



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Equity
Sub-section: Equity

Effective Date: 07/01/2015**Revision Date:** mm/dd/yyyy**Index:**[Authority](#)[Applicability](#)[Policy Summary](#)[Policy Requirements](#)[General Accounting Procedures](#)[Definitions](#)**Authority:**

- GASB Statement No. 34, *Basic Financial Statements*
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*
- OCGA 45-12-89, *Appropriations not expended or obligated at end of fiscal year to lapse*
- OCGA 45-12-92, *Revenue collections to be paid to state treasury on monthly basis*
- Georgia Constitution, Article III, Section IX, Paragraph IV (c), General appropriations Act
- GASB Codification, Section 2300, *Notes to the Financial Statements*

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:

Equity balances should be accurately calculated at the appropriate period-end on the appropriate basis of accounting for each fund reported. Ending equity balances should be accurately and appropriately classified in accordance with the relevant basis of accounting on which funds are reported. The term “equity” is used to encompass both “fund balance” and “net position” throughout this policy unless specific use of the terms “fund balance” or “net position” is required.

Policy Requirements:

Generally, the activity of reporting organizations of the State (utilizing the State’s accounting system) is reported using funding sources to account for certain activity, such as a grant. At the time equity balances are calculated, the propriety of transactions recorded for the certain activity (e.g., within a funding source), during the period being reported, must be analyzed at the individual activity (e.g., funding source) level. This analysis ensures that ending period equity reflects an appropriate ending balance (i.e.,

result), on the basis of accounting on which the activity is being reported (e.g., in each funding source). During the year-end closing process, appropriate classifications of reserved fund balances must be posted. For year-end reporting, the equity balances of the individual activities (e.g., funding sources) are then compiled into various equity classifications for reporting purposes for each relevant basis of accounting.

Organizations included in the State reporting entity are required to maintain their accounting records in a manner which will provide for the preparation of GAAP financial statements and/or budgetary statements. Day-to-day operations may be accounted for using one basis of accounting (a budgetary reporting basis) and year-end reporting information may be prepared to accommodate reporting on a different basis of accounting (a GAAP basis).

Recognition and Measurement

Equity is the end result of all assets, deferred outflows, liabilities, deferred inflows, revenues, expenditures/expenses, other financing sources and other financing uses transactions recorded. As it is a *product* of these other transactions, there are no specific recognition and measurement considerations applicable to equity, but it is the various recognition criteria and measurement focuses relevant to all the other elements of the activity, for the basis on which equity is being reported, that must be considered.

Basis of Accounting

As noted in the Policy Requirements section above, the basis of accounting utilized for recording day to day transactions of a reporting organization's fund may be different than the basis of accounting used by this fund's activities for GAAP reporting. The most common example is activity recorded in the Budget Fund using the budgetary reporting, statutory basis of accounting to record day-to-day transactions and reporting those same transaction in GAAP reports using the GAAP modified accrual basis of accounting.

Statutory Basis

Fund balances of statutory basis funds are reported as reserved or unreserved.

- ***Budget Fund***
 - **State Funds** – Fund balances of State funds may be comprised of State General Funds, Motor Fuel Funds, Lottery Funds, Tobacco Funds, Brain and Spinal Injury Trust Funds, Nursing Home Provider Fees, Hospital Provider Payments, etc. Generally, all statutory-basis State funding source fund balances, other than State General Funds are reserved for *Budgetary Compliance Report* reporting (*BCR*). Article III, Section IX, Paragraph IV(c) provides that all appropriations of State General Funds remaining unexpended and not contractually obligated at the end of a fiscal year lapse. OCGA 45-12-89 provides for the Office of the State Treasurer (OST) to adjust appropriation accounts such that the lapsed funds are no longer available to the budget unit. This is generally accomplished by the budget unit returning lapsed funds to OST or by the budget unit reducing its allotment receivable balance and reporting a surplus return.
 - **Federal Funds** – The revenue and expenditure recognition criteria related to the majority of federal funds received by reporting organizations (reimbursement-based grants) is such that most federal funds (funding sources) should not have ending fund balances. (See separate policies for revenue and expenditure recognition.) Legitimate federal funds (funding source) fund balances should be reserved. See Year-end Accounting Procedures under General Accounting Procedures, below, for discussion of determining the legitimacy of federal funds fund balances.
 - **Other Funds** – Fund balances of other funds funding sources may be reserved if they are received under grant agreements, restricted donations or various sections of the OCGA that allow the funds to be retained. Other funds (funding source) fund balances other than those

