

VALUE As used in governmental accounting, this term designates: (1) the act of describing anything in terms of money; or (2) the measure of a thing in terms of money. The term should not be used without further qualification. See also BOOK VALUE and FACE VALUE.

VARIABLE INTEREST RATE A rate of interest subject to adjustment, e.g., the rate of interest specified may be a percentage of the prime rate on certain set dates.

VESTED BENEFIT A benefit for which the employer has an obligation to make payment even if an employee terminates; thus, the benefit is not contingent on an employee's future service.

VOUCHER A written document which evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

VOUCHER SYSTEM A system which calls for the preparation of vouchers for transactions involving payments and for the recording of such vouchers in a special book of original entry, known as a voucher register, in the order in which payment is approved.

VOUCHERS PAYABLE Liabilities for goods and services evidenced by vouchers which have been preaudited and approved for payment but which have not been paid.

YIELD See EFFECTIVE INTEREST RATE.

ZERO COUPON DEBT Debt discount debt issued with a stated interest rate of 0 (zero) percent.

Chapter VII – 3 Chart of Accounts

NATURE AND PURPOSE

Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities of a Local Unit of Administration (LUA). The illustrative chart of accounts (COA) presented in this appendix has been designed for this purpose, and it follows the National Center for Education and Statistics (NCES) COA as sanctioned by the US Department of Education. The website for NCES is https://nces.ed.gov/pubs2015/fin_acct/chapter6.asp. The chart of accounts is designed to provide LUA management with a comprehensive account structure for its internal financial reporting as well as external reporting to the Georgia Department of Education (GA DOE) and other agencies. The chart of accounts, as displayed below is a replica of the DE046 Financial File layout found at:

https://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Documents/DE46%20file%20layout%20FY%202016.pdf

The COA consists of the following fields for accounting transactions:

DESCRIPTION	YEAR CODE	FUND NO.	FISCAL YEAR	PROGRAM TYPE NO.	REVENUE SOURCE FUNCTION OR BALANCE SHEET NO.	OBJECT NO.	SUB. OBJECT NO.	FACILITY CODE	BLDG. CODE	ADDIT. CODE NOS.
REVENUES	XX	XXX	X	XXXX	XXXX	N/A	N/A	XXXX	X	XXXXXX
EXPENDITURES	XX	XXX	X	XXXX	XXXX	XXX	XX	XXXX	X	XXXXXX
BALANCE SHEET	XX	XXX	X	N/A	XXXX	N/A	N/A	N/A	N/A	XXXXXX

TECHNICAL OVERVIEW

In order for a transaction to be processed in the standardized budgeting and financial reporting format, the following fields must contain valid codes: Year Code, Fund, Program Type, Revenue Source, Function or Balance Sheet account and Object.

DESCRIPTION	YEAR CODE	FUND NO.	PROGRAM TYPE NO.	REVENUE SOURCE FUNCTION OR BALANCE SHEET NO.	OBJECT NO.
REVENUES	XX	XXX	XXXX	XXXX	N/A
EXPENDITURES	XX	XXX	XXXX	XXXX	XXX
BALANCE SHEET	XX	XXX	N/A	XXXX	N/A

Year Code is the last two digits of the fiscal year to which the transaction is applicable.

Fiscal Year is a dormant field which is no longer used. This field may be left blank when recording transactions.

Sub-Object Number is available to those LUAs which desire to expand the object classification beyond the three-digits required for state reporting.

Facility Code is a four-digit code used to tie a transaction to a specific facility in the LUA if necessary. It should only be submitted by those facilities/schools/programs listed as "open" for that fiscal year in the Facilities Registry.

Building Code is a one-digit code used to tie a transaction to a specific building on a campus.
It is an optional field.

Additional Code numbers are reserved for future use by the GaDOE for specified account identifiers. However, LUAs may use this additional field for internal reporting purposes.

