



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Basis of Accounting and Reporting
Sub-section: Elements of Financial Statements

Effective Date: 07/01/2015

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Authority:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Concepts Statement No. 4, *Elements of Financial Statements*
- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*

Applicability:

This accounting policy applies to all organizations included in the State of Georgia reporting entity. Refer to the *Management Responsibilities* policy for a summary of general financial reporting responsibilities.

Policy Summary:

The GASB has identified and defined seven elements as the fundamental components of financial statements of state and local governments. Refer to GASB Concepts Statement No. 4, *Elements of Financial Statements*, for a more detailed discussion of these elements and the related concepts.

Elements of a Statement of Financial Position (or Balance Sheet)

Assets – Resources with a present service capacity that the government presently controls

Deferred outflows of resources – A consumption of net assets that is applicable to a future reporting period

Liabilities – Present obligations to sacrifice resources that the government has little or no discretion to avoid

Deferred inflows of resources – An acquisition of net assets that is applicable to a future reporting period

Net position – The residual of all other elements presented in a statement of financial position (assets + deferred outflows – liabilities – deferred inflows = net position)

Concepts Statement No. 4 specifies that recognition of deferred outflows of resources and deferred inflows of resources is limited to items specifically identified by the GASB in other authoritative pronouncements (for example, derivatives, service concession arrangements, or other items identified by the GASB from time to time).

Elements of a Resource Flows Statement

Outflow of resources – A consumption of net assets by the government that is applicable to the reporting period (includes expenditures, expenses, losses, etc.)

Inflow of resources – An acquisition of net assets by the government that is applicable to the reporting period (includes revenues, receipts, gains, etc.)

Application Based on Measurement Focus

These elements and definitions, including deferred outflows and deferred inflows, apply to both the current financial resources measurement focus (GAAP Modified Accrual Basis) and the economic resources measurement focus (GAAP Accrual Basis) used in preparing the GAAP financial statements of the State. GASB provides specific guidance in individual pronouncements as to whether a particular deferred outflow or deferred inflow should be reflected within governmental funds or not.

Certain transactions might meet the definition for one element under the current financial resources measurement focus (GAAP Modified Accrual Basis) but would meet the definition for another element under the economic resources measurement focus (GAAP Accrual Basis). For example, the purchase of a capital asset would be an outflow of resources under the current financial resources measurement focus, but it would be an asset under the economic resources measurement focus.

Additional Concepts

To fully understand the financial reporting elements, it is also important to understand the following concepts which are used in the definitions of the reporting elements:

Resource – An item that can be drawn on when needed to provide services to the citizenry

Present Service Capacity – An existing capability that enables a government to provide services and to fulfill its mission. Present service capacity can be demonstrated by:

- Providing service directly (such as with a road) or
- Being convertible to cash (such as through the sale of investments or other assets). A present service capacity that arises from being convertible to cash is referred to as economic benefit.

Control – The ability to use the present service capacity of a resource (e.g., an asset) and to determine the nature and manner of use of the present service capacity of that resource. For example, the controlling organization can determine whether to:

- Directly use the present service capacity to provide services to citizens,
- Exchange the present service capacity for another asset, such as cash, or
- Use the asset in some other way to provide benefit.

As an example, control can be demonstrated by determining the level of service, such as by setting hours of operation and fees. Some assets, such as investments of a trust or capital assets purchased with grant proceeds, are subject to legal or other external constraints. These assets can be used only as described in

the trust agreement or to support the grant program, however, an organization is still considered to control the present service capacity even with these types of restrictions.

Control of the present service capacity generally arises from contractual rights or legal ownership. Some resources, such as real property, involve a bundle of rights – for example, the right to develop the property, the right to extract minerals from the property, and the right to install and maintain utility lines crossing the property. Different entities may control different rights associated with a single property. However, one resource cannot be an asset of more than one entity at the same time.