received under such agreements are required to be reported as Surplus and subsequently remitted to OST. The legitimacy of balances in other funds (funding sources) should be considered utilizing the same evaluation criteria as listed, above, for federal funds (funding sources).

- *State Revenue Collections Fund (Statutory basis General Fund)* – OCGA Section 45-12-92 governs the timing of payments of revenue collections by the collecting agency to OST. Usually there are no unremitted funds on hand at collecting agencies at fiscal year-end. When such collections do remain, the resultant fund balance should be reserved for *BCR* reporting.

GAAP Modified Accrual Basis

Reserved and unreserved statutory basis fund balances must be reclassified to the following GAAP modified accrual basis balance categories for presentation in the *CAFR* governmental funds fund-level statements (see Year-end Accounting Procedures under General Accounting Procedures, below, for discussion of the process for reclassification):

- **Nonspendable** – This fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example inventories and prepaid amounts.

It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale in the unlikely event that these balances are reported in a governmental fund. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned, then they should be included in the appropriate fund balance classification (restricted, committed or assigned), rather than nonspendable fund balance.

The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact, in perpetuity.

- **Restricted** – This classification of fund balance includes amounts that are constrained for specific purposes with the constraint either imposed by external parties or by State law through constitutional provisions or enabling legislation. The constraint establishes/ mandates criteria for collections and specifies the use of the funds collected.
 - Imposed by external parties means constraints that are externally imposed by creditors (such as through debt covenants), grantors (such as through grant award documents), contributors (such as through trust agreements or other restrictive documents related to donations), or laws or regulations of other governments. Examples of these restricted amounts would include legitimate balances of federal grant agreements, restricted donations or contractual agreements between a State agency (part of the State’s primary government) and a State component unit (not part of the State’s primary government) or
 - Imposed by State law through Constitutional provisions or enabling legislation include the following: imposed by Constitutional provisions includes items delineated in the State of Georgia Constitution, Article III, Section IX, Paragraph VI – *Appropriations to be for specific sums*, such as State Motor Fuel Funds, the Indigent Care Trust Fund and the Brain and Spinal Injury Trust Fund or other specific notations included in the Constitution. Imposed by enabling legislation includes any constraint delineated in a section of the OCGA that establishes or mandates criteria for the collection of funds and specifies the use of funds, such as the Department of Natural Resources’ Wildlife Endowment Fund.

- **Committed** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purposes unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the executive and legislative branches of the government, if applicable. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Funds collected under sections of the OCGA that do not necessarily mandate the collection of the funds, but do specify the use of the funds meet the criteria for committed fund balance.
- **Assigned** – Amounts that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements. Intent should be expressed by (1) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Balances on contracts between State agencies (both of which are part of the State’s primary government) meet the criteria to be reported as assigned fund balance, as do most statutory basis reserves that do not meet the criteria to be classified as restricted or committed.

Some governments have stabilization funds to cover such circumstances as revenue shortfalls, emergencies or other purposes. The State’s Revenue Shortfall Reserve does not meet the definition of a stabilization fund for purposes of the State’s CAFR, as its use is not restricted to specific circumstances.

- **Unassigned** – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unspent appropriations of State General Funds on the statutory basis, or surplus, are reported as unassigned fund balance. Even though State General Funds are required to be spent in accordance with the appropriations acts (as passed by the General Assembly and signed by the Governor), the approval of the General Assembly and the Governor (or the same type of action which would be required to make these funds committed) is not required to remove the appropriations acts restrictions, as the funds lapse with the expiration of the fiscal year.