FUND CLASSIFICATIONS

Governmental accounting systems should be organized and operated on a fund basis. All of an LUA's individual funds are first classified by category and then by generic fund type within each category. There are three categories as follows:

Governmental Funds - The funds through which most LUA functions typically are financed. These funds used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities -- except those accounted for in proprietary funds and fiduciary funds. In essence, these funds are accounting segregations of financial resources.
Proprietary Funds - The funds used to account for LUA activities that are similar to business operations used in the commercial sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the LUA's business and quasi-business activities are accounted for through proprietary funds.

Fiduciary Funds - The funds used to account for assets held by the LUA as trustee or agent for individuals, private organizations, other government units and/or other funds.

A three-digit code identifies the accounting entity (i.e., the fund classification). Except for Quality Basic Education (QBE) accounting in the general fund, the LUA has flexibility to establish sub-funds within a fund as needed to identify projects or programs. Fund accounting must include balance sheet, revenue and expenditure accounts for each project or program within a fund.

CLASSIFICATION OF BALANCE SHEET ACCOUNTS

A listing and definition of balance sheet accounts is linked below. Assets include what is owned and other items not owned as of the balance sheet but expected to become fully owned at some future date. Deferred Outflow of Resources is the consumption of net assets by the LUA that is applicable to a future reporting period. Liabilities are financial obligations of the LUA. Deferred Inflow of Resources is the acquisition of net assets by the LUA that is applicable to a future reporting period. Fund Equity accounts reflect the excess of a fund's assets over its liabilities. Portions of the fund balance may be restricted if there is a legally binding restriction, usually externally imposed, earmarking resources for a specific future use such as a reserve for Capital Outlay or Nutrition Services. In addition, there is a designation of Nonspendable fund balance that denotes funds are not available for appropriation or expenditure and is applicable only to governmental fund types, such as a reserve for inventories or prepaid insurance.

CLASSIFICATIONSOF REVENUES AND OTHER FINANCING SOURCES

LUA revenues are classified by fund, type and source (four-digit code). The following link includes the different classifications of revenue commonly found in an LUA. This revenue listing is intended to provide a logically structured and reasonably complete revenue classifications which can be adapted to meet the management and reporting needs of Georgia LUAs.

CLASSIFICATION OF EXPENDITURES AND OTHER FINANCING USES

Multiple classifications of governmental fund expenditure data are important from both internal and external management control and accountability standpoints. It facilitates the aggregation and analysis of data in different ways for different purposes and in manners that cross fund and organization lines, for internal evaluation, external reporting, and intergovernmental comparison purposes. The major accounting classifications of expenditures are by fund (as described above), program, function, and object class.

PROGRAMS

The program classification (four digit) provides information on the objectives of expenditures. Programs group activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives. Program Codes are useful in identifying the revenue sources and expenditures for specific grants and programs. Program codes are utilized to determine compliance with expenditures controls set forth for QBE, and for various federal grant monitoring.

FUNCTIONS

Functions group related activities that are aimed at accomplishing a major service or regulatory program for which an LUA is responsible. The functions describe the expenditure activity for which a service or material object is acquired. The functions are classified into five broad areas: Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction, and Other Outlays.

OBJECTS

Finally, expenditures should be classified by object classes, that is, according to the types of items purchased or services obtained. There are nine major object categories which may be further subdivided. Examples of "Current Operating" object of expenditure classifications are personal services, supplies, and other services and charges. ("Capital Outlays" and "Debt Service" also are major objects of expenditure classifications.) Excessively detailed object classifications should be avoided since they complicate the accounting procedure and are of limited use in financial management. An LEA may consider utilizing sub-object codes for internal use only to expand the account code identifier. However, GADOE does not currently collect sub-object code information.

