

PRINCIPLES OF ACCOUNTING II

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Alabama Association of School Business Officials Training

COURSE OUTLINE

Chapter 1 – Review of the Accounting Cycle

Chapter 2 – Fund Accounting

Chapter 3 – Internal Controls for Local Schools

Chapter 4 – Accounting for Local Schools

Chapter 5 – Financial Reporting for the Local
Education Agency/School Board

Course Objectives

- To provide participants with a working knowledge of:
 - ▣ Basic accounting concepts and terminology for activity fund accounting at the local school level
 - ▣ Common internal controls found within a school system

So.....why are we here today?

- According to DOJ, in past 20 years, **over 20,000 cases of public corruption** were tried with an estimated loss of \$1 Billion annually in taxpayer dollars.
- 2020 Public Trust Poll – 20% **trust** government officials to be honest, trustworthy, and accountable.
- **The Public's case in point – all found on 2020 FBI Public Corruption site relating to schools:**
 - Berkeley County School District (SC)
 - Hempstead School District (NY)
 - St. Louis College Prep Charter School (MO)
- **You, as a public employee, are in a position of TRUST!**
- Any misused or unaccounted public funds are **STOLEN from you, me, and the taxpayers.**

Course Disclaimer

- ❑ The purpose of this course is to help you learn more about the role that local school accounting plays in the overall financial picture for your school district.
- ❑ We will be applying the methods and principles we discuss by completing continuing case problems.
- ❑ The accounts we will be utilizing **MAY NOT** match the accounts you use on a daily basis.
- ❑ **Do not take what we do in this class and change your daily journal entries – we are covering examples to help you visualize the accounting cycle.**
- ❑ Always ask someone in central office for clarification when have a question if my examples confuse you as we go over them – your district may do things differently and that's ok.

How to Succeed in this Course

- ❑ Accounting is **NOT** a spectator sport therefore **you** must be willing to participate in this course and put your pencil/pen to paper when we are doing exercises/assignments.
- ❑ You will be given time to do the assignments during the presentation.
- ❑ Be willing to make mistakes and laugh at yourself. **There are no tests at the end.**
- ❑ Be willing to **laugh at me** when I make a mistake.....I am a human just like you.

Chapter 1

REVIEW OF THE ACCOUNTING CYCLE

Accounting Cycle Review

- **REVIEW OF THE ACCOUNTING CYCLE**
 - **What is accounting?**
 - **What is the accounting equation?**
 - **How does the accounting equation build the financial statements?**
 - **How does the accounting cycle work?**
 - **How does it all fit together?**

WHAT IS ACCOUNTING – REALLY?

- **recording** the results of economic transactions,
- **classifying** those transactions, and
- **presenting the information in reports**

that will allow **investors and creditors, both current and prospective**, to evaluate the entity for purposes of making economic resource allocation decisions.

Accounting and Bookkeeping Review

- **Accounting** is defined as the process of identifying, analyzing, classifying, recording, summarizing financial transactions of a governmental entity and then communicating that data. The definition also includes interpreting financial data.
- **Bookkeeping** is the process of recording financial data. The processor/bookkeeper may, to varying degrees, identify, analyze and classify this financial information.
- Accounting adds steps of summarizing, communicating and interpreting.

ACCOUNTING EQUATION

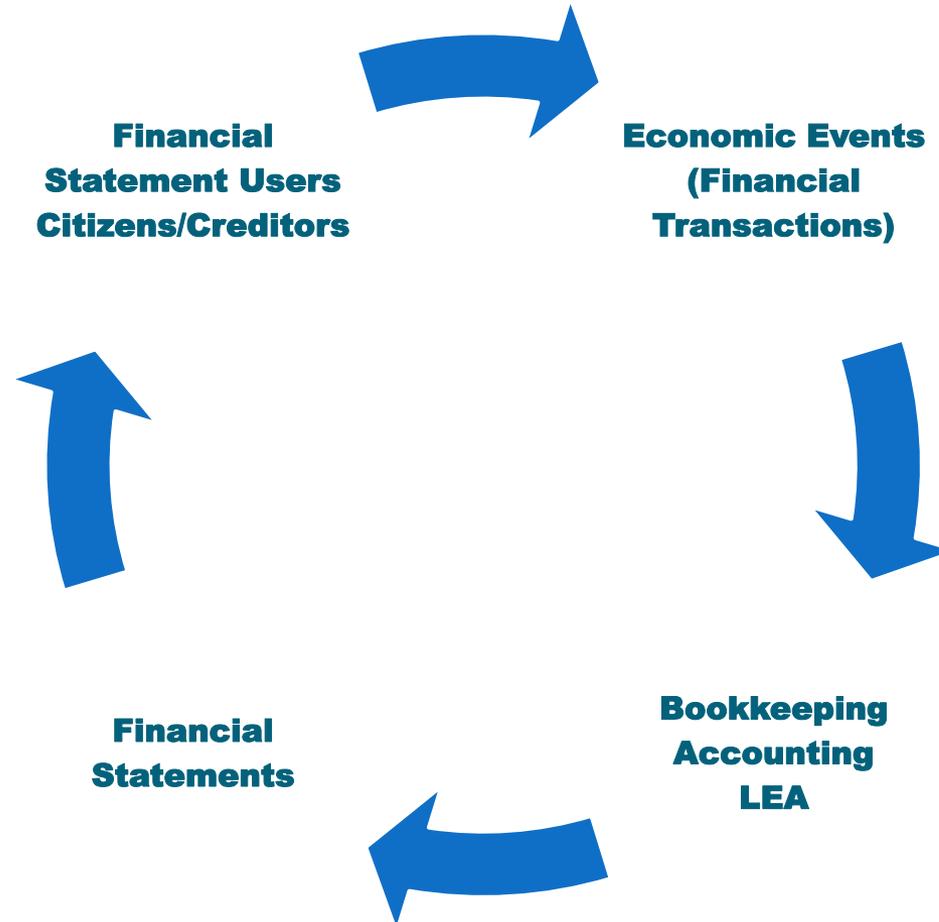
$$\underline{\text{Assets}} = \underline{\text{Liabilities}} + \underline{\text{Equity}}$$

