

SECTION A **BASIC PRINCIPLES**

Accounting Principles

The financial records and statements of all Mississippi public school districts will be kept and presented in accordance with generally accepted accounting principles in the United States of America. Generally accepted accounting principles for school districts are derived from the official pronouncements of the Governmental Accounting Standards Board (GASB). As GASB makes authoritative pronouncements, this manual will be updated.

On June 30, 1999, the Governmental Accounting Standards Board approved GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments. This Statement describes the minimum set of financial statements, note disclosures and required supplementary information that must be presented in a financial report for an independent auditor to assert, without qualification or further comment, that a government's financial statements are fairly presented in conformity with generally accepted accounting principals (GAAP). Implementation of GASB 34 requirements will be detailed in Section N of this Manual. Due to reporting requirements of the Mississippi Department of Education, the Basis of Accounting as noted below and all related Sections of the Manual, except Section N, must be implemented to meet reporting requirements of the Mississippi Department of Education.

Basis of Accounting

An entity's basis of accounting determines when transactions and economic events are reflected in its financial records. All Mississippi public school districts will prepare financial records using the modified accrual or accrual basis of accounting. The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position or operating results, as follows:

- A. Governmental fund revenues, expenditures, other financing sources and uses and related assets and liabilities should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for interest not matured on general long-term debt, which should be recognized when due. Transfers should be recognized in the accounting period in which the inter-fund receivable and payable arise.
- B. Proprietary fund revenues, expenses and related assets and liabilities should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measurable. Expenses should be recognized in the period incurred, if measurable.
- C. Fiduciary fund revenues and expenditures and related assets and liabilities should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable. Transfers should be recognized in the accounting period in which the inter-fund receivable and payable arise. Agency Fund assets and liabilities should be accounted for on the modified accrual basis.

The Modified Accrual Basis and Accrual Basis of accounting are described below.

Modified Accrual Basis:

Revenues:

Revenues are defined as an increase in the governmental unit's current financial resources. Revenues are recognized when they are susceptible to accrual, which means they must be both measurable and available. Revenues are measurable when the amount of the revenue is subject to reasonable estimation. Revenues are available when the revenue is subject to collection within the current period, or after the end of the period but in time to pay liabilities outstanding at the end of the current period.

Expenditure:

Expenditures are recognized when the related liability is incurred, if measurable, except for interest and principal on general long-term debt, which is recognized when due and payable. Expenditures should be accrued at the end of the year when they are expected to use expendable financial resources. Generally, this means that expenditures that will be paid within a short period after the year-end are subject to year end-end accrual.

Accrual Basis:

Revenues are recognized when the earning process is complete or virtually complete and an exchange has taken place. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more(or perhaps less) cash to the enterprise, not just with the beginning and end of the process.

The essential elements of the accrual accounting method include:

1. The deferral of expenditures and the subsequent amortization of the deferred costs (prepaid expenses, supplies, etc.),
2. The deferral of revenues until they are earned (property taxes received in advance).
3. The capitalization of certain expenditures and the subsequent depreciation of the capitalized costs (depreciation of cost of machinery), and
4. The accrual of revenues that have been earned and expenses that have been incurred.

Recognizing revenue under both methods of accounting normally results in recording certain receivables (assets). These receivables consist of the uncollected but realized portions of the related revenue recognized for the current period.

A liability account (deferred revenue) results for certain cash and asset transactions when they are measurable but not yet earned. Cash received in advance and assets such as donated commodities received and valued under the consumption method of inventory valuation are reported as deferred revenue (liability account) in these cases. The revenue is recognized when these type transactions have met both the measurable and earned criterion.

Fund Accounting

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds and account groups shall be used by Mississippi public school districts:

Governmental Funds

General Fund - to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. One or more specific restricted or committed revenues is the foundation for a special revenue fund.

Capital Projects Funds - to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Permanent Funds - to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district's programs.

Proprietary Funds

Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Agency Funds - to account for resources held by a governmental unit on a temporary, purely custodial basis.

Private Purpose Trust Funds - to account for resources held by the governmental unit for others that cannot be used to support the entities operations.

Account Groups

Since the issuance of GASB Statement 34 and the resulting financial reporting requirements, the General Fixed Asset Account Group and the General Long-term Debt Account Group are no longer necessary for proper financial statement presentation. However, some of the software providers may still utilize various components of the old "account group" coding structure to facilitate the preparation of the district-wide financial statements. Therefore, the references throughout the manual to these account groups have not been removed, but are intended only to provide general guidance on necessary accounting entries relating to capital asset and long-term debt accounting with the understanding that these account groups are no longer required for presentation.