A listing of all code categories above can be found at this location on the GaDOE website:

https://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/LUA-Chart-of-Accounts.aspx

JOB CODES

The Certified/Classified Personnel Information (CPI) Report collected by the Data Collections Division of GaDOE requires a 3-digit job code for every employee reported. This job code relates to a specific classification of employee. Given the general description of each job code, the job codes are related to specific Object Codes as listed in the Financial Review's, *LUA Chart of Accounts* website. The Object Code/Job Code relationships on the Chart of Accounts website is to assist the finance personnel at each school district and charter school in correctly expensing the salaries and related benefits for each employee. The relationship is intended to be used as guide. For example, the job codes for classroom teachers should be expensed to object code 110 – Teachers.

A listing of all job code categories can be found at the Data Collections and Reporting page on the GaDOE website below:

https://www.gadoe.org/Technology-Services/Data-Collections/Pages/FY2020-CPI-Resources.aspx

CODE RELATIONSHIPS

Code Relationships describe the valid account code combinations for certain account groups. Code Relationship validations ensure that certain combinations are acceptable and reasonable. For instance, in regards to the 'Function-Object' validation, any financial or budgetary submissions to GADOE for Function 1000 (Instruction) and Object 120 (Superintendent, RESA Director) would be invalid and would be rejected in the portal submissions processes. The correct Function for Object 120 is Function 2300, General Administration.

The following code relationship groups are detailed Financial Review's code relationship web page:

- **Function – Object**
- **Function - Program**
- **Fund - Program**
- **Object - Subobject**
- **Object - Job Codes**

The code relationship website is listed below:

https://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/LUA-Chart-of-Accounts.aspx

CHART OF ACCOUNTS SUMMARY

The Financial Review Division at GADOE has prepared a 'Chart of Accounts User Guide" and it on the division's website. The user guide is updated annually, as needed, and can be found on the Financial Review website.

Chapter VII – 4 Revenues – GASB 34

Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and GASB Statement 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34 define categories of revenues for presentation on the Statement of Activities. Activities are financed by four sources –

1. Those who purchase and directly benefit from government goods and services (Program Revenue),
2. Those outside the government's citizenry which includes other governments and nongovernmental entities or companies (can be Program revenue if restricted or otherwise defined as General revenue),
3. The government's taxpayers (General revenue),
4. The government itself (for example investing) (typically considered General revenue but may be Program revenue if restricted).

Program revenue is further divided into three categories: a) charges for services, (b) program-specific *operating* grants and contributions, and (c) program-specific *capital* grants and contributions.

Charges for services are amounts received from those who purchase, use, or directly benefit from a program. Tuition for out of district students and meal charges are examples for LUAs.

Program-specific *operating* grants and contributions and program-specific *capital* grants and contributions are amounts received from parties outside the LUA that are restricted to one or more specific programs. Examples of these include QBE and Title I revenues. 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. In addition, the grants and contributions must be separated between those received for operations and capital purchases. Grants or contributions that may be used for either capital or operating purposes should be treated as operating grants or contributions.

Program revenue also includes earnings on endowments or permanent fund investments if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. If earnings on these sources are used to finance general operating expenses, they should be classified as general revenue. In addition, interest earnings on grants legally restricted for use in a specific program should be reported as program revenue.

All revenues that do *not* qualify as program revenues should be reported as general revenues. General revenue includes all taxes, even those that are levied for a specific purpose, and should be reported by type of tax— (e.g., special purpose local option sales tax, property tax). General revenues also include non-tax revenues, including grants and contributions not restricted to specific programs. 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.

Following General revenues are contributions to term and permanent endowments and contributions to permanent fund principal. 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.

Following special and extraordinary items are transfers between governmental and business-type activities.

Below are revenue accounts with classification for Statement of Activities presentation.