**Reworded for LEA Accounting....
but still the same equation**

$$\underline{\text{Assets}} = \underline{\text{Liabilities}} + \underline{\text{Fund Equity}}$$

Accounting as a Communication System

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THE BALANCE SHEET

Assets – economic resources/ benefits

Liabilities – future sacrifices of economic resources/benefits

Equity – residual interest in the assets of an entity that remains after deducting its liabilities (the net assets)

Example of Classified Balance Sheet

CLASSY COMPANY Balance Sheet December 31, 20X3

Assets

Current assets

Cash	\$100,000		
Short-term investments	50,000		
Accounts receivable	75,000		
Inventories	200,000		
Prepaid insurance	<u>25,000</u>	\$450,000	

Long-term investments

Stock investments	\$ 40,000		
Cash value of insurance	<u>10,000</u>	50,000	

Property, plant & equip.

Land	\$ 25,000		
Buildings and equipment	\$150,000		
Less: Accum. depreciation	<u>(50,000)</u>	<u>100,000</u>	125,000

Intangible assets

Goodwill			275,000
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Other assets

Receivable from employee		<u>10,000</u>	
Total assets		<u>\$910,000</u>	

Liabilities

Current liabilities

Accounts payable	\$ 80,000		
Salaries payable	10,000		
Interest payable	15,000		
Taxes payable	5,000		
Current portion of note	<u>40,000</u>	\$150,000	

Long-term liabilities

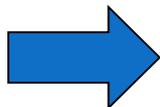
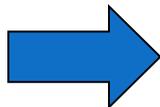
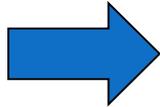
Notes payable	\$110,000		
Bank Loan	35,000		
Mortgage obligation	75,000		
Deferred income taxes	<u>80,000</u>	<u>300,000</u>	
Total liabilities			\$450,000

Stockholders' equity

Capital stock	\$300,000		
Retained earnings	<u>160,000</u>		
Total stockholders' equity			<u>460,000</u>
Total liabilities and equity			<u>\$910,000</u>

Example of LEA Balance Sheet

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	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 19,653,119
Accounts receivable, net	40,586
Property tax receivable	5,401,793
Due from other governments	817,714
Inventories	121,361
Total current assets	<u>26,034,573</u>
Capital Assets not being depreciated	
Land and improvements	8,859,215
Construction in progress	657,516
Total capital assets not being depreciated	<u>9,516,731</u>
Capital Assets	
Land improvements	3,598,969
Buildings and improvements	104,540,193
Furniture, equipment and vehicles	12,546,078
Less accumulated depreciation	(34,092,923)
Total depreciable capital assets, net of depreciation	<u>86,592,317</u>
Total assets	<u>122,143,621</u>
LIABILITIES	
Accounts payable	921,985
Deferred revenues	5,715,276
Salaries and benefits payable	3,746,414
Obligations under capital leases - due in less than 1 year	672,252
Obligations under capital leases - due after 1 year	1,294,377
Total liabilities	<u>12,350,304</u>
NET POSITION	
Invested in capital assets, net of related debt	94,142,419
Restricted for	
Capital projects	891,588
Other projects	1,891,565
Unrestricted	12,867,745
Total net position	<u>\$ 109,793,317</u>



THE INCOME STATEMENT

Revenues – inflows of assets from delivering goods or rendering services from ongoing major operating activity; increase equity

Expenses – outflows of assets from ongoing major operating activity; decrease equity

Gains – increases in equity from peripheral activities

Losses - decreases in equity from peripheral activities

Example of Income Statement

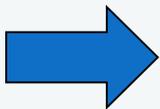
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QUARTZ CORPORATION Income Statement For the Year Ending December 31, 20X9



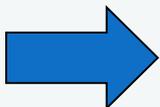
Revenues

Services to customers	\$750,000	
Interest revenue	<u>15,000</u>	
Total revenues		\$765,000



Expenses

Salaries	\$235,000	
Rent	115,000	
Other operating expenses	<u>300,000</u>	
Total expenses		<u>650,000</u>



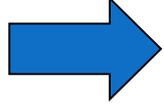
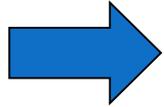
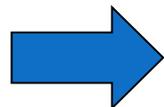
Net income

\$115,000



Example of LEA Statement of Revenues, Expenditures and Changes in Fund Balance (a Nonprofit “Income Statement”)

