

**STATE OF GEORGIA
ACCOUNTING PROCEDURES MANUAL**

SECTION: THREE – ACCOUNTING PROCEDURES
TOPIC: RESERVED FUND BALANCE
ACCOUNT RANGE: 328000, 329000, 330000 - 334999
and 336000 - 337999

GEORGIA LAWS

45-12-93. Revenue shortfall reserve; midyear adjustment reserve;...

(a) As of June 30 of each fiscal year, the state auditor shall reserve from the state surplus an amount equal to not less than 3 nor more than 5 percent, as directed by the director of the budget, of the net revenue collections of such fiscal year, to the extent that such surplus is available therefor. This reserve shall be entitled the revenue shortfall reserve and shall be in lieu of the working reserve for high-income and low-income periods; provided, however, that the director of

the budget may, with regard to all or any part of the fourth and fifth percentile so reserved, direct the return of the same to the general fund of the state treasury for appropriation according to law.

(b) As of June 30 of each fiscal year, the state auditor shall reserve from the state surplus an amount equal to 1 percent of the net revenue collections of such fiscal year, to the extent that such surplus is available therefor. This amount shall be reserved before the amount shall be reserved for the revenue shortfall reserve as provided in subsection (a) of this Code section. This reserve shall be entitled the midyear adjustment reserve and shall be available for appropriation by the General Assembly of Georgia for such purposes as it may select.

Unofficial Opinion of the Attorney General U79-26 - Funds in reserves from prior fiscal years may not be appropriated.

A reserve consists of the funds from a prior fiscal year's appropriation which have been obligated, so as to preclude lapse, but which have yet to be expended. Such funds would only be available for further appropriation in the event that the obligation against them were to be extinguished by the operation of a statute of limitations or some other means which would preclude the legal necessity of satisfying the obligation.

Funds in reserves may not be appropriated in fiscal years subsequent to those in which the reserves were created as long as the obligations against such reserves remain outstanding.

ACCOUNTING PROCEDURES

GENERAL PROCEDURES

In general, State organizations should record reserves in accordance with generally accepted accounting principles (GAAP). Significant variances between GAAP and the State's budgetary basis of accounting are described below.

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From a GAAP perspective, the entire equity section for governmental funds, with respect to the fund financial statements, is disclosed as fund balance; and reserved fund balance applies only to these funds. Equity presentation on the government-wide financial statements and for proprietary and fiduciary funds is referred to as net assets and is discussed in the previous section of this manual. The term reserved should be limited to describing the portion of fund balance that is not yet spendable.

TYPES OF RESERVES

Reserved fund balance accounts may include, but are not limited to:

Reserve for Encumbrances (328001) - This reserve indicates that a portion of the fund balance has been segregated, upon vendor performance, for subsequent year expenditure. Under GAAP expenditures are not recorded for unexecuted contracts for goods and services. However, compliance with the State's budgetary basis of accounting would result in this reserve not being recorded since encumbrances are recorded as expenditures.

Reserve for Pre-Encumbrances (329001) - This reserve should not be disclosed on either budgetary or GAAP financial statements since pre-encumbrances are not recorded as reserves on either basis of accounting. This reserve has been listed in the chart of accounts to facilitate Phoenix System requirements only.

Reserve for Debt Service (330001) - This reserve should only be utilized for GAAP reporting purposes. This reserve denotes that resources have been restricted for subsequent year payment of general long-term debt principal and interest.

Reserves for Inventories (332001), Prepaid Items (333001), Noncurrent Loans Receivable (334001) and Advances (336001) - These reserves should be recorded to indicate that a portion of fund balance is not available for appropriation and expenditure at the balance sheet date. All of these reserves may appear on GAAP financial statements, however, for budgetary accounting purposes only the inventory reserve is applicable.

Other Reserves (337xxx) - This account encompasses two types of reserves: (1) various reserves established by the Constitution and by Acts of the General Assembly which are specific and may pertain only to certain State organizations, and (2) funds received through private donations, user fees, or private grants restricted for purposes as provided in written communications with the State organizations. Examples of reserves established by the Constitution and by Acts of the General Assembly include, the Office of Treasury and Fiscal Service's reserves for revenue shortfall and midyear adjustment as described in OCGA 45-12-93 (a) and (b). An example of

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restricted private donations which should be reserved include the principal of a permanent fund.

APPROVAL OF RESERVES

State organizations which are included in the Appropriations Act should submit a written request for approval to the State Auditor before reserving State or other funds. This request should provide a description of why the reserve is required, the amount of the reserve and documentation supporting the need for the reserve.

SYNOPSIS OF SIGNIFICANT VARIANCES BETWEEN GAAP AND BUDGET BASIS

Encumbrances are disclosed as a reserve since they are not recorded as expenditures.

Reserves are recorded for prepaid items, noncurrent loans and for advances.

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