Statement of Activities - Classification of Revenues

Revenue Classification	Code	Account
General	1110	Ad Valorem Taxes
General	1120	Local Option Sales Tax
General	1121	Other Sales Taxes
General	1130	Special Purpose Local Option Sales Tax
General	1170	Appropriation From City Or County
General	1190	Other Taxes
General	1210	Concession Sales
General	1215	Club Dues And Fees
General	1220	Donations
General	1225	Fundraising/Misc. Sales
General	1230	Gate Receipts
Program-Charges for Services	1310	Tuition From Individuals
Program-Charges for Services	1320	Tuition From Other Georgia LUAs
Program-Charges for Services	1330	Tuition From LUAs Outside Georgia
Program-Charges for Services	1340	Tuition From Other Sources
Program-Charges for Services	1350	Summer School Tuition
Program-Charges for Services	1400	Transportation Fees
General	1500	Investment Income
Program-Charges for Services	1611	Student Sales - Lunch Programs
Program-Charges for Services	1612	Student Sales - Breakfast Programs
Program-Charges for Services	1613	Student Sales - Snack Programs
Program-Charges for Services	1614	Student Sales – Special Milk
Program-Charges for Services	1621	Supplemental Sales - Breakfast And Lunch Programs
Program-Charges for Services	1622	Adult Sales - Breakfast And Lunch Programs
Program-Charges for Services	1623	Contracted Sales - Breakfast And Lunch Programs
General	1700	Student Activities - Centralized
General	1800	Community Service Activities
General	1910	Rental Of Property

General	1920	Contributions From Private Sources
General	1930	Gain (Loss) On Sale Of Fixed Assets (Proprietary Fund Types Only)
General	1940	Textbook Sales
General	1950	Services Provided Other LUAs Or Other Governmental Units
General	1960	Cost Of Sales (Contra To Account 1950)
General	1970	Operating Revenues
General	1985	Student Supply Fees
General	1990	Federal Indirect Cost Reimbursement
General	1995	Other Local Revenues
Program-Operating Grants and Contributions	3120	Total Quality Basic Education Formula Earnings (State and Local Funds)
Program-Operating Grants and Contributions	3122	QBE Allotment (Operating Costs)
Program-Operating Grants and Contributions	3124	QBE Contra Account - Austerity Reduction
Program-Operating Grants and Contributions	3125	Total State Categorical Grants
Program-Operating Grants and Contributions	3140	QBE Contra Account (Debit)
Program-Operating Grants and Contributions	3200	Equalization (Parity)
Program-Operating Grants and Contributions	3300	Grants From K-12 Lottery
Program-Operating Grants and Contributions	3400	Grants From Pre-K Lottery
Program-Operating Grants and Contributions	3510	School Nutrition Service Grants (State Funds Only)
Program-Capital Grants and Contributions	3600	Capital Outlay Grants
Program-Operating Grants and Contributions	3800	Other Grants From Georgia Department Of Education
Program-Operating Grants and Contributions	3911	On Behalf Payments – Health Insurance
Program-Operating Grants and Contributions	3912	On Behalf Payments – Teachers' Retirement
Program-Operating Grants and Contributions	3913	On Behalf Payments – Public School Employees' Retirement
Program-Operating Grants and Contributions	3995	Funds From Other State Agencies
Program-Operating Grants and Contributions	4300	Categorical Grants - Direct From Federal Government
Program-Operating Grants and Contributions	4510	Child Nutrition Program Service Grants (All Federal Funds Except Breakfast Program)
Program-Operating Grants and Contributions	4511	Child Nutrition Program Grants (Federal Funds- Breakfast Program)
Program-Operating Grants and Contributions	4512	Child And Adult Care Food Program (Cacfp) Federal Grants
Program-Operating Grants and Contributions	4513	Federal Reimbursement For After-School Snacks
Program-Operating Grants and Contributions	4520	Other Federal Grants Through Georgia Department Of Education
Program-Operating Grants and Contributions	4530	All Other Federal Grants
Program-Operating Grants and Contributions	4820	Impact Aid - Maintenance And Operation (PL 81-874)
Program-Operating Grants and Contributions	4821	Emergency Impact Aid
General	4830	Revenue In Lieu Of Taxes
Program-Operating Grants and Contributions	4900	Revenues Attributable To USDA Commodities
Program-Operating Grants and Contributions	4995	Revenue From Federal Sources Not Otherwise Classified
Transfer	5200	Operating Transfers From Other Funds (Other Than Governmental Funds)
General	5300	Sale Or Compensation For Loss Of Fixed Assets

