Statewide Annual Financial Reporting Time is Approaching

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Introductory Comments

As you probably have already seen, the year end reporting package has been posted to the State Accounting Office (SAO) website at http://sao.georgia.gov/year-end-reporting. Throughout the year, the State of Georgia accounts for its financial operations on the statutory basis of accounting, often referred to as the "budgetary basis." This methodology provides for the recording, tracking, and reporting of government activities based on annual appropriations and budgets. The SAO produces the *Budgetary Compliance Report* each year summarizing the activities of appropriated agencies with comparisons to budgeted revenues and expenditures. However, the *Budgetary Compliance Report* does not include all of the assets and liabilities of the State, and therefore, does not meet the reporting requirements incorporated by generally accepted accounting principles (GAAP).

Just as publicly held corporations issue annual reports containing audited financial statements, governments issue audited financial statements in the form of a Comprehensive Annual Financial Report (CAFR). The CAFR is the only statewide financial report issued by the State of Georgia prepared in accordance with GAAP. It incorporates the activities and accounts of every organization comprising the State of Georgia reporting entity, including its elected officials, government agencies, State courts, colleges, universities, and component units.

Reporting in accordance with GAAP ensures a consistent approach and allows for the comparison of Georgia's statewide financial information against the data reported by other governments. GAAP-based reporting requires full disclosure of the matters that impact a government's financial position and economic condition, including its resources, commitments and contingencies. GAAP reporting requirements define the reporting entity and set the parameters for determining which organizations comprise the State of Georgia reporting entity for financial reporting purposes.

Preparation of the 2014 Georgia CAFR will involve a consolidation of over a hundred organizations and funds to present a single unified set of statewide financial statements. Compiling all of this information is a massive undertaking requiring the involvement of financial managers in every organization of Georgia State government. Some of these organizations may issue organization financial statements prepared in accordance with GAAP, but many do not.

The role of the SAO is to:

(1) Obtain financial information from organizations that do not submit audited financial statements;

(2) Compile financial information from organizations that do submit audited financial statements;

(3) Eliminate all of the internal activity between State organizations;

(4) Prepare the adjustments, footnotes, and analyses required to produce financial statements in compliance with GAAP;

(5) Convert financial information prepared on the budgetary basis to the GAAP basis;

(6) Produce the audited *CAFR* and *BCR* reports.

Forms

In order to convert financial information to the GAAP basis of accounting as required for the CAFR, SAO must obtain the information using forms. There are a total of 21 different forms and SAO collects in excess of 1,000 forms each year. Each form comes with a set of instructions as the first tab in the form. These instructions explain who is required to submit the form, the purpose of the form and the additional information, such as queries, needed to complete the form. Each year, SAO reviews the content of the forms and updates them as appropriate. Additional forms may be included to address any new statements issued by the Governmental Accounting Standards Board (GASB), the standard setting organization for the preparation of the GAAP financial statements for governmental organizations, or other required regulatory requirements. It is imperative that the forms are accurate and complete as SAO relies on this information when making adjusting and elimination entries. Below are some common trouble areas with the forms.

The Lease Agreement form is used to report any new leases entered into during the fiscal year. The Department of Audits and Accounts (DOAA) performs audit testing on the lease data and have found in some cases that not all leases are reported on the form. Another common mistake is that incorrect payment frequency is reported, usually "annually" is indicated rather than "monthly".

Within the Capital Asset form, there are columns that require additional information such as Adjustments to Beginning Balances, Adjustments to Current Additions/Deletions, GSFIC Transfer to Agency, Donations, and Transfers In/Out. SAO requires additional disclosures on these adjustments to post the appropriate adjustments within our CAFR reporting system. Most inconsistencies occur within the Transfers In/Out columns. Transfers, including Accumulated Depreciation, between agencies should be recorded at the same amounts at both agencies. SAO has noted on various occasions where one agency reports, for example, $10,000 in Capital Assets and $3,000 in Depreciation, while the second agency is reporting $8,000 in Capital Assets and $2,000 in Depreciation. Both agencies should be coordinating with each other to ensure that the information is the same on both agencies' forms. Please refer to the Capital Assets – Asset Transfers and Other Disposals Policy at our website http://sao.georgia.gov/accounting-policy-manual.

The Cash and Deposits form serves two primary purposes. The first purpose is to provide information regarding the composition of Cash and Cash Equivalents and the reconciliation to the trial balance. The second purpose is to provide collateralization information on the State's deposits. This information is necessary to produce the required note disclosures included in the State's CAFR related to custodial credit risk of deposits. The proper classification of a deposit's collateral continues to present challenges. An understanding of the various forms of collateralization and how they relate to the required risk disclosures is essential.

The Cash and Deposits form Appendix tab lists 5 different categories of potential risk – (1) Insured either by FDIC or some other form of insurance, (2) collateralized with Financial Institution's trust department or agent by pledging of investments held for the State organization specifically IN the organization/States name, (3) collateralized with Financial Institution's trust department or agent by pledging of investments held for the State organization, but NOT specifically in the organization/States name, (4) deposits collateralized under pledging of investments held with the Financial Institution, and (5) no collateral provided. Some of these categories are self-explanatory while others are not. Issues in the past have been concentrated around categories (2) and (3).

