

## BASIS OF ACCOUNTING

As you may know, our financial or fiscal year consists of the period from July 1<sup>st</sup> through June 30<sup>th</sup> of every year. We are often asked about the accounting principles that guide our financial reporting.

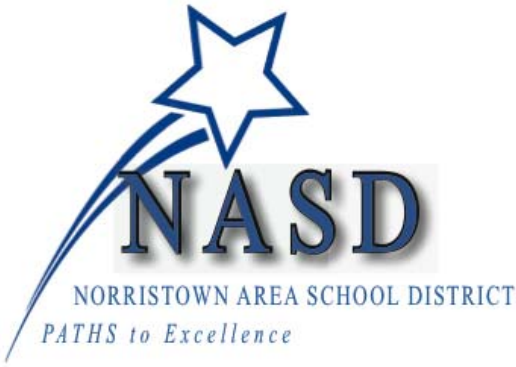
Under the PDE established guidelines, the School District uses a modified accrual basis of accounting for all governmental fund types and agency funds. This includes the General Fund, which is our largest fund, and is the fund where all of our daily operational revenue and expenses are reported. Under the modified accrual basis of accounting:

- Revenues are recognized when they become both measurable and available – not when they are received or earned. The District, in compliance with the 60-Day Rule, considers revenues as available if they are collected within 60 days after year end.
- Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The School District uses an accrual basis of accounting for proprietary fund types (i.e. our food service fund). Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

To simply this topic somewhat, let's review some of the commonly asked questions:

1. Why aren't the June financial statements ready at the end of June?
  - June financial statements can not be prepared at the end of June because of the accrual entries that must be prepared and posted. Revenues that are received up to 60 days after the June 30<sup>th</sup> year end may be accrued or posted back to the June financial period. Invoices and bills paid after the June 30<sup>th</sup> calendar date, which directly relate to goods and/or services delivered and/or received during the fiscal year are also posted back to prior fiscal year.
  - A good example of an expense involved in an accrual entry would be our electric bills. We are often billed in late July for electric used during the month of June. This invoice is physically paid during July or August, but the expense is recognized in June. At June 30<sup>th</sup>, we would recognize on our financial statements a "payable" for the amount of the electric bill.
2. Why aren't the year end audited financial statements available quickly after year end?
  - Our auditors typically complete their audit fieldwork during the month of September, after all of our year end entries are made. Once their fieldwork is completed, a report is issued and presented to the School Board in November or December.



3. Why are bills or invoices that are paid in July and August still being charged to the prior fiscal year?
  - Again, the modified accrual accounting method guides when expenses are recognized. As stated in question #1, invoices and bills paid after the June 30<sup>th</sup> calendar date, which directly relate to goods and/or services delivered and/or received during the fiscal year, are also posted back to prior fiscal year.
  
4. Why are revenues received after June 30<sup>th</sup> charged back to the prior fiscal year?
  - Revenues that are received up to 60 days after the June 30<sup>th</sup> year end may be accrued or posted back to the June financial period.
  - A good example of this could include transfer tax receipts- which are collected during June at property settlements, yet are not remitted to NASD until the following month. The modified accrual accounting rules call for us to recognize that July receipt on our June financial statements. A "receivable" would be established for the amount of this tax revenue at June 30<sup>th</sup>.
  
5. Why can't the District operate on a cash basis of accounting – which would be much easier?
  - Admittedly, operating on a cash basis would be much easier. However, our financial position at the end of the fiscal year could be grossly understated/overstated by doing so. Additionally, we would not be in compliance with the accounting standards for Pa public school districts.

More information about our accounting principles and/or methods can be found on the Pa Department of Education website at: [http://www.pde.state.pa.us/school\\_acct/cwp/view.asp?a=184&q=60147](http://www.pde.state.pa.us/school_acct/cwp/view.asp?a=184&q=60147) . The modified accrual accounting methods are detailed in Chapter 2.