General	5995	Other Sources
Contributions (after General Revenues)	6100	Capital Contributions
Special Items (After Contributions)	6300	Special Items
Extraordinary Items (After Special)	6400	Extraordinary Items

Note – grants that are intended for the purchase or construction of capital assets must be categorized as Program Revenue – Capital Grants and Contributions. The classification of a grant as operating in this schedule assumes proceeds will be used for operating expenditures.

Chapter VII – 5 Classification of Expenses GASB 34

Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and GASB Statement 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34 explain how expenses are to be presented.

Direct expenses appear first on the Statement of Activities by functional category. Direct expenses are those directly identifiable to a particular function. For LUAs functional categories are as follows –

Statement of Activities - Classification of Expenses

Function Code	Description
Governmental Activities	
1000	Instruction
2100	Pupil Services
2210	Improvement Of Instructional Services
2220	Educational Media Services
2300	General Administration
2400	School Administration
2500	Support Services - Business
2600	Maintenance And Operation Of Plant Services
2700	Student Transportation Service
2800	Support Services - Central
2900	Other Support Services
4000	Facilities Acquisition And Construction Services
*5000	Other Outlays - Transfers between Funds
5100	Debt Service

Business-type Activities

Function Code	Description
3100	School Nutrition Program
3200	Enterprise Operations
3300	Community Services Operations
*5000	Other Outlays - Transfers between Funds
5100	Debt Service

* Other outlays are the net transfers between governmental and Business-type activities.

Direct expenses include depreciation on capital assets that are clearly associated with a given functional activity. Although not required by GAAP, the Department of Education and Department of Audits and Accounts strongly suggest that depreciation for buildings and equipment which service all functional areas (such as administrative buildings) be allocated among functions.

Debt interest (e.g., on bonds) 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. The exception to this is for debt incurred specifically to create or maintain a program which would be shown as a direct expense.

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.

Interfund transfers should be eliminated except for the net amount transferred between governmental activities and business-type activities. In addition, overhead administration charges be reported only once in the government-wide statement of activities. Therefore, any interfund charges for overhead should be eliminated in the process of preparing the government-wide statement of activities.

The net cost of a functional area is referred to as Net (expense) revenue. Net cost represents the total direct expenses of the function or program less its program revenues.

Chapter VII – 6 Required Note Disclosures

NATURE AND PURPOSE

The Georgia Department of Audits and Accounts has prepared the webpage below for school districts to use for preparing Financial Statements, required note disclosures and submission deadlines. The page is located on the Georgia Department of Audits and Accounts website may be found under:

Resources
School District

https://www.audits2.ga.gov/resources/orgs/school-districts/

Chapter VII – 7 Accrual of Salary and Benefits

GEORGIA DEPARTMENT OF EDUCATION
OFFICE OF THE STATE SUPERINTENDENT OF SCHOOLS
TWIN TOWERS EAST
ATLANTA, GEORGIA 30334-5001
(404) 656 - 2447
http://www.doe.k12.ga.us

Topic 1: Procedures for the Accrual of Salaries/Benefits for All Funds

A. Procedure for Accruals in the General Ledger at June 30th A.1. Receivables

- QBE Funds earned by the local district for July and August salary and benefits should be recorded as an *Accounts Receivable* at June 30th of each year. Debit accounts receivable 0141 and credit the respective Quality Based Education (QBE) program revenue accounts.
- Use the amounts on the new QBE Report, QBE 017-Accrual System Allotment Sheets, for the current year to accrue the revenue. This report is available by fiscal year and can be found on the Department of Education's (DOE's) *QBE Reports Menu*.

