

## **5-0100.00      GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

### **5-0110.00      INTRODUCTION**

The 1989 legislature passed House Bill 16 which requires that school districts maintain accounting systems based on generally accepted accounting principles (GAAP) and that the Superintendent of Public Instruction adopt rules necessary to implement this requirement. The Superintendent of Public Instruction is authorized to supervise public school financial administration and is required to adopt rules establishing requirements for budgeting and financial administration of public school districts, including accounting and reporting requirements.

This legislation requires the Superintendent of Public Instruction to supervise public school financial administration, including budgeting, accounting and reporting and to provide training, forms and assistance as necessary.

The new legislation also provides that the Board of Public Education may order state and/or county equalization aid withheld from a school district which fails to submit reports or budgets as required by law or rules adopted by the Board of Public Education.

Schools are not required to purchase computer equipment or standard accounting software.

### **05-0110.10      AUTHORITATIVE SOURCES OF GAAP**

The governmental environment differs markedly from that of business enterprises. Governmental accounting systems and reports and the information they provide will differ accordingly. Thus, a set of generally accepted accounting principles (GAAP) applicable to governmental accounting and reporting has been developed for use by governmental units. These accounting principles are designed to enhance fiscal control, facilitate compliance with GAAP and finance-related legal and contractual requirements and result in financial statements and reports that fulfill many user information needs. GAAP provide uniform minimum standards of and guidelines for financial accounting and reporting. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practices at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures.

The primary authoritative source on the application of GAAP to school districts is the Governmental Accounting Standards Board (GASB). The basic accounting principles are explained in detail in the Codification of Governmental Accounting and Financial Reporting Standards published by GASB. In Statement 1, GASB sets forth the authoritative status of the Statements and Interpretations promulgated by financial reporting guidelines contained in the Industry Audit Guide, Audits of State and Local Governmental Units (revised edition), issued by the American Institute of Certified Public Accountants (AICPA) in 1988. These pronouncements will remain in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements.

#### **5-0110.10 AUTHORITY SOURCES OF GAAP (Cont'd)**

To assure school districts comply with GAAP and to clarify application of GAAP when necessary, the Superintendent of Public Instruction establishes uniform accounting and reporting policies for all school districts. This will be accomplished through the issuance of the Montana School Accounting Manual and subsequent updates. In the absence of policy from the Superintendent of Public Instruction, the hierarchy of GAAP set forth in GASB Statement 1 or as amended by GASB should be followed. This hierarchy is as follows:

1. GASB Statements and Interpretations. Also, AICPA and FASB pronouncements specifically made applicable to state and local government entities by GASB Statements or Interpretations.
2. GASB Technical Bulletins. Also, if specifically made applicable to state and local governmental entities by the AICPA and cleared by the GASB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
3. AICPA AcSEC Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB. Also, consensus positions on accounting issues applicable to state and local governmental entities.
4. Implementation Guides (Q&As) published by the GASB staff. Also, practices widely recognized and prevalent in state and local government.
5. Other accounting literature, including GASB Concepts Statements and AICPA and FASB pronouncements when not specifically made applicable to state and local governmental entities.

#### **5-0110.20 FOCUS OF GAAP**

The primary focus during the implementation of generally accepted accounting principles shall be accounting methods and internal financial reporting.

Each district's accounting methods shall provide information to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the district in conformity with generally accepted accounting principles, except that for budgetary control purposes, encumbrances may be recorded as expenditures in the accounting records.

#### **5-0110.30 BASIS OF ACCOUNTING**

All school districts will use the generally accepted basis of accounting for each fund as set forth by the Governmental Accounting Standards Board to measure the district's financial position and results of financial operations. School districts shall be permitted to maintain the accounting system on the cash basis during the year. However, all adjusting entries required to convert the accounting system to the modified accrual or full accrual basis of accounting must be recorded prior to the year-end closing of the accounts.

