



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Equity
Sub-section: Unreserved Fund Balance

Effective Date: 07/01/1999

Revision Date: 07/01/2004

The GAAP guidance in this policy has been superseded by the fiscal year 2011 Accounting Directive that provides guidance for implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Any guidance regarding the State's budgetary basis of accounting remains in force.

Georgia Laws

- Georgia Constitution Article III, Section IX, Paragraph IV: General Appropriations Act
- OCGA 45-12-89: Appropriations not expended or obligated at end of fiscal year to lapse

General Procedures

State organizations included in the Appropriations Act must account for designated and undesignated fund balance in accordance with both generally accepted accounting principles (GAAP) and State budgetary accounting requirements. Significant variances between GAAP and the State's budgetary basis of accounting are described below.

Undesignated and Designated Fund Balance

In accordance with GAAP, unreserved undesignated fund balance represents expendable available financial resources and is disclosed only for governmental funds. Designated fund balance represents management's intended use of financial resources and should reflect actual plans approved by either the organization's board or executive officer. No State organization should designate itself into a deficit unreserved undesignated fund balance position. Under the State's budgetary basis of accounting, unreserved undesignated fund balance will be recognized as surplus and subject to lapse. Designations of unreserved fund balance are not appropriate on a budgetary basis since all funds not reserved at balance sheet date (unreserved fund balance) are subject to lapse.

Changes in Fund Balance

Unlike the State budgetary accounting procedures, under GAAP changes in prior year receivable and payable balances should not be adjusted directly to unreserved undesignated fund balance (surplus) but should be recorded as adjustments to current year revenues, expenditures or other financing sources or uses. Transactions which should be directly charged to unreserved undesignated fund balance are: corrections of prior period errors, changes in an accounting principle or changes in the application of an accounting principle, retroactive changes resulting from the implementation of a new pronouncement issued by the GASB, and changes reported on the balance sheet for inventories accounted for on the purchase method. Prior period errors are defined as mathematical mistakes, mistakes in the application of an accounting principle, or oversight or misuse of facts that existed at the time the financial statements were prepared. Accounts have been provided to segregate transactions posted directly to Unreserved –

Undesignated Fund Balance (Surplus). These 3901XX accounts should be utilized to facilitate the preparation of adjusting GAAP entries at the close of the fiscal year.

Synopsis of Significant Variances between GAAP and Budget Basis

If GAAP financial statements are not provided, the State Accounting Office must be furnished with information to meet the following GAAP reporting requirements: Routine adjustments to prior year revenues, receivables, expenditures, payables, other financing sources and uses should be charged direct to current year operating statement revenue and/or expenditure accounts (provide a detail of all fund balance adjustments to prior year accounts referenced above, indicating the revenue/expenditure account to which they apply).