The general fund should be the only fund to report a positive unassigned fund balance amount. In other governmental funds (such as special revenue funds), if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance. For example, a major capital projects fund incurred expenditures exceeding the amounts in the fund that are restricted, committed, and assigned resulting in a negative residual balance in the fund. If that occurs, **amounts assigned** to other purposes in that fund **should be reduced to eliminate the deficit.** If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the **negative residual amount should be classified as unassigned** fund balance. In the general fund, a similar negative residual amount would have been eliminated by reducing unassigned fund balance. A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund.

GAAP Accrual Basis

- The GAAP modified accrual basis categories of fund balance must be reclassified to the following GAAP full basis net position categories for presentation in the *CAFR* governmental activities entity-wide statements (see Year-end Accounting Procedures under General Accounting Procedures, below, for discussion of the process for reclassification):
 - **Net Investment in Capital Assets** consists of capital assets, net of accumulated amortization/depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of capital assets or related debt are included in Net Investment in Capital Assets. 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 *not* be included
 - **Restricted Component of Net Position** under the full accrual basis are defined the same as Restricted Fund Balance under the modified accrual basis. The following types of restrictions of Net Position are reported for Governmental Activities: capital projects, Guaranteed Revenue Debt Common Reserve Fund, Lottery for Education, motor fuel tax funds, nonexpendable permanent trusts and other purposes.
 - **Unrestricted Component of Net Position** are those that do not meet the definition of the two preceding components.
- The components of net position, defined above, are also utilized for proprietary fund level and business-type activities entity wide and component unit reporting. In addition to the definitions for restricted net position for governmental activities, above, the following types of Restricted Net Position are reported:
 - Business-Type Activities: capital projects, expendable and nonexpendable permanent trusts and other purposes
 - Component Units: bond covenants/debt service, capital projects, loan and grant programs, expendable and nonexpendable permanent trusts and other purposes
- The net position of Fiduciary Funds other than agency funds is reported as held in trust for the particular purpose of the fund.
- Agency Fund activity maintained by reporting organizations is not required to be reported for budgetary reporting purposes. It should be noted that, by definition, agency funds should not report equity, as agency fund activity should flow through asset and funds held for others accounts. Any net excess of revenues over/under expenditures in agency fund funds and funding sources at fiscal year-end should be reclassified to the appropriate asset and/or liability account prior to the posting of the year-end close entry in order to prevent the posting of this excess to an equity account.

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.

Identifying Transactions

- Transactions posted during the fiscal year - There are occasions on which it is appropriate for State organizations to post transactions to equity (390xxx) accounts. The following specific equity subaccounts have been created to be utilized to record specific types of activity:
 - (390xxx) Unreserved – Undesignated Fund Balance - This summary-level category is the series of accounts used in the general ledger to represent the portion of fund balance not legally or contractually constrained. Organizations should use the specific subaccounts as described below for transactions involving prior year adjustments related to year-end reporting (reporting adjustments), prior period adjustments not related to year-end adjustments, return of surplus, and carry-over.
 - (390001) Unreserved – Undesignated – Beginning Fund Balance - The purpose of this account is to adjust the general ledger fund balance so that it agrees to the preceding fiscal year's *BCR* ending fund balance, by program and funding source. This account should be used to post all prior year adjustments related to the year-end *BCR*. Prior year reporting adjustments include **approved** post-closing adjustments and audit adjustments that were made to report ending fund balance in the prior year *BCR*.
 - (390002 to 390010) Unreserved – Undesignated – Beginning Fund Balance - Some organizations may use this account series for internal purposes. (Note: for *BCR* reporting purposes these accounts will be combined with 390001). The organization should consider the aggregate effect of these accounts for the *BCR* report and the overall goal to ensure the 390001 accounts series agrees with the preceding fiscal year's (*BCR*) ending fund balance, by program and funding source.
 - (390100) Adjustments to Fund Balance – Adjustments to Prior Year Expenditures/Payables and (390103) Adjustments to Fund Balance – Adjustments to Prior Year Revenues/Receivables - These accounts may be used by organizations to make adjustments for transactions with prior budget years which are **not related** to prior year reporting adjustments (audit adjustments or post-closing adjustments). The use of these accounts is not encouraged; that is, if such adjustments are made within the various PeopleSoft modules (PO, AP, AR), they will appear in revenue or expenditure accounts and have a prior budget reference, and there is no requirement to then reclassify from revenue/expenditure accounts to the Adjustment to Fund Balance accounts. As with all other transactions, the appropriate program(s) and funding source(s) should be included.