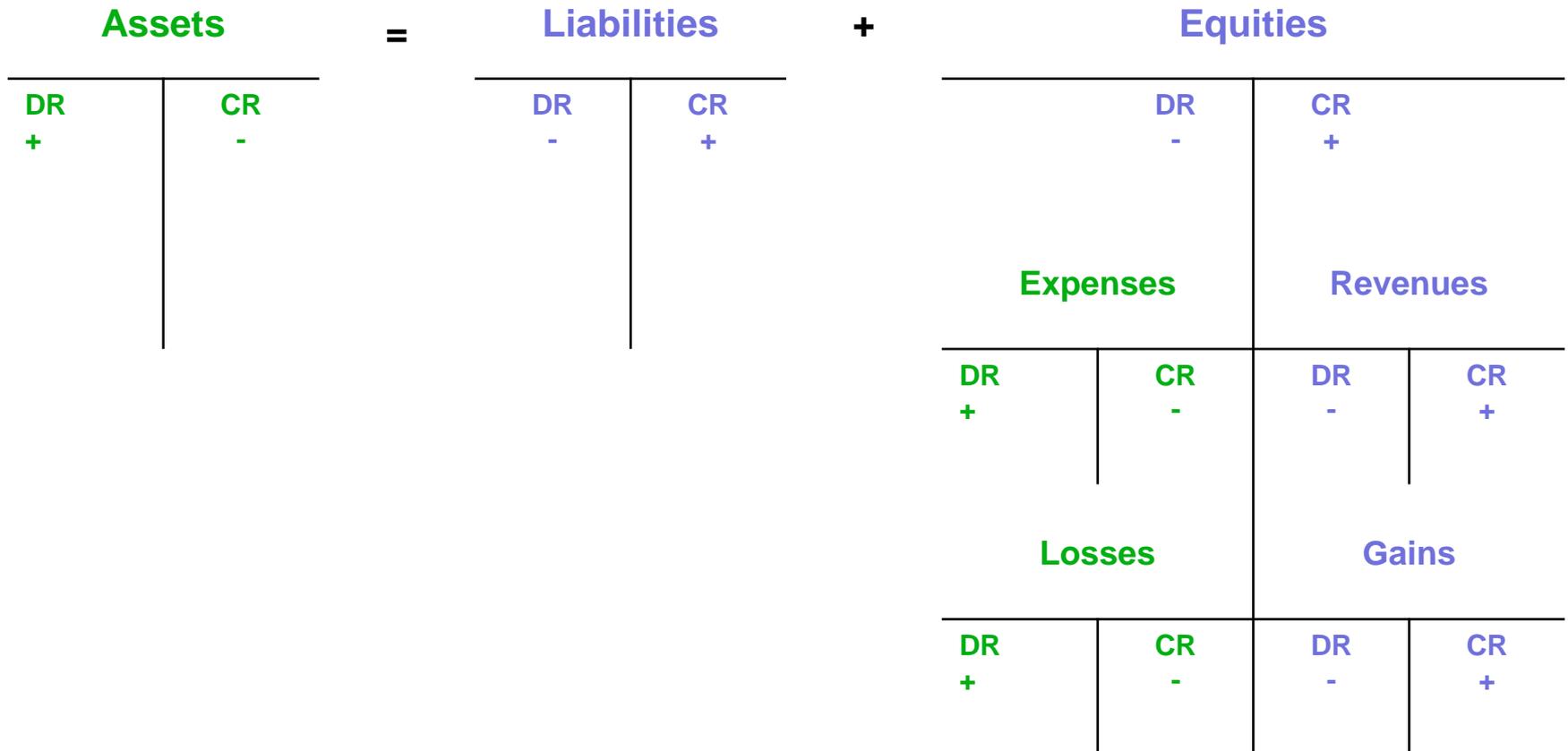
	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
State	\$ 31,099,426	\$ 1,690,671	\$ 1,000	\$ 32,791,097
Federal	73,688	-	4,344,583	4,418,271
Local	27,241,993	9,597	4,092,717	31,344,307
Other	176,482	-	157,557	334,039
Total revenues	58,591,589	1,700,268	8,595,857	68,887,714
EXPENDITURES				
Current				
Instruction	36,492,694	456,299	3,816,193	40,765,186
Instructional support	10,675,629	594,745	1,036,259	12,306,633
Operation and maintenance	4,665,100	658,495	126,720	5,450,315
Auxiliary services	3,336,550	306,871	3,946,910	7,590,331
General administrative services	2,546,672	14,979	258,426	2,820,077
Other	474,244	322	792,621	1,267,187
Capital outlay	-	5,477,068	-	5,477,068
Debt services				
Principal retirement	817,553	-	-	817,553
Interest	27,365	-	-	27,365
Total expenditures	59,035,807	7,508,779	9,977,129	76,521,715
Excess (deficiency) of revenues over expenditures	(444,218)	(5,808,511)	(1,381,272)	(7,634,001)
OTHER FINANCING SOURCES (USES)				
Transfers in	135,831	-	1,319,455	1,455,286
Proceeds from the sale of assets	13,084	-	2,165	15,249
Indirect cost	219,684	-	-	219,684
Other sources	35,533	-	1,425	36,958
Transfers out	(1,319,455)	-	(135,831)	(1,455,286)
Proceeds from the issuance of debt	1,904,630	-	-	1,904,630
Total other financing sources (uses)	989,307	-	1,187,214	2,176,521
Net changes in fund balances	545,089	(5,808,511)	(194,058)	(5,457,480)
Fund balances, beginning of year	6,846,850	9,618,373	4,643,155	21,108,378
Fund balances, end of year	\$ 7,391,939	\$ 3,809,862	\$ 4,449,097	\$ 15,650,898



The Accounting Cycle

1. Analyze the financial transactions (economic events)
2. Enter transaction into the accounting system (journal entries posted to ledger)
3. Prepare a Trial Balance
4. Prepare and enter (journalize and post) adjusting entries
5. Prepare an Adjusted Trial Balance
6. Prepare Financial Statements
7. Journalize and post year-end closing entries
8. Prepare Post-Closing Trial Balance

ACCOUNTS STRUCTURE



Closing Entries

- To transfer revenues and expense account balances to Retained Earnings account (component of equity)
- To close an account means to bring the balance to zero

Example of Closing Entry:

	<u>dr.</u>	<u>cr.</u>
Revenues	XXX	
Retained Earnings		XXX
Expenses		XXX

Post-Closing Trial Balance

- After all temporary accounts have been closed (brought to a zero balance), a final trial balance is prepared.
- **Final check to see if:**
 - ▣ The ledger is in balance (debits = credits)
 - ▣ The accounts are carrying normal balance
 - ▣ No temporary accounts have been left open (carrying a balance forward)