Obligation – A social, legal, or moral requirement (such as a duty, contract, or promise) that compels a government to follow or avoid a particular course of action. For an obligation to be a liability, it should be a present obligation (i.e., the event that created the liability has taken place) for which the organization has little or no discretion to avoid:

- Many liabilities cannot be avoided because they are legally enforceable (e.g., through legislation, contracts, the eligibility requirements of certain grants, etc.).
- Some obligations are liabilities because social, moral, or economic consequences leave the government little or no discretion to avoid a sacrifice of resources, even though the obligations may not be legally enforceable (e.g., certain employee benefits received in exchange for providing services, such as vacation pay). These are considered constructive liabilities.
- A liability can exist even if the party to whom it is owed is not specifically identified. For example, an estimated liability for refunds of tax overpayments may be accrued even though the specific taxpayers that are owed will not be known until tax returns are filed or appeals are made and adjudicated.
- Liabilities from exchange transactions generally arise when consideration has been exchanged (e.g., goods or services have been received in exchange for a promise to pay).
- Liabilities resulting from nonexchange transactions generally arise when commitments to sacrifice resources reach a similar stage of maturity (e.g., when a grant recipient meets eligibility requirements).

Consumption of Net Assets – Occurs when there is either a net decrease in assets (assets – related liabilities is a credit) or a net increase in liabilities (liabilities – related assets is a credit). Examples include:

- Using cash resources for payments to recipients who met eligibility requirements – Cash is spent with no related increase in liabilities.
- Recognizing a property loss (e.g., through fire) – An asset is lost with no related increase in liabilities.
- Recognizing a liability to employees who provided services during the current period but who will not be paid until the next reporting period – A liability is incurred without obtaining an asset.

A consumption of net assets occurs with either an outflow of resources (related to the current period) or a deferred outflow of resources (related to a future reporting period). For modified accrual purposes, an outflow of resources is recognized in the period that current financial resources are expected to be used or obligated. For accrual accounting purposes, the concept of interperiod equity is used to determine the proper period for recognizing an outflow. Interperiod equity is the extent to which current period revenues are adequate to pay for current period services (i.e., current year taxpayers pay for the services provided during the period and do not shift the burden to future taxpayers).

Acquisition of Net Assets – Occurs when there is either a net increase in assets (assets – related liabilities is a debit) or a net decrease in liabilities (liabilities – related assets is a debit). Examples include:

- Receipt of a donated capital asset – Net assets increase since there is no related cash outflow or incurrence of a liability.
- Occurrence of a taxable event (e.g., a retail sale) – Net assets increase (i.e., sales tax is received or receivable).
- Performing under the conditions of a grant received in advance – A liability is satisfied.

An acquisition of net assets occurs with either an inflow of resources (related to the current period) or a deferred inflow of resources (related to a future reporting period). The period for recognizing the inflow is similar to that described above for outflows. For modified accrual purposes, an inflow is recognized in the period that current financial resources are expected to be acquired. For accrual accounting purposes, the concept of interperiod equity is used to determine the proper period for recognizing the inflow.

Policy Requirements:

Reporting Guidance

The seven elements of financial statements described above are the building blocks of an entity's accounting records which are summarized for presentation in financial statements. Amounts are recorded when they both:

- Meet the definition of one of the financial statement elements, and
- Meet the criteria for recognition and measurement (e.g., are reliably measurable)

The definitions of assets and liabilities, above, result from historical usage of these terms throughout private and not-for profit sectors as well as in governmental financial accounting and GASB's Conceptual Framework – Elements of Financial Statements Project which culminated with the issuance of Concepts Statement 4.

The following provide further definitions of the financial statement elements that are specific to governmental accounting:

Primary Guidance Established by Statement No. 34

The primary guidance for the requirements of GAAP based financial statements is GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. GASB 34 implemented the presentation of both government-wide financial statements (full accrual basis) as well as fund-level financial statements (presented on each applicable fund type's GAAP basis of accounting). It also defined full accrual basis "net assets" as the difference between assets and liabilities.

Enhancements Added by Statement No. 63

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provided a major update to Statement No. 34 by incorporating the two new financial statement elements defined in Concepts Statement 4 into specific financial presentation guidance and it also renamed the residual measure of the required components (presented on the full accrual basis) from "net assets" to "net position."