SAO preference is to leave these transactions in revenue/expenditure accounts with the prior budget reference. All revenue and expenditure activity with a prior year budget reference, along with transactions in the 390100 and 390103 accounts, will be reported as prior period adjustments in the *BCR*.
 - (390104) Adjustments to Fund Balance – Surplus Returned to OST - This account should be used to record entries for return of the prior fiscal year's surplus. Entries to this account should be made for each funding source and program as reported in the prior year *BCR*.

- (390106) Adjustments to Fund Balance – Program Transfers and Other Adjustments - This account should be used to record entries to transfer fund balances between programs or for other transfers between appropriated budget units. These adjustments should offset between the transferor and transferee and zero out at the statewide reporting level. The use of this account should be minimal and would usually coincide with a legislative mandate (i.e. transfer carry-over for program x from agency A to agency B). As with all other transactions, the appropriate program(s) and funding source(s) should be included. Alternately, account 493xxx may be used for this same purpose.
- (390109) Adjustments to Fund Balance – Early Return of Surplus - This account should be used to record entries for the early return of the current fiscal year’s surplus. As with all other transactions, the appropriate program(s) and funding source(s) should be included. These are **not** returns of amounts reported as Surplus in the prior year’s BCR.
- Transactions posted at fiscal year-end
 - (390110) Adjustments to Fund Balance – Establish Reserves - During year-end close, fund balances that may be retained for subsequent period expenditure should be reclassified from Adjustment to Fund Balance – Establish Reserves (390110) to Other Reserves (337xxx) in the same accounting fund, funding source and program. Refer to the Accounting Policy Manual, Revenues and Receivables section, *Prior Year Carry-Over (Accounting)* sub-section for further procedures to establish reserves at year-end and to carry-over balances to the subsequent fiscal year.

The year-end close process for the State’s accounting system closes all Revenue and Expenditure/Expense accounts to account 390001. However, balances in accounts 390100-390999 (which represent current fiscal year adjustments to fund balance) are also closed out manually to account 390001 (beginning fund balance) by SAO subsequent to year-end. The end result of this process is that the year-end balances remaining in 390100-390999 for any fiscal year represent the current year’s activity.

Accounting Transactions and Journal Entries

Following are journal entry examples to demonstrate the proper use of fund balance accounts. For example purposes, FY 20X1 has been used to reflect the current year and FY 20X0 has been used to reflect the prior year.

(390001) Unreserved - Undesignated - Beginning Fund Balance

1a: To cancel a purchase order in the module in FY 20X1 that was related to a FY 20X0 audit adjustment or post-closing adjustment

FY 20X1 System generated entry from PO module

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	328001	Reserved for Encumbrances	10100	01	20101xx	20X0	500	
2	653600	Contracts - Other	10100	01	20101xx	20X0		500

1b: FY 20X1 manual journal entry required as a result from 1a (above)

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	653600	Contracts - Other	10100	01	20101xx	20X0	500	
2	390001	Unreserved - Undesignated - Beginning Fund Balance	10100	01	20101xx	20X0		500

2a: To record a federal receivable that was accrued in the FY 20X0 BCR as a post-closing adjustment FY 20X1 System generated entry from AR module