Collateralization is simply the pledging of investments to a depositor in order to protect the deposits in the event of a financial institution default. When evaluating pledged collateral, one must focus on how the collateral is held. For example, with category (2) collateralization, the pledged collateral is held with the financial institution's trust department or agent (a third party) and internal records specifically indicate pledging of investments to the organization/State. This type of collateralization is preferred and leads to the States deposits being protected. Category (3), on the other hand, creates a level of risk that requires disclosure. The only difference in categories (2) and (3) is that the internal records do NOT specifically indicate the organization/State as pledgee of investments with the trust/agent. Therefore, when evaluating pledged collateral, seek an understanding as to whether or not the financial institution's internal records indicate the organization/State as pledgee in distinguishing between categories (2) and (3). On occasion, an organization will receive a returned bank confirmation that lists the collateralization as category (3) because the collateral is not specifically in the organization's name, but is in the State's name. For custodial credit risk purposes, this collateral should be reported as category (2) and not category (3) because the collateral is in the State's name. If it is not clear from the financial institution's confirmation, the agency may need to seek clarification from bank personnel in order to make the proper classification.

The Inter-Organization Transaction form is designed to collect information on outstanding balances between organizations in the State Reporting Entity. Just like the Transfers In/Out on the Capital Assets form, amounts reported on this form should match the amounts reported at the corresponding agency, i.e. Agency A is showing a Due From Agency B equaling $50,000. There should be a Due To Agency A recorded at Agency B for $50,000. To ensure completeness, for amounts of $250,000 or greater, it is necessary to reach out to the corresponding agency and verify the amounts they are reporting. Additionally, there are times the total amounts reported as Due To or Due From on the Inter-Organization Transaction form does not tie to the amounts reported per the general ledger. If there are timing differences, such as an invoice is issued with a date of June 30th and the receiving agency does not receive the invoice until after year end close, this should be noted in the comments.

The purpose of the Classification of Revenues form is to differentiate between "program revenues" and "general revenues" in order to be compliant with required revenue presentation in the fund level versus entity wide level statements. If the revenues come from those who purchase, use, or directly benefit from the program's goods or services, they are always program revenues. If the revenues come from parties outside the reporting government's citizens as a whole, they are program revenues as long as they are restricted to a specific program, otherwise they are general revenues. If the revenues come from all the reporting government's taxpayers (such as State Revenue Collections), they are always general revenues, even if restricted to a specific program. If the revenues come from the governmental entity itself, such as through investing, they are general revenues if the Treasury invests on behalf of the State and program revenues if the investment income is restricted to the program for which the funds are invested.

The Fund Balance Non-Appropriated form is designed to accommodate the non-statutory basis reporting for TeamWorks entities. Non-TeamWorks entities provide this information on trial balance shells. The SAO TeamWorks accounting system allows for the direct posting of transactions to fund balance/net position accounts (account range 3xxxxx). The transactions posted to these accounts should be adjustments of items related to prior fiscal years. The form provides for the reclassification of transactions posted to fund balance/net position account to current year CAFR revenue and/or expenditures/expense accounts. Additionally, it provides for identification of ending fund balance/net position as required by GAAP. This form should be used for any activity in Capital Projects Funds (not included in the Budget Fund for BCR reporting), Trust Funds and component unit activity. This form should not be used for any activity in fund balance/net position accounts that relate to the following fund types: Budget Fund, State Revenue Collections Fund and Agency Funds.

Governance

Outside of forms, there are some additional reporting considerations to mention. Clearing accounts must be zero by fund type by the end of the fiscal year. Revenue Collection Funds should be on a cash receipts and disbursements basis and should only show amounts in cash, revenues, transfers and possibly fund balance. They should not show amounts in accounts receivable, accounts payable, or deferred revenues. Transfers Out reported in the State Revenue Collections Fund should tie to amounts confirmed with OST prior to year-end close. Agency funds need to show true additions and deletions. The additions and/or deletions should be the net change between beginning and ending balances.

Prior to year end close, SAO performs a review for governance issues and may notify agencies concerning any conflicts noted. The following are the governance review items:

- Accounts Payable account 200011 should be zero until the P.O. module closes to the general ledger.

- In Period 1, manual JVs posted to account 200011 should be reversed and adjustments should be made through the P.O. module.

- Funds and Funding Source conflicts – for example, funding sources that start with 06 should be used for 6XXXX funds only (Agency Funds); funding sources that start with 07 should be used for 10200 funds only (Revenue Collections Funds). Please see the funding source identifiers policy on our website at: http://sao.georgia.gov/accounting-policy-manual

- Inappropriate balances on Capital Projects Fund (CPF) trial balances – Due To/Due From accounts should only include activity pertaining to capital projects, not the General Fund.

- GSFIC Transfers in CPFs - Transfers To/From GSFIC do not match or there are transfers with organizations other than GSFIC.

Closing Remarks

SAO's target for this year is to **issue the 2014 *CAFR* before December 31st, 2014.** SAO continues to make enhancements to the *CAFR* process with the goals of achieving this date and improving the accuracy and timeliness of Georgia's year-end financial reporting. These improvements include:

- Annual review and updates to the forms and instructions used to obtain organization financial information to improve their clarity and the accuracy of submitted data.

- Providing updated online year-end training videos for the majority of the year-end forms.

- Establishing detailed timelines with critical milestones for both the organizations and the SAO to ensure the project is properly planned and the workload can be distributed over the *CAFR* preparation period.

There are many tools available to assist state organizations with successfully preparing the necessary information. Please visit SAO's website for further information on training, due dates and SAO reporting contacts. Thank you for your time and the SAO Statewide Accounting and Reporting group is looking forward to getting this CAFR season started.