State Accounting Office of Georgia
Fiscal Leadership for Georgia

Statewide Accounting Policy & Procedure

Accounting Manual Reference:		**Effective Date:** 06/30/2009
Section:	Basis of Accounting and Reporting	**Revision Date:** 06/30/2011
Sub-section:	Overview	

Index:

Authority:

- OCGA, Title 45, Chapter 12, Article 4, *Office of Planning and Budget*
- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Codification, Section 1200, *Generally Accepted Accounting Principles and Legal Compliance*
- GASB Codification, Section 1700, *The Budget and Budgetary Accounting*
- GASB Codification, Section 2100, *Defining the Financial Reporting Entity*
- GASB Codification, Section 2400, *Budgetary Reporting*

General Principles:

The basis of accounting is concerned with *when* a transaction or event is recognized in the financial statements. The State of Georgia uses the following bases of accounting for annual reporting purposes:

- Statutory basis for the Budget Fund and Debt Service Fund in the Budgetary Compliance Report (BCR),
- Cash receipts and disbursements basis for the General Fund (State Revenue Collections Fund) in the BCR.
- Modified accrual basis for governmental funds in the Comprehensive Annual Financial Report (CAFR), and
- Accrual basis for proprietary and fiduciary funds and for government-wide statements in the CAFR.

The measurement focus is concerned with *what* transactions and events are recognized in the different operating statements of a government. The State of Georgia uses the following measurement focuses in its CAFR operating statements:

- Current financial resources measurement focus and
- Economic resources measurement focus.

The current financial resources measurement focus is used with the modified accrual basis of accounting for governmental fund operating statements because the primary objective is to understand the current status of available spendable resources. The economic resources measurement focus is used with the accrual basis of accounting for proprietary fund, fiduciary fund, and government-wide operating statements because the primary objective is to understand the long-term economic position (or wealth) of the reporting entity.

The State of Georgia's application of these concepts is described in detail below.

BCR – Application by the State of Georgia:

Funds included in the BCR are reported using statutory bases of accounting. The State of Georgia maintains its General Fund (the State Revenue Collections Fund) on the cash receipts and disbursements basis of accounting. However, it maintains its Budget Fund and Debt Service Fund on a statutory basis of accounting which is substantially the same as the modified accrual basis of accounting, with the following exceptions:

- Receivables and revenues of State appropriations are recorded when appropriations are allotted to the budget units by the Office of the State Treasurer.
- For expenditure-driven funding arrangements (grants, sales and services), receivables and revenues are recorded when qualifying statutory-basis expenditures are recorded or when services have been provided.
- All other revenues are recorded when received in cash.
- Liabilities and expenditures are recorded when purchase orders or other contractual obligations to procure goods or services have been executed.
- Expenditures for items not requiring purchase orders are recorded when the goods or services are received. However, agencies may record these expenditures when presented for payment as long as the application of this method is applied consistently and the appropriate number of occurrences is reflected each year. For example, an agency may record utility invoices one month in arrears, provided that 12 (and only 12) monthly utility invoices are recorded per fiscal year.
- Liability and expenditure accruals in the General Fund include amounts due to the budget units (Budget Fund) for operational costs of the fiscal year, undistributed sales tax collected on behalf of local governments, and unclaimed bonds and interest.

Prior period adjustments and certain other items are reported as additions to and deductions from beginning fund balances.

The statutory basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). GAAP require that governmental funds be reported using the modified accrual basis of accounting, as described below for CAFR application.

Funds in the BCR are reported in conformity with accounting principles prescribed or permitted by statutes and regulations of the State of Georgia. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The State of Georgia has historically included the following funds in its BCR:

Budget Fund – The fund used to account for activities and programs as set forth in the amended Appropriations Act of each fiscal year.

General Fund (Statutory Basis) – The fund used to account for the collection of specific revenues of the State of Georgia as provided by statute or administrative action and transfers (appropriation) to the various State organizations for operational costs of the fiscal year. This is ***not*** a General Fund as defined by GAAP.

Debt Service Fund (Statutory Basis) – The fund used to account for the payment of general obligation bond debt principal, interest and related costs. The unretired principal balance of general obligation bond issues is also reported in this fund, as is an "amount to be provided" (from future appropriations) for retirement of bond principal. This is ***not*** a Debt Service Fund as defined by GAAP.