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	122001 (or applicable B/S account)	Federal Receivables - Direct	10100	10667	20138xx	20X0	1,050	
2	431001	Federal Government Grants - Direct	10100	10667	20138xx	20X0		1,050

2b: FY 20X1 required manual journal entry to reclassify post-closing adjustment in 2a (above)

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	431001	Federal Government Grants - Direct	10100	10667	20138xx	20X0	1,050	
2	390001	Unreserved - Undesignated - Beginning Fund Balance	10100	10667	20138xx	20X0		1,050

(390104) Adjustments to Fund Balance – Surplus Returned to OST

3: FY 20X1 required entry to record return of FY 20X0 surplus to the OST (Note: dependent upon organizational processing, there may be module activity that also affects asset-clearing accounts when reducing the appropriations receivable)

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	390104	Adjustments to Fund Balance - Surplus Returned to OST	10100	01	20116xx	20X0	200	
2	390104	Adjustments to Fund Balance - Surplus Returned to OST	10100	01	20141xx	20X0	300	
3	121001 (or applicable B/S account)	State Appropriations Receivable	10100	01	20116xx	20X0		200
4	121001 (or applicable B/S account)	State Appropriations Receivable	10100	01	20141xx	20X0		300

(390109) Adjustments to Fund Balance – Early Return of Surplus

4a: To cancel a purchase order in the module in FY 20X1 related to FY 20X1 early return of surplus (Note: a prior budget year purchase order is canceled during the current fiscal year in this example)
 FY 20X1 System generated entry from PO module

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	328001	Reserved for Encumbrances	10100	01	20141xx	20X0	150	
2	653200	Contracts - Nonprofit Organizations	10100	01	20141xx	20X0		150

4b: FY 20X1 required entry to record early return of surplus to the OST (Note: dependent upon organizational processing, there may be module activity that also affects asset-clearing accounts when reducing the appropriations receivable)

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	390109	Adjustments to Fund Balance - Early Surplus Returned to OST	10100	01	20141xx	20XX	150	
2	121001 (or applicable B/S account)	State Appropriations Receivable	10100	01	20141xx	20XX		150

(390110) Adjustments to Fund Balance – Establish Reserves at Year-end

FY 20X1 required entry to record year-end reserves

LN	ACCOUNT	ACCOUNT DESCRIPTION	FUND	FUND SRC	PROGRAM	BUD REF	DEBIT	CREDIT
1	390110	Adjustments to Fund Balance - Establish Reserves	10100	10225	2013700	20X1	1,250	
2	337001	Other Reserves	10100	10225	2013700	20X1		1,250

Year-End Accounting Procedures

After fiscal year- end close, various analyses are requested by SAO to be prepared by reporting organizations for statutory basis reporting and subsequent GAAP reporting. As described in the Policy Requirements section above, activity analyzed focuses primarily on funding source (5-digit funding source for users of the State’s accounting system).

Reporting organizations that do not report on the statutory basis are required to submit documentation representing financial statement information to SAO to be included in the *CAFR*.

Funds that operate on a statutory basis must convert accounting activity to the modified accrual and/or accrual bases of accounting for the *CAFR*. Proprietary and fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year.

Statutory Basis for Budgetary Compliance Reporting – Grant level (funding source) trial balances should be reviewed periodically and particularly at fiscal year-end to identify existing grant fund balances. Before considering a balance to be legitimate, reporting organizations should consider the following (while also ensuring compliance with provisions of the *Revenues & Receivables – Revenues, Receivables, Unearned Revenues and Unavailable Revenues – General and Grants and Other Financial Assistance – Overview and General Guidelines* policies):