Presentation of Deferred Outflows and Deferred Inflows

Deferred outflows of resources are reported in the statement of financial position or governmental funds balance sheet in a separate section following assets. Deferred inflows of resources are 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. The residual measure of these accounts is presented as follows:

GAAP Accrual Basis

Assets + Deferred Outflows of Resources
Less
Liabilities + Deferred Inflows of Resources
Equals
Net Position

GAAP Modified Accrual Basis

Assets + Deferred Outflows of Resources
Less
Liabilities + Deferred Inflows of Resources
Equals
Fund Balance

Note that reporting of deferred outflows/inflows in a governmental fund balance sheet is required only for items specifically identified by the GASB. For example, the standards on accounting for derivatives states that its provisions do not apply to financial statements prepared using the current financial resources measurement focus (GAAP modified accrual basis). Additionally, the standard on service concession arrangements limits its requirements to financial statements prepared using the economic resources measurement focus (GAAP accrual basis). Statement No. 63 does not change those exemptions or similar exemptions that may appear in other standards.

Conceptual Components of Net Position

Net position is the difference between all other elements in a GAAP Accrual Basis statement of financial position and should be displayed in three components:

1. Net investment in capital assets are calculated as
 - o Capital assets, net of accumulated depreciation
 - o Reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets
 - o Plus deferred outflows of resources or minus deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt

If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should be included in the same net position component as the unspent amount (restricted or unrestricted).

2. Restricted net assets (distinguishing between major categories of restrictions) are calculated as:
 - o Restricted assets
 - o Reduced by liabilities and deferred inflows of resources related to those assets

Generally, a liability relates to a restricted asset if the asset was acquired through the resource flow that also generated the liability or if the liability will be liquidated with the restricted asset.

3. Unrestricted – The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the other two components of net position.

For a sample Statement of Net Position with Deferred Outflows and Inflows of Resources see Appendix I.

Enhancements Added by Statement No. 65

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, examines the financial statement element classification of items previously reported as assets or liabilities to determine if they should be reclassified as deferred inflows of resources or inflows of resources (revenues, gains) or as deferred outflows of resources or outflows of resources (expenses/expenditures, losses).

The following are examples of items previously reported as assets that require reclassification to deferred outflows of resources:

- Grants paid in advance of meeting time requirements
- Deferred amounts from the refunding of debt (debits)
- Costs to acquire rights to future revenues
- Deferred loss from sale-leaseback

The following are examples of items previously reported as assets that require reclassification to outflows of resources:

- Debt issuance costs (other than insurance)
- Initial direct costs incurred by the lessor for operating leases
- Acquisition costs for risk pools
- Loan origination costs

The following are examples of items previously reported as liabilities that require reclassification to deferred inflows of resources:

- Grants received in advance of meeting time requirements
- Property taxes received in advance of levy date
- Deferred amounts from refunding of debt (credits)
- Proceeds from sale of future revenues
- Deferred gain from sale-leaseback
- Regulatory credits (gains or other reductions)
- Unavailable revenue in governmental funds

The following are examples of items previously reported as liabilities that require reclassification to inflows of resources:

- Loan origination fees (excluding points)
- Commitment fees (after exercise or expiration)

General Accounting Procedures:

The following procedures are used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and GAAP reporting purposes.

Year-end Accounting Procedures

State organizations must coordinate with the SAO statewide accounting and reporting group to confirm that the appropriate journal entries are recorded to properly report elements of the financial statements under the modified accrual and accrual bases of accounting at year-end. All required information must be provided to SAO in accordance with the annual year-end reporting calendar. Organizations providing independently audited financial statements should comply with this policy. All year-end forms, with

detailed instructions, are available for download from the Year-End Reporting page of the SAO website. Link to this page: (SAO.Georgia.gov > [Statewide Reporting](#) > [Year-End Reporting](#)).

Disclosure Requirements

Disclosures in the notes to the financial statements is required only if the information is not displayed on the face of the financial statements. However, the details of the different types should be provided in the notes to the financial statements if there are significant components that are not evident when aggregated.

There may be times when a deferred outflow/inflow is significantly different from the balance reported for its related asset or liability. Under these circumstances, the effect on net position for that relationship could be sufficiently significant such that it should be explained in the notes to the financial statements.

The following are examples that demonstrate whether or not disclosure is required:

- Service concession arrangement – Over time, the deferred inflow balance from an up-front payment significantly exceeds the unspent cash from the payment, disclosure of the effect on net position is required.
- Hedging derivative instrument – The deferred outflow or deferred inflow related to a derivative instrument continues to be nearly the same amount as the fair value of the derivative itself, so there is no significant effect on net position to disclose.