#### **5-0110.40 CLOSING PERIOD**

The closing period is the time period after June 30 used to determine the actual or estimated amount of all accruals, deferrals, and necessary adjustments existing as of June 30th.

As required by 20-9-213, MCA, every transaction will be recorded in the appropriate account before the accounts are closed at the end of the fiscal year in order to properly report the receipt, use, and disposition of all money and property for which the district is accountable.

## **5-0120.00 STATEMENT OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

In 1979, NCGA set forth twelve (12) basic principles of accounting and financial reporting in Statement 1, Governmental Accounting and Financial Reporting Principles and subsequent pronouncements by GASB. The principles established in Statement 1 and subsequent pronouncements by GASB are considered generally accepted accounting principles (GAAP) for governmental units by the AICPA and the Association of School Business Officials of the U.S. and Canada (ASBO).

The accounting, budgeting and financial reporting principles for Montana school districts presented in this manual are based on the principles detailed in Statement 1 and subsequent pronouncements by GASB.

Adoption of the accounting principles described here will: (a) Provide uniformity in the presentation and comparison of financial data; and (b) Provide reliable financial information to local school boards, county superintendents, the Montana Legislature, and the Office of Public Instruction as a basis for program evaluation and budgetary planning.

### **The thirteen (13) generally accepted accounting principles for school districts and other governmental units are outlined below:**

1. Accounting and Reporting Capabilities
2. Fund Accounting Systems
3. Type of Funds
4. Number of Funds
5. Reporting Fixed Assets
6. Valuation of Fixed Assets
7. Depreciation of Fixed Assets
8. Reporting Long-Term Liabilities
9. Measurement Focus and Basis of Accounting in the Basic Financial Statements
10. Budgeting, Budgetary Control, and Budgetary Reporting
11. Transfer, Revenue, Expenditure, and Expense Account Classification
12. Common Terminology and Classification
13. Interim and Annual Financial Reports

## **5-0130.00 EXPLANATION OF GAAP PRINCIPLES**

The thirteen (13) GAAP principles are explained below:

### **5-0130.01 ACCOUNTING AND REPORTING CAPABILITIES**

A school district accounting system must make it possible both: (a) To present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the school district in conformity with generally accepted accounting principles; and (b) To determine and demonstrate compliance with finance-related legal and contractual provisions.

Adherence to GAAP standards ensures financial information will be based on consistent measurement and classification criteria. Information will be comparable between districts and between years within the same district.

A school district may maintain the accounting system on the cash basis during the year, however all adjusting entries required to convert the system to the modified accrual or full accrual basis of accounting must be recorded prior to the year-end closing of accounts.

All school districts will be required to prepare internal financial reports for the Office of Public Instruction. Annual financial statements for presentation to external users based on GAAP may be issued at the discretion of each school district. All school districts will follow Montana audit requirements and the Single Audit Act as described in Section 9-0300.00 of the School Accounting Manual.

**5-0130.02 FUND ACCOUNTING SYSTEMS**

A school district accounting system should be organized and operated on a fund basis.

A “fund” is 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. Each fund must be accounted for such that its resources, obligations, revenues and expenditures or expenses, and fund equities are segregated (not physically, but in accounting treatment) from other funds.

**5-0130.03 TYPES OF FUNDS**

Montana school districts will use the following fund types and account groups:

**Governmental Funds**

- a. General Fund
- b. Special Revenue Funds
- c. Permanent Funds
- d. Debt Service Funds
- e. Capital Projects Funds

**Proprietary Funds**

- e. Enterprise Funds
- f. Internal Service Funds

**Fiduciary Funds**

- g. Trust and Agency Funds

**Accountability Schedules**

- h. Schedule of Changes in Fixed Assets, Depreciation, and Net Fixed Assets (SCFA)
- i. Schedule of Changes in Long-Term Liabilities (SCLTL)

The funds and accountability schedules are explained below:

**GOVERNMENTAL FUNDS**

General Fund is used to account for all financial resources except those specifically required by law to be accounted for in another fund.