CAFR – Application by the State of Georgia:

The government-wide financial statements (which include discretely presented component units) and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenues in the fiscal year in which eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when cash or other assets are received prior to being earned. Additionally, long-term assets and liabilities, such as capital assets and long-term debt, are included in financial statements using the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 30 days after fiscal year end. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after year end. All deferred revenue reported represents revenue that is unearned, rather than unavailable. Capital purchases are recorded as expenditures and neither capital assets nor long-term liabilities, such as long-term debt, are reflected on the fund level balance sheet of governmental funds.

Expenditures generally are recorded when the related fund liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due or (for debt service expenditures) when amounts have been accumulated in the debt service fund for payments to be made early in the subsequent fiscal year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

The State's proprietary funds and discretely presented component units, other than certain higher education foundations and similar organizations, follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. Certain higher education foundations and similar organizations report under FASB standards; including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations* (FASB Codification Topic 958). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports are reclassified to GASB presentation in the CAFR.

Generally accepted accounting principles require that revenues and expenses relating to summer school activities, the dates of which cross the State's fiscal year, are allocated between fiscal years rather than reported in a single fiscal year. The Higher Education Fund (major enterprise fund) reports summer revenues and expenses in the year in which the predominant activity takes place.

The State has historically included the following as major governmental funds:

General Fund – This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

General Obligation Bond Funded Projects – This fund accounts for the construction of projects for State organizations financed through the issuance of public debt, including educational facilities for county and independent school systems.

The State has historically included the following as major enterprise funds:

Higher Education Fund – This fund accounts for the operations of State colleges and universities and State technical colleges.

State Employees' Health Benefit Plan – This fund is a self-insured program of health benefits for the employees of units of government of the State of Georgia, units of county government and local education agencies located within the State of Georgia.

Unemployment Compensation Fund – This fund accounts for the collection of employers' unemployment insurance tax and the payment of unemployment insurance benefits.

Additionally, the State has historically included the following fund types and non-major funds:

Governmental Fund Types:

Special Revenue Funds – These funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. The State's special revenue funds represent the blended component units that conduct general governmental functions.

Debt Service Fund – This fund accounts for the payment of principal and interest on general long-term debt. The primary government debt service fund is the General Obligation Debt Sinking Fund. The Debt Sinking Fund is a legally mandated fund responsible for fulfilling annual debt service requirements on all general obligation debt.

Capital Projects Funds (other than general obligation bond funded) – These funds account for the acquisition or construction of capital facilities.

Permanent Fund – This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs. The Pupils Trust Fund at Georgia Academy for the Blind is a permanent fund.

Proprietary Fund Types:

Enterprise Fund – This fund accounts for those activities for which fees are charged to external users for goods or services. This fund is also used when the activity is financed with debt that is secured by a pledge of the net revenues from fees. The State Road and Tollway Authority's Georgia 400 Project Fund is an example of a non-major enterprise fund.

Internal Service Funds – These funds account for the financing of goods or services provided by one department or agency to other State departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The predominant participant in internal service fund activity is the primary government. The activities accounted for in the State's internal service funds include risk management, prison industries, property management, technology, and personnel administration.

Fiduciary Fund Types:

Pension and Other Employee Benefit Trust Funds – These funds account for the retirement systems and plans administered by the Employees' Retirement System, for the Teachers Retirement System, and for pension plans administered on behalf of a variety of local government officials and employees. These funds also include those used to report the accumulation of resources for, and payment of, other postemployment benefits.

Investment Trust Funds – These funds account for the external portions of government-sponsored investment pools, including Georgia Fund 1, Georgia Extended Asset Pool, and the Regents Investment Pool.

Private Purpose Trust Funds – These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Auctioneers and Real Estate Education, Research, and Recovery Funds, and the Subsequent Injury Trust Fund are reported in this category.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as an agent for other governmental units, other organizations, or individuals. These funds include tax collections, child support recoveries, and correctional detainees' accounts.

Component Units:
Component units are organizations that are legally separate from the State for which the State's elected officials are financially accountable. Additionally, component units can be other organizations for which the nature and significance of their relationship to the State would cause the financial statements to be misleading or incomplete if the organizations were excluded. Generally, financial accountability exists if the State appoints a voting majority of an organization's governing board *and* either:

- The State is able to impose its will on the organization, or
- The organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the State.

There may be circumstances when the State would be financially accountable for a governmental organization with a separately elected governing board , a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the State. The SAO determines on a case-by-case basis whether such organizations must be included in its financial statements.

In the CAFR, component units are either blended into the appropriate fund statements (because they provide services entirely, or almost entirely, to the State) or they are discretely presented; that is, their financial data is presented separately on the government-wide statements to emphasize their legal separation from the State.