Definitions:

Acquisition of Net Assets – Occurs when there is either a net increase in assets (assets – related liabilities is a debit) or a net decrease in liabilities (liabilities – related assets is a debit).

Consumption of Net Assets – Occurs when there is either a net decrease in assets (assets – related liabilities is a credit) or a net increase in liabilities (liabilities – related assets is a credit).

Control – The ability to use the present service capacity of a resource (e.g., an asset) and to determine the nature and manner of use of the present service capacity of that resource.

Obligation – A social, legal, or moral requirement (such as a duty, contract, or promise) that compels a government to follow or avoid a particular course of action. For an obligation to be a liability, it should be a present obligation (i.e., the event that created the liability has taken place) for which the organization has little or no discretion to avoid.

Present Service Capacity – An existing capability that enables a government to provide services and to fulfill its mission.

Resource – An item that can be drawn on when needed to provide services to the citizenry

Appendix I

State of Georgia

Statement of Net Position

June 30, 2013

(dollars in thousands)



	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents	\$ 2,373,455	\$ 1,742,607	\$ 4,116,062	\$ 1,187,053
Investments	3,355,111	461,751	3,816,862	1,978,011
Receivables (Net)	3,977,931	674,609	4,652,540	4,024,017
Due from Primary Government	-	-	-	4,558
Due from Component Units	58,999	141,637	200,636	-
Internal Balances	260,268	(260,268)	-	-
Inventories	44,756	31,766	76,522	27,523
Prepaid Items	23,740	79,733	103,473	19,593
Other Assets	43,184	36,409	79,593	316,649
Restricted Assets				
Cash and Cash Equivalents	45,357	92,557	137,914	344,469
Investments	22,364	223,624	245,988	1,552,963
Receivables (Net)	-	-	-	854,558
Capital Assets				
Nondepreciable	6,536,198	679,501	7,215,699	499,669
Depreciable (Net of Accumulated Depreciation)	14,229,709	9,404,002	23,633,711	1,773,598
Total Assets	30,971,072	13,307,928	44,279,000	12,582,661
Deferred Outflows of Resources				
Accumulated Decrease in Fair Value of Hedging Derivatives	-	7,610	7,610	7,722
Liabilities				
Accounts Payable and Accrued Liabilities	2,397,067	292,354	2,689,421	268,011
Due to Primary Government	-	-	-	200,636
Due to Component Units	221	4,337	4,558	-
Benefits Payable	907,018	275,379	1,182,397	-
Accrued Interest Payable	189,601	674	190,275	5,547
Contracts Payable	133,797	17,063	150,860	16,972
Funds Held for Others	117,539	47,357	164,896	689
Unearned Revenue	145,801	526,651	672,452	812,643
Claims and Judgments Payable	574,861	-	574,861	4,412
Other Liabilities	96,497	46,556	143,053	326,048
Noncurrent Liabilities:				
Due within one year	1,050,087	193,829	1,243,916	197,575
Due in more than one year	10,101,087	5,578,403	15,679,490	3,818,818
Total Liabilities	15,713,576	6,982,603	22,696,179	5,651,351
Deferred Inflows of Resources				
Deferred Service Concession Arrangement Receipts	-	77,884	77,884	-
Net Position				
Net Investment in Capital Assets	13,737,276	6,502,029	20,239,305	1,410,007
Restricted for:				
Bond Covenants/Debt Service	-	-	-	105,930
Capital Projects	-	75,188	75,188	82,609
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	54,003	-
Loan and Grant Programs	-	-	-	1,420,138
Lottery for Education	774,143	-	774,143	-
Motor Fuel Tax Funds	1,765,378	-	1,765,378	-
Permanent Trusts:				
Nonexpendable	14	257,823	257,837	1,087,079
Expendable	-	399,070	399,070	1,024,571
Unemployment Compensation Benefits	-	61,133	61,133	-
Other Purposes	707,778	23,214	730,992	44,335
Unrestricted	(1,781,096)	(1,063,406)	(2,844,502)	1,764,363
Total Net Position	\$ 15,257,496	\$ 6,255,051	\$ 21,512,547	\$ 6,939,032