Post-Closing Trial Balance

Sally's School Supplies
Post Closing Trial Balance
12/31/2020

Cash	\$35,575	
Supplies Inventory	24,500	
Prepaid Rent for Copier	150	
Prepaid Insurance	480	
Equipment	18,000	
Building	110,000	
Accounts Payable		\$16,090
Notes Payable		2,000
Contributed Equity		150,000
Retained Earnings	<u>0</u>	<u>20,615</u>
Totals	<u>\$188,705</u>	<u>\$188,705</u>



$$A = L + E$$



OBJECTIVES OF FINANCIAL REPORTING

- **Assess Accountability**
- **Evaluate Operating Results**
- **Assess level of services that can be provided and ability to meet government obligations**

Accountability

- ***A government's obligation to the people for its actions and use of resources.***
- **The three objectives of accountability:**
 - ▣ **Interperiod equity**
 - ▣ **Setting and following the budget; demonstrate compliance**
 - ▣ **Ensuring efficiency and effectiveness through internal controls**

To be accountable, we follow GAAP

- GAAP stands for **Generally Accepted Accounting Principles**
- Refers to the **standard framework of guidelines** for financial accounting used in any given jurisdiction; **generally known as accounting standards or standard accounting practice**
- These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements
- **SDE and GASB set GAAP for Local Education Agencies**

Chapter 2

FUND ACCOUNTING

What is a fund?

- A **fund** is defined as a **fiscal** and **accounting entity** with a self-balancing set of accounts recording cash and other related assets, together with all related liabilities and residual net position, 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.

Funds have many purposes

- Each fund has its own accounting equation.
- Each fund has its own accounting records.
- Each fund can have its own financial statements.
- Each fund carries on specific activities or attains certain objectives in accordance with special regulations, restrictions or limitations.

THREE Types of Fund Classifications

- Governmental
- Proprietary
- Fiduciary

Governmental Funds

General Fund	Accounts for all financial resources except those required to be accounted for in another fund.
Special Revenue Fund***	<i>Accounts for and report the proceeds of specific revenue sources that are restricted or otherwise limited to expenditure for specified purpose other than debt service or capital projects</i>
Capital Projects Fund	Accounts for and reports those financial resources restricted or otherwise limited to expenditure for capital outlays (other than those financed by proprietary and trust funds)
Debt Service Fund	Accounts for and reports those financial resources that are restricted or otherwise limited to expenditure for principal and interest
Permanent Fund	Accounts for legally restricted resources provided by trust in which the earnings but not the principal may be used for purposes that support the primary government's programs

Proprietary Funds

Enterprise Fund	Accounts for operations that are financed and operated in a manner similar to private enterprises – where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 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, or other purposes.
Internal Service Fund	Accounts for financing of good 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

Custodial Fund	To account for assets held by a governmental unit acting as agent for one or more other governmental units, or for individuals or private organizations.
Pension Trust Fund	To account for assets held by a governmental unit acting as agent for employee benefit contributions that will be paid to qualified retirees, beneficiaries, and disabled employees.
Investment Trust Fund	To account for the assets, liabilities, net assets and changes in net assets corresponding to the equity of the external participants.
Private-Purpose Trust Fund	To account for legally restricted resources provided by trust which will be used for private purposes.

Number of Funds for Governments

- Governmental units 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** since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.
- Minimum Fund-Type = 1 General Fund

STUDENT ACTIVITY FUNDS

- **Co-Curricular** activities are any kinds of school-related activities **outside** the regular classroom that directly add value to the formal or stated curriculum.
- **Extra-Curricular** activities encompass a wide variety of other district-directed activities.

Activity Funds

- **Activity funds are unique to school districts.**
- The nature of activity funds makes them especially **vulnerable to error, misuse and fraud.**
- In addition, activity funds often **total to large sums of money**, especially when capturing the amounts that flow through an educational organization in the form of school board funds, student-generated funds, receipts and disbursements related to athletics, and the co-curricular and extracurricular events sponsored by school districts today.

Activity Fund Classification

- **District Activity Funds**
- **Student Activity Funds**
- **Parent Support or School Related Organization Funds**

District Activity Funds

- **District activity funds** are those funds that **belong to the district which are used to support its co-curricular and extra-curricular activities** and are administered by the school district.
- Disbursement of this type of funds rests only with the school board (designee).
- The local education agency **determines how district activity fund monies are spent** and the district programs that receive support.

Student Activity Funds

- **Student activity funds** are those funds that support activities that are based in student organizations.
- **Students not only participate in the activities of the organization, but also are involved in managing and directing the organization's activities.**
- An important distinction is that **disbursing monies from the student activity fund may be subject to approval by the student organization and its sponsor**, rather than by the board of education or principal.

Parent Support or School Related Organization Funds

- **Parent Support or School Related Organizations Funds- support curricular, co-curricular, and extracurricular activities.**
- Affiliated organizations include groups such as Parent-Teacher Associations (PTAs), Parent-Teacher Organizations (PTOs), school foundations, and athletic booster clubs.
- Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.
- **Financial records may be included in the school books and classified as non-public funds or may be maintained outside the school records depending on the board's policy.**
 - **Additional procedures should be in place for those records maintained outside the school financial reporting system.**

Funds Maintained Within Local Schools

- **Public - Fund 12**
 - **Special Revenue Fund**
- **Non-public – Fund 32**
 - **Fiduciary Trust Fund**

- **Various factors must be considered in determining the proper classification, which affects the degree of expenditure restriction.**

Public Funds

- Funds are generally classified as public funds when the **following criteria are met:**
 - Money generated **school-wide**
 - Money that can be **used for all students**
 - Money controlled by the Principal or any school employee
- These funds are restricted to the **same legal requirements** as the Local Education Agency (Board of Education) funds.

