

STATE OF GEORGIA ACCOUNTING PROCEDURES MANUAL

SECTION: ONE - INTRODUCTION
TOPIC: GAAP OVERVIEW

This manual has been designed to provide guidance concerning generally accepted accounting principles (GAAP). Additional authoritative guidance may be obtained from the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*. The GASB *Codification* is a compilation of not only the GASB's pronouncements but also effective pronouncements of the National Council on Governmental Accounting (NCGA) and the AICPA. Additional guidance may be found in the *Miller Governmental GAAP Guide* and the Government Finance Officers Association's (GFOA) publication *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*. Both of these sources provide excellent discussions of most aspects of governmental GAAP and numerous examples of GAAP accounting entries.

GAAP HIERARCHY

The American Institute of Certified Public Accountants (AICPA), in its Statement of Auditing Standards No. 69 established the current hierarchy of GAAP for state and local governments. This hierarchy is outlined in the following table.

LEVEL	GASB	AICPA	OTHER
One	Statements and Interpretations		
Two	Technical Bulletins	Audit and Accounting Guides/Statements of Position (SOPs) (Specific to Government and Cleared by the GASB)	
Three	Emerging Issues Task Force Consensus Positions	AcSEC Practice Bulletins (Specific to Government and Cleared by the GASB)	
Four	Implementation Guides	Audit and Accounting Guides/SOPs/AcSEC Practice Bulletins (Specific to Government but not Cleared by the GASB)	Widely Recognized Prevalent Practice (e.g., <i>1994 Governmental Accounting, Auditing and Financial Reporting (GAAFR)</i>)
Other Sources	Concept Statements		GAAFR Review/Textbooks/Articles/Financial Accounting Standards Board (FASB) Pronouncements

GAAP HIERARCHY - PROPRIETARY FUND ACCOUNTING

GASB Codification Section P80 defines accounting and financial reporting for proprietary funds. In section P80-102 it is stated that "Proprietary funds should be reported based on all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those

STATE OF GEORGIA ACCOUNTING PROCEDURES MANUAL

SECTION: ONE - INTRODUCTION
TOPIC: GAAP OVERVIEW

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.” In addition, section P80-103 provides the option of applying FASB Statements and Interpretations issued after November 30, 1989, “except for those that conflict with or contradict GASB pronouncements.” However, in order to insure conformity in State accounting procedures this option should not be exercised by State organizations.

GAAP FUND STRUCTURE

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report detailed information about the primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on major funds. [NCGAS 1, ¶16; GASBS 34, ¶6 and ¶75]

Funds used in the governmental financial reporting model are classified into three broad categories: governmental, proprietary and fiduciary.

The governmental fund category includes activities usually associated with a typical state or local government's operations. The focus of the individual funds within this category is on the measurement of the sources, uses and balances of current financial resources. Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due. Individual funds included with the governmental fund category are:

General Fund - The general fund is used to account for all financial resources not required to be accounted for in another fund. This fund is a government's operating fund and transactions included within this fund relate to resources obtained and used for services traditionally provided by a government.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

STATE OF GEORGIA ACCOUNTING PROCEDURES MANUAL

SECTION: ONE - INTRODUCTION
TOPIC: GAAP OVERVIEW

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of principal and interest on general long-term debt.

Capital Projects Fund - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments.)

Permanent Fund - Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is for the benefit of the government or its citizenry.

The proprietary fund category often emulates the private sector. Activities found in this category are many times seen in the private sector and are operated in a manner similar to their counterparts in the commercial world. With this approach, the focus of the proprietary funds is on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. Proprietary fund statements of net assets and revenues, expenses and changes in fund net assets should be presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, most transactions are recognized when they occur, regardless of when cash is received or disbursed. Individual funds included in the proprietary fund category are:

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. These criteria should be applied in the context of the activity's principal revenue sources.

- a. 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 are the full faith and credit of a related primary government or component unit is not payable solely from fees and charges of the activity. This is true even if that government is not expected to make any payments.
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (e.g., depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

STATE OF GEORGIA ACCOUNTING PROCEDURES MANUAL

SECTION: ONE - INTRODUCTION
TOPIC: GAAP OVERVIEW

Internal Service Funds - Internal service funds may be used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

The fiduciary fund category should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans. The fiduciary fund category includes the following individual funds:

Pension (and other employee benefit) Trust Funds - Pension (and other employee benefit) trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other postemployment benefit plans or other employee benefit plans.

Investment Trust Funds – Investment trust funds are used to report the external portion of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds - Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets should equal liabilities). Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

GASB No. 34 requires that both government-wide financial statements and fund financial statements be prepared. The government-wide financial statements consist of a statement of net assets and a statement of activities. The statement of net assets and the statement of activities should display information about the reporting government as a whole. The statements should include the primary government and its component units, except for the fiduciary funds of the primary government and component units that are fiduciary in nature (e.g., public employee retirement systems). Those funds and component units should be reported only in the statements of fiduciary net assets and changes in fiduciary net assets. The statement of net assets and the

STATE OF GEORGIA ACCOUNTING PROCEDURES MANUAL

SECTION: ONE - INTRODUCTION
TOPIC: GAAP OVERVIEW

statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting.

STATEWIDE REPORTING

Schedule "1A" of this section provides a listing of funds which are included in the State of Georgia Comprehensive Annual Financial Report (CAFR) and the organizations which have transactions and balances included within these funds. The accounting records of these organizations must be maintained in such a manner as to allow for the preparation of GAAP financial statements. GAAP financial statements will be required in order to ensure that all transactions and balances are properly recorded in the appropriate CAFR GAAP fund. GAAP financial reporting encompasses both the government-wide financial statements and the fund financial statements. The procedures in Section Three of this manual describe the differences in accounting for items on the budgetary basis and in accordance with GAAP. For organizations that do not prepare GAAP financial statements, there is a listing of information which should be provided to the auditors in order to make the adjustments/conversions to GAAP reporting.

COMPONENT UNITS

Component units are defined in GASB Codification Sec. 2100.501 as "Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete." For CAFR purposes, the application of the entity determination criteria listed in GASB Codification Sec. 2100 resulted in the categorization of discretely presented component units disclosed on Schedule "1A". Other component units were defined but the closeness of their relationships with the primary government (the State) was such that their financial statements were "blended" with those of the State (the primary government).

Discretely presented component units that are not fiduciary in nature are reported only on the government-wide statements; therefore, the applicable basis of accounting for these component units is the accrual basis/economic resources measurement focus. Fiduciary component units are reported only on the fiduciary fund statements, which also report using the economic resources measurement focus and the accrual basis of accounting.

**STATE OF GEORGIA
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**SECTION: ONE - INTRODUCTION
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