

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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As noted in Chapter I - 5, governmental resources are allocated to and accounted for in separate sub entities, identified as funds, based upon the purposes for which they are to be expended and the means by which spending activities are controlled legally.

INTRODUCTION

The definition of a fund is an entity with a separate set of accounting records segregated for carrying on a specific activity. For example, a Local Unit of Administration (LUA) generally accounts for a federal grant in its own fund. It would record the proceeds from a bond sale (e.g., a school building bond) in a different fund. The more individual funds a LUA maintains, the more administratively burdensome the record keeping becomes. Since LUAs use accounting systems designed specifically for fund accounting, these accounting systems reduce the potential record keeping problems.

This chapter defines each of the fund categories and generic fund types.

NUMBER OF FUNDS

There is no limit on the number of individual funds a LUA may use for accounting and financial reporting purposes. In practice, a single LUA can have anywhere from ten or fewer funds to dozens of individual funds. Nonetheless, it is a basic principle of governmental accounting that LUAs should use the least number of individual funds possible, consistent with its particular circumstances. For financial reporting purposes to the Georgia Department of Education (GaDOE), there are certain funds that are requested to be rolled into a singular fund. For example, GaDOE requests all Capital Projects Funds to be rolled into Fund 300 for reporting the annual financial analysis report and the budget reports to the state.

FUND CATEGORIES

The LUA official must classify all of an LUA's individual funds within three categories identified in the 2015-2016 Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification)* Section 1300. These categories are important because we may apply the accounting rules differently to each of the fund categories. The following are brief explanations of the three categories:

- A. Governmental Funds account for general LUA operations.
- B. Proprietary Funds account for a LUA's activities that are similar to the commercial sector (e.g., an after school program).
- C. Fiduciary Funds account for assets held by a LUA in a trustee or agent capacity for non-school district programs. (e.g., estates willed to the LUA, student activity funds).

GENERIC FUND TYPES

GAAP subdivides the three fund categories into generic fund types. The generic fund type classifications are important to have a thorough understanding of LUA financial statements. Governmental fund types include the following generic fund types:

1. The General Fund accounts for all resources not required to be accounted for in another fund. A LUA reports most of their financial transactions in this fund. LUAs should report only one general fund.
2. Special Revenue Funds account for resources that are legally restricted for specific purposes. LUAs should classify federal or state grant funds here.
3. Capital Projects Funds account for resources restricted for major capital outlays. The proceeds from a bond issue used to construct new schools for which the LUA will repay the debt from property taxes would be accounted for here.
4. Debt Service Funds account for resources used to repay the principal and interest on general long-term debt such as general obligation bonds.
5. Permanent funds are the newest of the governmental fund type, which was first introduced as part of the governmental financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASBS 34)*. Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting LUA's programs, that is, for the benefit of the LUA or its citizenry. Similar arrangements for the benefit of those outside the LUA (e.g., individuals, private organizations, other governments) should be accounted for as private-purpose trust funds rather than permanent funds.

Proprietary fund types include the following generic fund types:

1. Enterprise Funds account for activities financed and operated similar to business enterprises.
2. Internal Service Funds account for operations similar to those accounted for in enterprise funds, which provide goods or services to other departments within the same LUA or to other LUAs. LUAs report activities such as central warehousing and purchasing, central data processing, and central printing and duplication operations often as internal service funds.

The last fund category, fiduciary fund types, includes the trust and agency generic fund type subdivided into three funds.

1. Agency Funds are used to account for situations where the LUA's role is purely custodial (e.g., the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments). Accordingly, all assets LUAs report in an agency fund are offset by a liability to the party on whose behalf they are held. For example, LUAs might classify student activity funds here.
2. Pension Trust Funds (and other employee benefit) account or those LUAs maintaining single employer pension plans. In other words, the assets invested and held for retirement payments to a LUA's employees (i.e., those who have or will retire) are reported here. Only a few Georgia LUAs report this fund type.
3. Private Purpose Trust Funds may be used to report any trust arrangement under which principal and income benefit individuals, private organizations, or other governments, and not the reporting LUA.

ACCOUNT GROUPS

Before the GASB issued their GASBS 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASBS 34), GAAP required LUAs to account for their general fixed assets and their general long-term debt in two account groups. However, GASBS 34 only requires LUAs to report their general capital assets and their general long-term debt in the governmental fund column on the government-wide statements. Since GAAP requires LUAs to maintain accounting records for these assets, deferred outflows, liabilities, and deferred inflows, we suggest that LUAs continue to maintain their account groups, although the LUA will never report account groups separately from other funds. Accounting software maintained by GaDOE (PC Genesis) has been modified so that revenues and expenditures can be modified in the General Fixed Assets and General Long Term Debt Account Groups. These changes have been implemented to encourage school districts to complete the financial statements to the nearest extent possible prior to closing the fiscal year and submitting to GaDOE. Additionally, Depreciation Expense is required to be considered when calculating the indirect cost rates, as discussed in the Indirect Cost Chapter II-9 of the handbook.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

Governmental fund types are accounted for on a current financial resources measurement focus using the modified accrual basis of accounting and proprietary fund types and fiduciary fund types (except agency funds) are accounted for on an economic resources measurement focus using the accrual basis of accounting. The different account measurement focus methods are further discussed in Chapter I-7.

SUMMARY

1. A fund is an accounting entity with a separate set of accounting records segregated for carrying on a specific activity.
2. GAAP classifies all individual funds of an LUA in one of three categories, governmental, proprietary or fiduciary.
3. LUA governmental funds include the generic fund types, general, special revenue, capital projects, debt service and permanent funds.
4. Proprietary funds include the enterprise and internal service generic fund types.
5. Fiduciary fund types include the pension trust, private purpose trust and agency fund types.
6. Governmental fund types use the modified accrual basis of accounting and a current financial resources measurement focus.
7. Proprietary fund types and fiduciary fund types (except agency funds) use the accrual basis of accounting and an economic resources measurement focus.