Examples of Public Funds

- **General**
- **Library**
- **Athletic**
- **Concession and Student Vending**
- **Fees**
- **Locker Fees**
- **Faculty Vending**
- **Donations**

Allowable from Public Funds

□ Include:

- Professional development training.
- Refreshments expended for an open house at a school where the public would attend.
- Pregame meals for student athletes and coaches.
- Academic incentives for students.
- Athletic and band uniforms for students to participate in school activities.
- Memberships in professional organizations.
- School landscaping, maintenance, furnishings, and decorations.
- ***Funds received from public (tax) sources or used for public purposes are public funds subject to the control of the school principal.***

Non-Public Funds

- Restricted for expenditures subject to the **intent and authorization of the organization's sponsors and officers.**
- **Not used for general operations of the school.**
- The principal does not direct the use of these funds but **does have the authority to prohibit inappropriate expenditures.**

Non-Public Funds

- Funds are generally classified as non-public funds when the **following criteria** are met:
 - ▣ Money generated for a particular group
 - ▣ Money used for that particular group
 - ▣ Money controlled by the students and/or a parental organization

Examples of Non-Public Funds

- **Clubs and Classes**
- **Courtesy or Flower Fund**
- **Athletic Fundraisers**
- **Other School Related Organizations**

Allowable Expenditures

- ❑ Food for social gatherings.
- ❑ Class prom entertainment.
- ❑ T-shirts for club members or faculty.
- ❑ Donations to various organizations.
- ❑ Transfers to other non-public accounts.
- ❑ Travel expenses to club events.
- ❑ Championship rings.
- ❑ Faculty appreciation gifts.
- ❑ Scholarships.
- ❑ Flowers for funerals.

Important to Note About Non-Public Funds

Non-public funds can become subject to the same expenditure restrictions as public funds if the accounting records do not maintain a separate account for each of the non-public funds.

When Funds are BOTH 12s and 32s

- Meaning they are **both public and non-public funds.**
 - Fund 12 for Donations and Fund 32 for Donations
- **Who has the control?**
- **Areas of Concern:**
 - **Donations**
 - **Fundraisers**
 - **Athletics**

Important Points on Public and Non-Public Funds Transferability

- Public funds cannot be transferred to non-public accounts. **If funds are transferred from public to a non-public account, then funds are considered commingled, and the non-public account becomes a public account.**
- Non-public funds can be transferred to a public account. **However, once transferred, they become public funds incurring all the legal restrictions of a public fund under state law.**

Summary of Activity Funds

- What is the cornerstone of government accounting?
 - ▣ Must have creation of **strong controls** surrounding activity funds, including assurance that all transactions are recorded and reported in district financial records.
 - ▣ **At a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error and abuse.**

Chapter 3

INTERNAL CONTROLS FOR A LOCAL SCHOOL

What are Internal Controls???

- **Methods and practices put into place to:**
 - Safeguard assets;
 - Ensure the accuracy and reliability of accounting data;
 - Promote operational efficiency; and
 - Encourage adherence to prescribed managerial policies found within the school district as well as within the school.

