



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Claims and Judgments
Sub-section: N/A

Effective Date: 07/01/1999

Revision Date: 07/01/2004

Georgia Laws

- Georgia Constitution Article I, Section II, Paragraph IX: Sovereign immunity and waiver thereof; claims against the state and its departments, agencies, officers, and employees
- OCGA 50-21-33: Liability insurance or self-insurance programs; State Tort Claims Trust Fund; premiums and deductibles; incentive programs authorized; merger of preexisting programs and funds; additional coverage

General Procedures

There are differences between the State's budgetary basis of accounting as it pertains to claims and judgments and accounting practices prescribed by GAAP. Significant variances between GAAP and the State's budgetary basis are discussed below.

Types of Claims and Judgments

State governments are subject to many types of claims. These include those arising out of (a) employment, such as workers' compensation and unemployment claims; (b) contractual actions, such as claims for delays or inadequate specifications; (c) actions of government personnel, such as claims for medical malpractice, damage to privately owned vehicles by government-owned vehicles, and improper police arrest; (d) and governmental properties, such as claims relating to personal injuries and property damage.

Loss Contingencies

GASB Codification Section C50.112 states "When a loss contingency exist, 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." Furthermore, within this range, there are defined three possible scenarios.

1. Probable - The future event or events are likely to occur.
2. Reasonably Possible - The chance of the future event or events occurring is more than remote but less than likely.
3. Remote - The chance of the future event or events occurring is slight.

Accrual of Loss

Criteria

A loss contingency arising from a claim is accrued as of the balance sheet date when information is available prior to issuance of the financial statements that indicates it is probable that an asset has been impaired or a liability has been incurred at the date of the most recent accounting period for which financial statements are being presented, and the amount of the loss can be reasonably estimated. The accrual of a loss contingency is not dependent on an actual claim existing as of the balance sheet date. All that is needed is the occurrence of an event on or before the balance sheet date which may lead to a loss contingency. If the governmental unit becomes aware of the claim after the balance sheet date but before the issuance of the financial statements, the claim must be evaluated for possible accrual.

Governmental Funds

In the government-wide financial statements, an estimated loss from a claim should be reported as an expense and as a liability using the economic resources measurement focus and accrual basis of accounting. For the fund financial statements, governmental fund claim expenditures and liabilities should be recognized to the extent that the amounts are payable with expendable available financial resources.

Budget Fund

For budgetary accounting purposes organizations included in the Appropriation Act should accrue only claims and judgments which have been adjudicated or settled. If an uninsured claim has been made and it is probable that the outcome will be unfavorable and if the amount can be reasonably estimated a reserve may be established dependent upon available fund balance and the approval of OPB.

Disclosure of Loss

When a loss contingency arising from a claim is either not probable or not subject to reasonable estimation, the contingency must be disclosed in the notes to the financial statements when it is reasonably possible that a loss will eventually be incurred. The disclosure should describe the nature of the loss contingency and an estimate of the possible loss or range of loss. If an estimate cannot be made based on the available information, the disclosure should state that no estimate can be made.

Disclosure is not required of a loss contingency involving an unreported claim or assessment unless it is considered probable that a claim has been asserted and there is a reasonable possibility that the outcome will be unfavorable.

Incurred but Not Reported (IBNR)

GASB Codification Section C50.113 states that there are situations in which incidents occur before the balance sheet date but claims are not reported or asserted when the financial statements are prepared. If an IBNR loss can be reasonably estimated and it is probable that a claim will be asserted, the expenditure/expense and liability should be recorded.

Synopsis of Significant GAAP Variance from Budgetary Basis

If GAAP financial statements are not provided, SAO must be furnished with information to meet the following GAAP reporting requirements:

Liabilities and expenditures/expense should be recorded on GAAP financial statements when it is probable that an asset has been impaired or a liability has been incurred at the date of the most recent accounting period for which financial statements are being presented, and the amount of the loss can be reasonably estimated (provide information to support the amount which should be shown as a liability). Liabilities and expenditures/expense should be recorded for IBNR's if the loss can be reasonably estimated and it is probable that a claim will be asserted (provide actuarial studies or other estimates/experience to support the liability for IBNR's. Also, provide an estimate of the portion of the total liability which will be paid within one year. Indicate the amount/accounts charged in the current year (expenditures) which represents the payment of amounts included in the prior year's IBNR's/total liability).

Year-end reporting forms are provided on the SAO website at SAO.Georgia.gov > Reporting > Year-End Reporting > Reporting Forms.