- Deficit Fund Balance - Generally, no deficit fund balances should be reflected for any type of grant or other financial assistance. If the fund balance analysis results in a deficit fund balance, determine whether there are unearned revenues recorded which should have been recognized as current period revenue. If unearned revenues are available, reverse sufficient unearned revenues to the appropriate revenue account (debit unearned revenue; credit revenue) in an amount sufficient to bring the deficit fund balance to zero. If there are no unearned revenues available, determine why recorded expenditures exceed recorded revenues. If expenditures have been appropriately recorded for this grant *and* if additional grant revenue is available *and* if applicable eligibility requirements have been met, accrue sufficient accounts receivable and revenue to bring the deficit fund balance to zero.
- Positive Fund Balance –If fund balance analysis results in a positive fund balance, determine whether it is appropriate for this grant to retain a fund balance at period-end. If it is not appropriate and the recorded fund balance is offset only by cash (no accounts receivable for this program are recorded), sufficient revenues should be reduced and reclassified to unearned revenues to bring fund balance to zero (debit revenue; credit unearned revenue). If the fund balance is appropriate and offset by cash and accounts receivable, then revenue and accounts receivable should be eliminated (to the extent that account receivable are available), with any remaining fund balance being eliminated through a reclassification of revenue to unearned revenues as previously described.

Converting to GAAP Modified Accrual Basis for CAFR Reporting

- Statutory basis fund balances that are reported as governmental funds in the *CAFR* are affected by the following types of adjustments to convert to the GAAP modified accrual basis:
 - The revenue, deferred inflow, expenditure and deferred outflow adjustments described in the revenue and expenditure/expense policies of this manual affect fund balances
 - Statutory basis activity that is not GAAP basis activity is removed, for example, activity of budgetary units that are reported in the *CAFR* in other funds, such as for the Board of Regents (included in the *CAFR* in enterprise funds) and the Risk Management activities of the Department of Administrative Services (included in the *CAFR* in internal service funds)
 - GAAP basis activity that is not Statutory basis activity is included, for example, activity of the Aviation Hall of Fame is not included in the *BCR* Budget Fund, but is included in *CAFR* General Fund
- The following amounts reported as Reserved Fund Balance on the statutory basis are reported as Unassigned on the Modified Accrual GAAP basis: Revenue Shortfall Reserve, State Revenue Collections and Tobacco Settlement Funds. Also, the Unreserved, Undesignated Surplus of Lottery for Education funding sources on the statutory basis is reported as Restricted on the Modified Accrual GAAP basis.

Converting to Accrual Basis for CAFR Reporting

- Modified accrual basis fund balances are affected by the following types of adjustments to convert to the full accrual basis for entity-wide reporting
 - The revenue, deferred inflow, expenditure/expense and deferred outflow adjustments described in the revenue and expenditure/expense policies of this manual affect fund balances
 - Addition of capital and other long-term assets

- Addition of long-term debt, debt-related assets, deferred outflows, liabilities, deferred inflows and other long-term liabilities
- The following amounts that are not in Unassigned fund balance on the GAAP modified accrual basis (once adjusted to the GAAP full accrual basis) are reported as Unrestricted Net Position on the full accrual basis: a) Amounts reported for Committed and Assigned fund balances and b) Amounts reported for Nonspendable fund balances for inventories and prepaid items.

Accrual Basis for Funds Not Reporting on a Statutory Basis

Those State reporting organizations that record day-to-day revenues, receivables, unearned revenue and unavailable revenue transactions on a basis of accounting that varies from the GAAP reporting basis requirements must identify and provide to the State Accounting Office reconciling differences between the bases of accounting. This process enables the conversion to the appropriate GAAP basis of accounting for GAAP financial reporting purposes. The year-end reporting package, as provided by SAO, accommodates the process of the identification and submission of these differences. Timely completion of each form facilitates the conversion process. Year-end forms are available on the Reporting Forms page of the SAO website (sao.georgia.gov > [Reporting](#) > [Year-End Reporting](#) > [Reporting Forms](#)).

The forms and other tools applicable to equity include:

- Applicable Fund Balance form
- Questionnaire
- Year-End Close Checklist

Please see the individual form on SAO's website for an explanation as to how the requested information assists SAO in the reconciliation process from transactions recorded on a statutory basis of accounting to GAAP financial statement reporting.