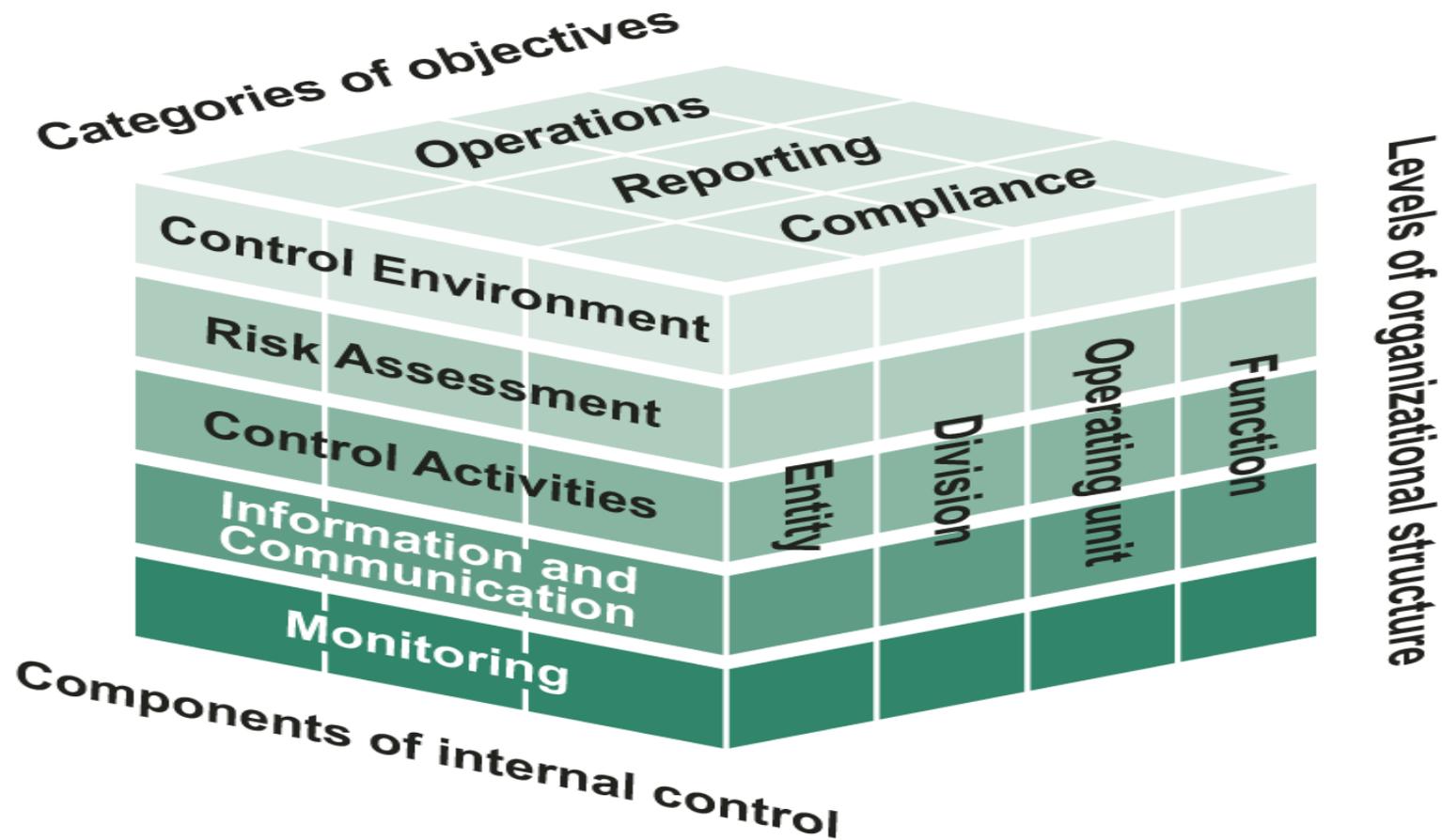
Effective Internal Control System

- Comes from the **presence of effective supervision**, which will provide the necessary reasonable assurance that the conditions of control are adequate.
- **Internal controls may be set by the local education agency or the school management, the Principal.**
- Whichever method is utilized, **the Principal is responsible for assuring compliance** by all employees within the school as well as creating a control environment that ensures **public trust and accountability**.

Overall Objective of Internal Controls

- Use and establishment of internal control procedures are basically the **checks and balance system to safeguard the interest of stakeholders** (students, parents, employees, taxpayers, etc.) as well as the **financial integrity** of the local education agency.
- **All about accountability and transparency**

2013 Committee of Sponsoring Organizations (COSO) Cube – Five Components of Internal Control



Components of Internal Control

- **Control environment**
- **Risk assessment**
- **Control Procedures**
- **Information System**
- **Monitoring**

Internal Control Procedures

- Competent, ethical personnel
 - ▣ Background checks, training, adequate compensation
- Employees with clearly defined responsibilities – job accountability
- Separation of duties
- Audits – internal and external
- Documentation – receipts, invoices

Internal Control Procedures Found at Local Schools

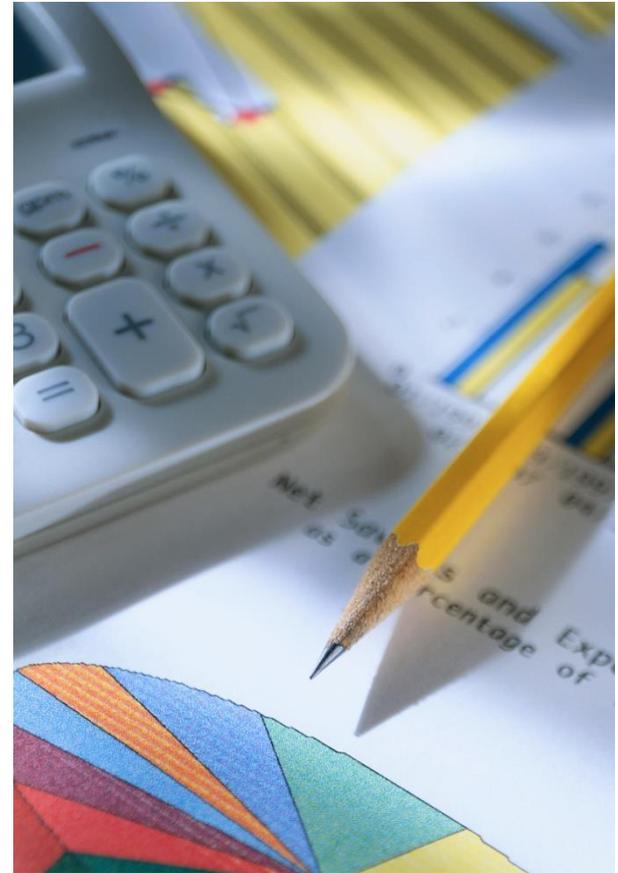
- ❑ Bookkeeping as a Function
- ❑ Chart of Accounts
- ❑ Cash Receipts
- ❑ Cash Disbursements
- ❑ Auditing
- ❑ Pre-numbered Documents
- ❑ Assignment of Responsibilities
- ❑ Separation of Duties

Bookkeepers Analyze Transactions

- What type of account(s) were affected – asset, liability, fund equity, revenue, expenditure
- What specific accounts were affected – cash, accounts payable, unreserved fund balance
- What is the change in the account balances – increase or decrease
- Does the increase or decrease in the account balance require a debit or credit entry

Chart of Accounts

- Indicates the nature of the assets, liabilities, and fund equity accounts, the sources of revenue and reasons for expenditures.
- Budgetary accounts are also both effective and efficient tools of management control ensuring that appropriations of public funds are maintained and followed.



Cash = Most Vulnerable Asset

- ❑ Cash is the most liquid asset and also the most vulnerable asset within any accounting system.
- ❑ Must have policies and procedures (internal controls) in place when dealing with cash in the workplace.



Cash Receipts

- Include all monies coming into the school.
- According to the State Department of Education, audits show that the **management of incoming funds in local schools as the primary weakness of internal controls for local school financial operations.**
- Master receipts, reports of ticket sales, teacher receipts, and alternative receipt listings are all important documentation for assuring that all funds collected for the school are deposited in the school's account.

Examples of Internal Controls over Cash Receipts

- All employees responsible for handling and recording activity fund monies should be bonded by the district.
- A system for receipting cash should be adopted that includes using pre-numbered receipt forms for recording cash and other negotiable instruments received.
- All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and **should not be used** for making change or disbursements of any kind.
- All receipts should be deposited daily. Un-deposited receipts should be well secured.