A.2. Salary Accruals (Payables)

- Any unpaid July and August Salary and Benefit accruals should be recorded as *Payables* at June 30th of each year. Debit the appropriate expenditure accounts and credit the liability account 0422-Salaries and Benefits Payable.
- Use the procedures that are appropriate for the type of accounting software in use by your system (to accrue July and August salaries and benefits).

B. Procedure for Accrual in General Ledger at June 30th the First Year

*** * * ATTENTION * * ***
Use this procedure if you are accruing in the General Ledger for the first year. It is important that only twelve (12) months of QBE revenue and expenditures are reported to the Department of Education for Salary and Benefits each fiscal year.

B.1. Receivables

- Reverse July and August QBE revenue for the amount that should have been accrued at

June 30th the prior year. Use amounts on the new QBE 017-Accrual System Allotment Sheets report for the prior year. Debit the QBE revenue accounts and credit 0799 fund equity.

- Accrue QBE revenue for the current year using the new QBE 017-Accrual System Allotment Sheets report for the current year. Debit accounts receivable 0141 and credit the respective QBE program revenue accounts.

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B.2. Salary Accruals (Payables)

- Reverse July and August Salary and Benefits that should have been accrued at June 30th of the prior year.

  If a list of accruals **was provided** to the Auditors during the audit for inclusion in the financial statements, reverse these same amounts, or reconcile if different. See "Situation 1" below.

  If a list of accruals **was not provided** to the Auditors during the audit, reverse the actual amounts paid for the prior year. Debit 0799 fund equity and credit the appropriate expenditure accounts. See "Situation 2" below.

- Accrue July and August Salary and Benefits for the current year. Debit the appropriate expenditure accounts and credit accounts payable 0422 – Salaries and Benefits Payable using the procedures that are appropriate for your type of accounting software.

C. Examples of Reversal of Prior Year Payables

- **Situation 1:** Salary and Benefit Payable amounts **were provided** to the Auditors during the audit. They included the expenditures in "Audited Financial Statements." The financial statements did not have a "Qualified Opinion" for unrecorded Salary and Benefit Payables.

Since these expenditure amounts were provided to the Auditors, they must be reversed. This entry will be a debit to 0799 fund equity, and a credit to the respective expenditure accounts.

- **Situation 2:** Salary and Benefit Payable amounts **were not provided** to Auditors in the past.
  The financial statements had a “Qualified Opinion”.

  Calculate the amount of the Salary and Benefit expenditures that should have been accrued at June 30th of the prior year. After determining the amounts, reverse the expenditures with a debit to 0799 fund equity and a credit to the respective expenditure accounts. Keep the documentation that shows how you determined these amounts for the Auditors.

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Chapter VII – 8 US Ed Cost Allocation Guide

NATURE AND PURPOSE

The United States Department of Education (US Ed) has prepared the webpage below for state and local governments to use in determining indirect costs on federal awards in accordance with Office of Management and Budget's (OMB's) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200, Uniform Guidance. The page is located on US Ed's website and may be found under:

Laws
Guidance Homepage
Office of Finance and Operations (OFO)

https://www2.ed.gov/about/offices/list/ocfo/fipao/costallocationguide92019.pdf

Board Policy **Descriptor Code: DCL**

Fund Balance

The Board of Education recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the District and is fiscally advantageous for both the District and its taxpayers. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the District to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The School District also seeks to maintain the highest possible credit ratings which are dependent, in part, on the School District's maintenance of an adequate fund balance.

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

1) **Nonspendable fund balance –** amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

2) **Restricted fund balance –** amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

3) **Committed fund balance –** amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future construction projects).

4) **Assigned fund balance –** amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Education or by a designee to whom the Board of Education delegates the authority. In

governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

5) **Unassigned fund balance –** includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Board of Education is the District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

Assigned Fund Balance – The Board of Education has authorized the Superintendent and the Director of Finance as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

It is the goal of the District to achieve and maintain unassigned, assigned, and committed fund balances in the general fund at fiscal year end of not less than % of _____________ revenues [*or expenditures*], not to exceed 15% of the total budget of the subsequent fiscal year, net of any committed reserve balance for capital expenditures in compliance with O.C.G.A. 20- 2-167(a)5. If the total of the unassigned, assigned, and committed fund balances (net of the previous allowances) at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance. Unbudgeted Activity Funds shall be excluded from the calculation.

