

**Arkansas Department of Education**  
**Rules Governing the Regulatory Basis of Accounting**  
**October 2009**

1.00 Authority

1.01 The Arkansas State Board of Education's authority for promulgating these Rules is pursuant to Ark. Code 6-11-105.

1.02 These rules shall be known as the Arkansas Department of Education Rules Governing the Regulatory Basis of Accounting.

2.00 Purpose

2.01 The purpose of these Rules is to establish a consistent basis of accounting for schools.

3.00 Definitions - For purposes of these Rules, the following term means:

3.01 "Accrue" To record revenues when earned and to record expenditures as soon as they result in liabilities, regardless of when the revenue is actually received or the payment is actually made.

3.02 "Assets" – Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Examples include: cash, investments, receivables, prepaid items, inventory, land, building, and equipment.

3.03 "Deferred Revenue" – Revenue received prior to the fiscal year in which it is earned . Deferred revenue is recorded as a liability when received and as revenue in the fiscal year it is earned.

3.04 "Expenditures" – Charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year.

3.05 "Liabilities" – Debt or other legal obligations arising out of transactions in the past which are payable but not necessarily due.

3.06 "Regulatory Basis of Accounting" – A basis of accounting that the reporting entity (school) uses to comply with the requirements or financial reporting provisions of a governmental regulatory agency (Arkansas Department of Education) to whose jurisdiction the entity is subject.

3.07 "Revenues" – Additions to assets which do not increase a liability, do not represent the recovery of an expenditure, do not represent the cancelation of certain liabilities without a corresponding increase in other liabilities or decrease in assets and do not represent contributions of fund capital in Food Service and Pupil Activity Funds.

3.08 "School" – any public school district, charter school, educational cooperative, or any

publicly supported entity having supervision over public educational entities.

- 3.09 “Uniform Rate of Tax (URT)” – Ad Valorem property tax of twenty-five (25) mills levied on the assessed value of all taxable real, personal, and utility property in the state to be used solely for maintenance and operations for the schools per Article 14, Section 3 of the Constitution of the State of Arkansas of 1874.

#### 4.00 Financial Reporting-Regulatory Basis of Accounting

- 4.01 The financial statements shall be presented on a fund basis format. There shall be no entity-wide statements.
- 4.02 The financial statements shall consist of: Balance Sheet –Regulatory Basis; Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds - Regulatory Basis; Statement of Revenues, Expenditures and Changes in Fund Balances –Budget and Actual –General and Special Revenue Funds –Regulatory Basis.
- 4.03 There shall be included a Schedule of Capital Assets, including land, buildings and equipment, as supplemental information. The Capital Assets shall be reported net of accumulated depreciation.
- 4.04 Major governmental funds shall be defined as general and special revenue. Such funds shall be presented separately in the financial statements. All other governmental funds shall be presented in the aggregate. Fiduciary fund types shall be presented in a separate column in the Balance Sheet –Regulatory Basis.
- 4.05 Revenues, except for property taxes (see below), shall be reported in the financial statements in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. Expenditures shall be reported in the financial statements when the related liability is incurred. Such expenditures shall not include accruals for interest payable, compensated absences, prepaid expenses or inventories. Reported liabilities, except for deferred taxes, shall not include the current portion of long-term debt or deferred revenues. Property taxes shall be accrued or deferred, as applicable, in accordance with current approved guidelines issued by the Arkansas Department of Education (ADE). Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. School districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county’s abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred tax

revenue.

- 4.06 Revenues shall be reported by major sources, and expenditures shall be reported by major function.
- 4.07 Other transactions which are not reported as revenues or expenditures shall be reported as other financing sources and uses. Transactions related to the recording of installment contracts, capital leases, and significant insurance recoveries shall be reported as other financing sources. Losses resulting from the impairment of capital assets shall not be reported in the financial statements.
- 4.08 The carrying value of sinking funds, required by the provisions of a Qualified Zone Academy Bond (QZAB), shall be reported at cost. Risk disclosures of the related investments, as addressed in Governmental Accounting Standards Board Statement No. 40, shall not be included in the Notes to Financial Statements.
- 4.09 The Notes To Financial Statements (NTFS) shall include those disclosures appropriate to the regulatory basis of accounting. The NTFS shall also include the following, if applicable: summarized reporting information, if material, pertaining to component units, related organizations, and other affiliated organizations (as defined by the Governmental Accounting Standards Board), changes in private-purpose trust funds, and required disclosures related to long-term debt.
- 4.10 There shall be no Management's Discussion and Analysis.
- 4.11 The Schedule of Expenditures of Federal Awards shall be reported on the same basis of accounting as the financial statements.
- 4.12 Those payments made by the Arkansas Department of Education (ADE) on behalf of schools, but not directly to schools, shall not be recorded as revenue and expenditures by the schools. (Example: Health Insurance, contributions paid by ADE in accordance with Arkansas Code Annotated §6-17-1117.)

#### 5.00 Alternative Basis of Presentation

- 5.01 The governing body of a school district may adopt a resolution, not less than six months before the end of the school fiscal year, requiring their financial statements be presented in accordance with the standards established by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the United States Government Accountability Office. Once this resolution is made, it shall remain in effect until the governing board rules otherwise.
- 5.02 This resolution adopting the Alternative Basis of Presentation must be submitted to the Department of Education within ten (10) days of adoption by the local school board.