Internal Controls Over Cash Receipts

Continued

- When monies are received, a cash receipt should be prepared and the original is to be given to the person making the payment; the Cash Receipt Journal is to be kept on file in the school office. The person receiving the money must **never** write a receipt to his/herself.
- **One** deposit slip should be prepared in duplicate, listing each check separately, by recording the issuer of the check and the amount. Both should accompany the deposit to the bank to be validated by the bank teller.
- The bookkeeper should check the accuracy of the bank's validation **before** leaving the bank. The duplicate deposit slip should be returned to the school and used to verify the entry made in the Cash Receipt Journal.
- Daily receipts should be totaled and should match the total of the deposit slip.
- All money is to be deposited in a bank to the credit of one account.

Important Note

- Regardless of the method of verifying cash receipts, if cash collected is used temporarily or permanently without first being deposited following the proper internal control policies and procedures, the purpose of the internal control system and the effectiveness of its operation are destroyed.

Teacher Receipts

- Pre-numbered duplicate receipt book that is completed by teachers and staff who receive funds - original signature required

Master Receipt

- Funds collected by a teacher must be brought to the office along with the teacher receipt book - funds are then counted and verified with the amounts in the teacher receipt book - a manually prepared Master Receipt is prepared, and the original is given to the individual delivering the funds.

Bank Deposit

- When the Master Receipt is written, payments received by check should be endorsed with the words “For Deposit Only” along with the name of the school bank account and bank account number. The deposit slip should contain the Master Receipt numbers of the funds deposited. The deposit date and deposit amount should be indicated on the last Master Receipt included in the deposit. The bank should authenticate the duplicate deposit slip at the time of deposit. The duplicate deposit slip (and the bank’s deposit confirmation, if provided) must be retained for audit.

Cash Receipts Alternatives

- Primary responsibility of teachers:
 - ▣ **The education of the children of Alabama**
- Online payment of school fees
 - ▣ MySchoolBucks, PayPAMS, MySchoolFees
 - ▣ ACH deposits verified by transaction reports from online system
 - ▣ Import file generated for upload into accounting system
 - ▣ Cash and credit card payments can be accepted in classroom – receipt sent via text or email

Cash Disbursements

- Alabama local schools make a wide variety of cash disbursements utilizing public funds.
- At a national level, fraud occurs more frequently in the cash disbursement cycle than in the cash receipt cycle.
- **A large part of the bookkeeper's job of avoiding opportunity for fraud and safeguarding public funds functions around an orderly process by which cash disbursements are made.**

Internal Controls Over Cash Disbursements

- Expenditures are incurred only under the authorization of the Principal.
- Expenditures will be paid by check disbursed at the local school level and supported by proper documentation.
- Purchases will be approved by the Principal (with a signed purchase order when required) before the purchase is made.
- Accounting records will be posted daily.

Internal Controls Over Cash Disbursements Continued

- The activity at the local school is summarized at the end of every month and compiled into monthly financial statements.
- The financial statements report on transactions that affect accounts throughout the month.
- These monthly financial statements are submitted to the Board of Education according to a scheduled date each month.

Purchase Orders As Internal Controls

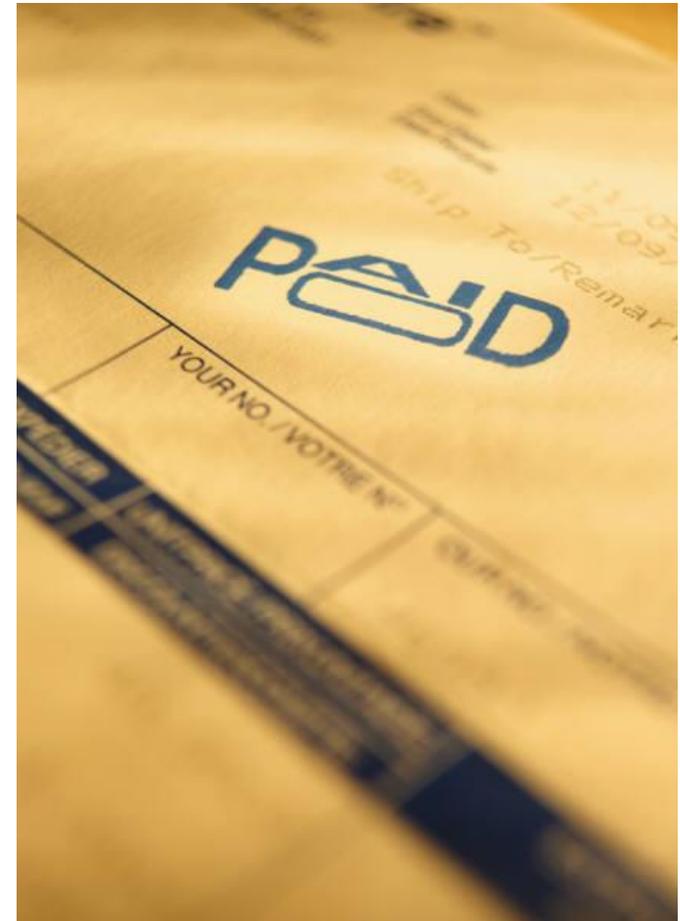
- From the **principal's** perspective, a purchase order allows the Principal to approve expenditures prior to purchase.
- From the **vendor's** perspective, a purchase order provides protection to the vendor for not charging Alabama sales tax on the school's purchases if the State of Alabama Department of Revenue audits the vendor's books.
- From the **bookkeeper's** perspective, a completed, pre-numbered purchase order approved by the Principal before the purchase of materials, supplies, or equipment allows the bookkeeper to show adherence to school board policies and procedures as well as maintains accountability within their job description.
- **A purchase order register should be maintained to account for all purchase orders.**

Invoices as Internal Controls

- ***Helps with verifiability:*** the ability to see how an entity arrives at a certain result from the data it provides on financial reports.
- **An invoice should be obtained for each purchase before payment is made.**
- **The vendor invoice should include:**
 - Date of purchase
 - **Pre-printed or embossed name and address of the vendor listed clearly on invoice**
 - A good description of the purchase (more the better)
 - Itemized listing of items purchased along with item price
 - Shipping and handling charges
 - No tax collected
 - Total amount of the purchase.

