

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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INTRODUCTION

Maintaining accounting records is an important function in the day-to-day operation and administration of a Local Unit of Administration (LUA). Without adequate records, LUA administrators would not have the information required for sound financial management. Records summarizing the financial transactions and other activities of an LUA assist administrators in making wise and informed financial decisions. LUA personnel who systematically record information about the various financial activities of an LUA provide a basic and indispensable service.

This chapter discusses the purposes of accounting and explains generally accepted accounting principles (GAAP).

PURPOSES OF ACCOUNTING

Accounting includes record keeping for the fiscal year budget and actual records, and subsequent internal and external reporting. The primary purposes of accounting are to:

- Safeguard the assets of the LUA.
- Report on the stewardship responsibility for individual resources.
- Provide financial information for decision-making.

Accounting records must provide meaningful, reliable, accurate and timely information to the many persons and groups with legitimate interests in the financial affairs of an LUA. These can include:

- The management of an LUA, including superintendents, school principals, program managers, and others who must evaluate past performance, make current decisions and plan future operations.

- The school board, which sets policy for the LUA and has the final responsibility for compliance with legal provisions and budgetary restrictions.
- The public, composed of residents, taxpayers, and political groups, concerned with the cost and the quality of education.
- Grantor agencies including the Georgia Department of Education (GaDOE), interested in determining LUA eligibility for grant resources.
- Oversight bodies, primarily the DOE and the Federal government departments which have statutory responsibilities to regulate various aspects of LUAs' operations and to provide source material for research and statistical purposes.
- The business community, including bond purchasers and potential bond purchasers, other creditors, investment bankers, bond-rating agencies and general vendors, who must decide whether or not to provide resources to an LUA.

Systematic and accurate records also are invaluable to the persons responsible for maintaining them. Systematic records summarize and organize the many details of day-to-day financial operations. When maintaining records in an orderly manner, it is possible to trace information on individual transactions to supporting source documents and to prepare reliable, accurate and timely financial reports. Quality recordkeeping provides an effective audit trail for use by the Georgia Department of Audits, the LUA's internal auditor, or an independent auditor, which generally results in improved quality and decreased costs of audits.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The process of recording, classifying, summarizing, reporting and interpreting the results of financial activities is the accounting process. GAAP are the accounting rules that state and local governments, including LUAs, must follow. GAAP provide a set of uniform minimum standards and guidelines for financial accounting and reporting. Adherence to GAAP results in financial reports of different LUAs containing the same types of financial statements, for the same categories and types of accounting funds. This is important for consistency and comparability.

Business Versus Government

There are differences between GAAP for the private sector and GAAP for governments, including LUAs. Private sector GAAP financial statements provide information regarding a company's profit or loss. Investors and creditors use this information when deciding whether to provide or to continue providing resources (i.e., invest in stock or loan money) to a particular company and, if so, how much to provide. Since individuals do not invest capital in LUAs, governmental GAAP financial statements need not portray the same type of information. In addition, GAAP for LUAs emphasize the accountability to its

citizens/stakeholders for its use of resources and legal compliance (e.g., meeting the Quality Basic Education Act spending program requirements) while GAAP for the private sector does not.

The Standard Setters

The Governmental Accounting Standards Board (GASB) establishes GAAP for LUAs. GASB assumed this responsibility from the National Council on Governmental Accounting (NCGA) in 1984. A separate standard-setting body, the Financial Accounting Standards Board (FASB) establishes GAAP for the private sector. GASB has issued a publication, *Codification of Governmental Accounting and Financial Reporting Standards*, which includes all GAAP. GASB updates the Codification annually as changes occur.

It should also be noted that state charter schools and local charter schools are defined as public schools in Georgia and are also required to follow GASB GAAP. Under the Every Student Succeeds Act (ESSA), local charter activity will also be reported.

GASB 76

Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides the hierarchy of generally accepted accounting principles. LUAs should use this hierarchy in determining the principles used in the preparation of financial statements.

The order of priority in applying GAAP is as follows:

Category A – Governmental Accounting Standards Board statements including GASB interpretations.

Category B – GASB technical bulletins, implementation guides, and literature cleared by the GASB.

The *Codification of Governmental Accounting and Financial Reporting Standards* includes authoritative GAAP and is considered authoritative.

LUAs should begin with Category A when reviewing accounting treatment of a transaction. If Category A does not include the transaction, the LUA should move to Category B. If the issue is not found in Category A and B, LUAs may consider accounting treatment from nonauthoritative sources including GASB Concepts Statements, pronouncements and literature from the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, AICPA literature not cleared by the GASB, practices widely recognized and prevalent in state and local government, literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

If nonauthoritative literature is used, the LUA should consider the consistency of the literature with GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.

SUMMARY

1. Accounting records must provide a variety of financial information to a wide range of users.
2. GAAP are the accounting rules accountants in both the private sector and public sector, including LUAs, follow.
3. GAAP for the private sector provide information about income and loss.
4. GAAP for LUAs emphasize accountability and legal compliance.
5. The GASB sets GAAP for the public sector including LUAs.
6. The FASB sets GAAP for the private sector.
7. GASB publishes the *Codification of Governmental Accounting and Financial Reporting Standards* which includes governmental GAAP.
8. GASB Statement 76 provides the hierarchy of GAAP.