01	General Fund
----	--------------

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Budgeted Special Revenue Funds:

- |    |                               |
|----|-------------------------------|
| 10 | Transportation Fund           |
| 11 | Bus Depreciation Reserve Fund |
| 13 | Tuition Fund                  |
| 14 | Retirement Fund               |
| 17 | Adult Education Fund          |
| 19 | Nonoperating                  |
| 28 | Technology Fund               |
| 29 | Flexibility Fund              |

**5-0130.03      TYPES OF FUNDS (Cont'd)**

Nonbudgeted Special Revenue Funds:

12	School Foods Fund
15	Miscellaneous Programs Fund
18	Traffic Education
20	Lease-Rental Fund
21	Compensated Absence Fund
24	Metal Mines Tax Reserve Fund
25	Mining Impact Fund
26	Impact Aid Fund
27	Litigation Reserve Fund

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for district operations.

45	Permanent Endowment Fund
----	--------------------------

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

50	Debt Service Fund
----	-------------------

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and Trust Funds).

60	Building Fund
61	Building Reserve Fund

**PROPRIETARY FUNDS**

(Note: Proper accounting and financial reporting for proprietary operations requires increased technical accounting knowledge. If proprietary and nonexpendable trust fund types must be used, the district may consult the Office of Public Instruction for assistance.)

Enterprise Funds are used to account for operations: (1) 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 (2) 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.

70	Day Care
71	Industrial Arts Fund
72	Enterprise (Miscellaneous)

Internal Service Funds are used 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.

73	Data Processing Fund
74	Purchasing Fund
75	Central Transportation Fund
76	Instructional Material Fund
77	Miscellaneous Internal Service Fund
78	Self Insurance Fund - Health
79	Self Insurance Fund - Liability

### **5-0130.03      TYPES OF FUNDS (Cont'd)**

#### **FIDUCIARY FUNDS**

Trust and Agency Funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (1) Pension Trust Funds, (2) Investment Trust Funds, (3) Private Purpose Trust Funds, and (4) Agency Funds.

##### Trust Funds

81	Private Purpose Trust Fund (Non-expendable)
82	Interlocal Agreement/Special Education Cooperative
83	Investment Trust Fund
84	Extracurricular Fund
85	Trust-Miscellaneous (Expendable)

##### Agency Funds

86	Payroll Clearing Fund
87	Claims Clearing Fund
88	Investment Earnings Clearing Fund
89	Retirees' Insurance Fund (COBRA)
90-94	Agency A B C D E Funds
95	Cafeteria/Flex Plan (125 Plans)

#### **ACCOUNTABILITY SCHEDULES**

Used to account for and control general fixed assets and unmatured principal of general long-term debt.

- Schedule of Changes in Fixed Assets (SCFA)
- Schedule of Changes in Long Term Liabilities (SCLTL)

### **5-0130.04      NUMBER OF FUNDS**

A school district should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

### **5-0130.05      REPORTING FIXED ASSETS**

Fixed assets related to specific proprietary funds or Trust Funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for on the Schedule of Changes in Fixed Assets worksheet (SCFA).

### **5-0130.06      VALUATION OF FIXED ASSETS**

Fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair market value at the time received.

### **5-0130.07      DEPRECIATION OF FIXED ASSETS**

- a. Depreciation of general fixed assets is recorded on the SCFA.
- b. Depreciation of fixed assets accounted for in proprietary funds and private purpose trust funds should be recorded in the accounts of those funds. Depreciation is also recognized in those Trust Funds where expenses, net income, and/or capital maintenance are measured.

### **5-0130.08 REPORTING LONG-TERM LIABILITIES**

Long-term liabilities of proprietary funds and Trust Funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit should be accounted on the Schedule of Changes in Long-Term Liabilities worksheet (SCLTL).