Statement Presentation and Disclosure Requirements

- Statutory basis reporting – The classifications of reserved fund balances is provided for in year-end reporting analyses, required to be submitted by the budget units to SAO
- GAAP Modified Accrual basis reporting
 - Reporting Encumbrances – Significant encumbrances should be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in combination with required disclosures about other significant commitments. If the encumbered amounts are for specific purposes for which resources have already been restricted, committed, or assigned, no separate display for the encumbered amounts is required. If the encumbered amounts are for specific purposes for which amounts have not been previously restricted, committed, or assigned, the amounts should be included within committed or assigned fund balance, as appropriate, instead of unassigned.

Even though State General Funds surplus is reported as Unassigned Fund Balance, as described above, encumbrances of State General Funds (which become fund balance when Budget Fund activity is converted from the statutory basis for *BCR* reporting to the modified accrual basis of the General Fund in the *CAFR*) are reported as Assigned Fund Balance as the funds are obligated to at least the related purchase order.

- Financial Statement Disclosures

- ***Displaying Fund Balance Classifications on the Face of the Balance Sheets***

Amounts for the two components of nonspendable fund balance—(a) not in spendable form and (b) legally or contractually required to be maintained intact may be presented separately, or nonspendable fund balance may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate.

If nonspendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two nonspendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the balance sheet and disclose the details for other classifications in the notes to the financial statements.

- ***Fund Balance Disclosures***

Governments should disclose the following about their fund balance classification policies and procedures in the notes to the financial statements:

- a) For *committed* fund balance: (1) the government's highest level of decision-making authority and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment,
- b) For *assigned* fund balance: (1) the body or official authorized to assign amounts to a specific purpose and (2) the policy established by the governing body pursuant to which that authorization is given,
- c) For the classification of fund balances: (1) whether the government considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

When both restricted and unrestricted resources are available for use, it is the State's policy to allow each organization to determine spending order in a manner consistent with the Georgia Constitution and applicable State law which maximizes the benefit to the customer and/or the efficiency of the program. Within unrestricted fund balance, the State's policy is that committed amounts generally should be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Governments should also disclose deficit fund balance amounts of individual nonmajor funds.

- GAAP Accrual basis reporting
 - Financial Statement Disclosures
 - **Displaying Net Position Classifications on the Face of the Statement of Net Position**
Net position is to be displayed in its three components, *net investment in capital assets*, *restricted* (distinguishing between major categories of restrictions) and *unrestricted*.
 - **Fund Balance Disclosures**
The amount of restricted net position restricted per enabling legislation is required to be disclosed.
Governments should also disclose deficit net position amounts of individual nonmajor funds.

Definitions:

Assigned – The portion of governmental fund fund balance that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed.

Committed – The portion of governmental fund fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

Fund Balance – The residual difference between assets, deferred outflows, liabilities and deferred inflows of a governmental fund.

Net Investment in Capital Assets – The portion of full accrual basis net position that consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt should also be included. 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 *not* be included.

Net Position – The residual difference between assets, deferred outflows, liabilities and deferred inflows of a full accrual basis government-wide and proprietary fund financial statements

Nonspendable – The portion of governmental fund fund balance that is not spendable either because the underlying resources are not in spendable form or because the organization is legally or contractually required to maintain the resources intact.

Reserved – The portion of statutory basis fund balance not required to be lapsed to the State Treasury

Restricted – The portion of governmental fund fund balance that is constrained for specific purposes with the constraint either imposed by external parties or by State law through constitutional provisions or enabling legislation. The constraint establishes/ mandates criteria for collections and specifies the use of the funds collected.

Unassigned – The portion of governmental fund fund balance that is spendable and neither restricted, committed nor assigned.

Unreserved – The portion of statutory basis fund balance required to be lapsed to the State Treasury