- This amount provides adequate funding to cover approximately xxx (X) months or X% of operating expenses.
- This amount provides the liquidity necessary to accommodate the District's uneven cash flow, which is inherent in its periodic tax collection schedule.
- This amount provides the liquidity to respond to contingent liabilities.
- This amount may provide additional resources for other funds.

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Georgia Code Description

O.C.G.A. 20-2-167(a)5 Computerized Uniform Budget and Accounting System

Board Policy **Descriptor Code:**

Intangible Assets

For an intangible asset to qualify for capitalization purposes, it must meet all of the following requirements:

1) The acquisition cost is at least XXXX XXXXXXX XXXXXXX ($X00,000).
2) The intangible asset has a useful life greater than one year.
3) The school district has the ability to sell, transfer, license, or rent the asset to another party OR the asset arises from a contractual or legal right.
4) The asset is nonfinancial in nature and not acquired or created primarily for the purpose of generating income or profit, the result of a capital lease transaction, or goodwill.

All intangible assets meeting the capitalization requirements specified above will be amortized unless the intangible asset has an indefinite life.

DEFINITIONS: **Intangible Assets** - Assets that lack physical substance, are non-financial in nature, and have a useful life greater than one year. Examples include, but are not limited to, easements, water rights, timber rights, patents, copyrights, trademarks, and computer software (purchased, licensed, and internally generated).

Easements - The right to use land belonging to another for a particular use.

Water rights - The right to access or use water from a water source (i.e., a river, stream, pond or source of groundwater).

Timber rights - The right to claim trees on property belonging to another.

Patents - The legal protection granted to an individual, company, or organization from the United States federal government or a foreign government giving the owner the exclusive right to produce and sell an invention for a given period of time.

Copyrights - The legal protection granted to authors or artist for their works from the federal government. This gives the owner the exclusive rights to produce or sell the artistic or published work for a specified period of time.

Trademark - A name, word, phrase, logo, symbol, design, or image that identifies that the product is from a unique source.

Purchased Software - Purchased software is software that the school district pays an upfront cost in order to use. This may be software that we pay for initially and then pay an additional annual maintenance fee in order to receive
upgrades and support from the vendor.

Licensed Software - Licensed software is software that the school district has the right to use for a specified period of time based on an agreement with the vendor.

Internally Generated Software - Internally generated software is software developed by school district staff or an entity contracted by the school district, or acquired from an external entity but requiring more than minimal incremental effort on the part of the school district to begin to achieve its expected level of service capacity.

Blank County (City) Schools
Blank County Schools Date: Pending

Index of Manual Updates

Section	Chapter	Description	Date Issued	Date Revised	Revision Number
Section I - GAAP Accounting and Financial Reporting Principles					
N/A	N/A	Introduction	October 2008	September 2008	N/A
N/A	N/A	Preface	October 1994	September 2008	N/A
N/A	N/A	How to Use This Manual	N/A	N/A	N/A
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I	2	Basic Accounting Theory	October 1991	March 2017	3
I	3	Double Entry Accounting	October 1992	March 2017	3
I	4	Accounting Records	July 1994	March 2017	2
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I	6	Fund Accounting	October 1992	March 2017	3
I	7	Summary of the Basis of Accounting/Measurement Focus	October 1992	March 2017	3
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I	9	Revenue and Receipt Accounting	July 1994	March 2017	4
I	10	Expenditure and Disbursement Accounting	July 1994	March 2017	5
I	11	Payroll Accounting	July 1994	March 2017	2
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I	14	General Fund	October 2016	March 2017	1
I	15	Capital Project Funds	July 1994	March 2017	3
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