General long-term debt is not limited to bonds, warrants, notes, etc. It also includes long-term authority rentals, lease-purchase agreements, installment purchase contracts, judgements and claims, and accumulated unpaid vacation, sick leave and employee benefit amounts payable upon termination. Notes to the financial statements should disclose principal and interest debt service requirements to maturity, initial dates of obligation, original amounts, interest rates, and details concerning assets pledged as collateral.

### **5-0130.09 MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

#### **Basis of Accounting**

The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.

#### **a. Modified Accrual Basis**

Governmental Funds should use the modified accrual basis of accounting. Revenues should be recorded in the accounting period in which they become measurable and available. Measurable means the amount can be determined or reasonably estimated. Available means the revenue will be received within 60 days after the fiscal year end. Expenditures for personal property should be recorded in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should generally be recorded when due. Transfers should be recorded in the accounting period in which the interfund receivable and payable arise.

For budgetary purposes, if a district has encumbrances outstanding at fiscal year end which meet specific criteria set by law, the district may record these outstanding obligations as expenditures and create a fund equity Reserve for Encumbrances. The reserve will be reported on the balance sheet. GAAP expenditures do not include encumbrance items.

#### **b. Accrual Basis**

Proprietary and Fiduciary Funds should use the accrual basis of accounting. 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. Transfers should be recognized in the accounting period in which the interfund receivable and payable arise.

#### **Measurement Focus**

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement.

#### **a. Current Financial Resources**

Governmental funds use the current financial resources measurement focus of accounting. Transactions and events that have increased or decreased resources available for spending in the near future, even though they have no effect on net assets, are reported on the governmental funds operating statements. Examples include the issuance of debt, debt service principal payments and capital outlay.

#### **b. Economic Resources**

Proprietary funds and trust funds use the economic resources focus of accounting. Transactions and events that have increased or decreased a fund's net assets during the period (e.g. revenues, expenses, gains and losses), are reported on the proprietary and trust fund financial statements. Net assets (total assets minus total liabilities) are used as a measure of economic resources. Transactions that do not affect net assets are not reported on the fund's operating statement. Examples include the issuance of debt, debt service principal payments and capital outlay.

## **5-0130.10 BUDGETING, BUDGETARY CONTROL, AND BUDGETARY REPORTING**

An annual budget should be adopted by every school district. State law requires formal budgets be approved for the General Fund (01), Transportation Fund (10), Bus Depreciation Reserve Fund (11), Tuition Fund (13), Retirement Fund (14), Adult Education Fund (17), Nonoperating Fund (19), Technology Fund (28), Flexibility Fund (29), Debt Service Fund (50), and Building Reserve Fund (61). A district may budget other funds if needed.

“Budgetary accounting” is encouraged, although not required. The accounting system should provide the basis for appropriate budgetary control.

Financial statements and schedules for governmental funds for which an annual budget has been adopted should include comparisons between budgeted and actual activities of the funds.

## **5-0130.11 TRANSFER, REVENUE, EXPENDITURE, & EXPENSE ACCOUNT CLASSIFICATION**

Interfund transfers and proceeds of general long-term debt issues should be classified separately from fund revenues and expenditures or expenses.

Revenues should be recorded on accounting records by fund and source. Expenditures should be recorded by fund, program, function, and object of expenditure.

Proprietary fund revenues and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.

## **5-0130.12 COMMON TERMINOLOGY AND CLASSIFICATION**

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

## **5-0130.13 INTERIM AND ANNUAL FINANCIAL REPORTS**

Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.

According to GASB Statement 1, a comprehensive annual financial report (CAFR) covering all funds of the school district—including a statement of net assets; statement of activities; balance sheets for major funds; statement of revenues, expenditures, and changes in fund balances for major funds; appropriate combined, combining, and individual fund statements; notes to the financial statements; schedules; narrative explanations; and statistical tables—should be prepared and published by each governmental unit. Preparation of an annual CAFR is encouraged but not required for Montana school districts.

School districts that meet thresholds requiring an audit (see section 9-0300.30) must prepare financial statements required by GASB 34 for audit report purposes.