Payment of Invoices

- Before payment is made, **invoices should be matched against the applicable purchase order so that documentation can be provided to the principal before checks are signed and payment is offered to the vendor.**



Expenditures

- **Payments for school expenditures should be made from the school's checking account with the Principal acting as the maker of the check instrument. Also:**
 - **Never write checks to “Cash”.**
 - Checks must be used in numerical order and any voided checks must be retained for audit purposes and clearly marked “**VOID**” on the check face in large letters.
 - Checks should be filled out in their entirety including the recipient's name and amount of check before signature by the Principal.
 - Invoices and supporting documents should be provided with the check to be signed and marked “**PAID**” when the check is signed and filed for accounting verifiability.
 - Checks must be secured at all times within the bookkeeper's desk and only authorized personnel allowed access to the secure area where checks are held.

Bank Reconciliation

- Considered an internal control procedure over Cash.
- Reconciles as of a specific date, normally the end of the month, **any differences between Cash in the funds and cash according to the bank's records.**
- Due to timing differences, there may be a difference in the *balance on the bank statement vs. the balance in the Cash account on the school's books.*
- **It is also possible (perhaps likely) that neither reported balance before the bank reconciliation is the true balance.**
- ***Both balances may need adjustment in order to report the true amount of cash.***

Common Terms Found on Bank Recon

- **Deposits in Transit**
- **Outstanding Checks**
- **Bank or Service Charges**
- **Non-Sufficient Fund Checks (NSF checks)**

Format of a Bank Reconciliation

Ending balance per bank statement	\$50,739.57
Add: Deposits in transit (and similar receipts entered on company records but not yet reported on the bank statement)	XX,XXX.XX
Deduct: Outstanding checks (and similar disbursements entered on company records but not reported on the bank statement)	<u>X,XXX.XX</u>
Correct cash balance	<u><u>\$XX,XXX.XX</u></u>

Must equal


Ending balance per company records	\$47,535.30
Add: Interest (and similar receipts reported on the bank statement but not entered on company records)	XX,XXX.XX
Deduct: NSF checks (and similar disbursements reported on the bank statement but not entered on company records)	<u>X,XXX.XX</u>
Correct cash balance	<u><u>\$XX,XXX.XX</u></u>

Requires a debit to adjust Cash account



Requires a credit to adjust Cash account



Journal Entries for Bank Reconciliation

- Journal entries are necessary for the economic events that affect the BANK BALANCE for the bank reconciliation.
- You are updating the BOOK BALANCE CASH amount to be reconciled to the adjusted balance shown on the reconciliation.
- Depending on how the BANK BALANCE is affected (Cash Increased or Decreased) helps determine the following journal entry needed:

Date	Account Titles and Explanations	Ref.	Debit	Credit
	Cash		XXX	
	Accounts Affected		XXX	
	Accounts Affected			XXX
	Cash			XXX

Red Flags for Concern

□ **Employee Red Flags**

- Employee lifestyle or behavioral change
- Significant personal debt and credit problems
- **Refusal to take vacation or sick leave**
- Lack of segregation of duties in vulnerable areas.

□ **Records and Reports Flags**

- Large number of write-offs of accounts
- Discrepancies between bank deposits and postings
- Excessive or unjustified cash entries and/or adjustments
- No supporting documentation for adjusting entries
- Incomplete or untimely bank reconciliations.

More Red Flags....

- ❑ **Cash Receipts and Disbursements Flags**
 - ❑ **Lack of segregation of key duties**
 - ❑ **Deposits not made intact**
 - ❑ **Cash receipts issued out of sequence**
 - ❑ **No cash receipt log kept**
 - ❑ **Uncontrolled access to blank checks.**



Cash Disbursement Alternatives

- **Purchasing cards**
 - Develop strong controls around access and use of p-cards
 - MCC restrictions can prevent use of card at certain merchant types
- **Centralized cash disbursement (NextGen procedures)**
 - For districts with centralized accounting, bookkeeper can create invoice batch and input invoices at each school
 - Bookkeeper merges invoice batch
 - Weekly, central office selects payments from all merged batches
 - Processes payment from CO account and books bank transfers as needed
- **ACH payments**
 - Reduces check stock and postage
 - Vendor payments received more quickly
 - Reduces outstanding check list and bank reconciliation issues

Summary of Internal Controls

- **Accurate, reliable, and verifiable financial statements**
- **Procedures that help** safeguard the assets, financial resources and the integrity of every employee charged with the responsibility of handling public monies.
- **When an internal control procedure is used merely as a “form process”** or because it has been used in the past or because it is a form provided by a governmental agency, accounting and related bookkeeping functions can become a matter of rote and not serve the purpose of the employee understanding their function and place in the internal control system.

Chapter 4

ACCOUNTING IN THE LOCAL SCHOOLS

ACCOUNTING – RECAP OF DEFINITION

- **recording** the results of economic transactions,
- **classifying** those transactions, and
- **presenting the information in reports**

that will allow **investors and creditors, both current and prospective**, to evaluate the entity for purposes of making economic resource allocation decisions.

Local School Accounting

- Schools must “**maintain an accounting system in accordance with generally accepted accounting principles and governmental accounting standards**” (SDE Administrative Code 290-2-5-.02(a)1).
- Financial accounting and bookkeeping assist management in fulfilling management’s stewardship responsibility by providing **regular, complete, accurate, and detailed financial reports (on a monthly and annual basis) in an understandable and useful basis for the citizenry to assess how management allocated and used the resources.**

Accounting Cycle for Local Schools

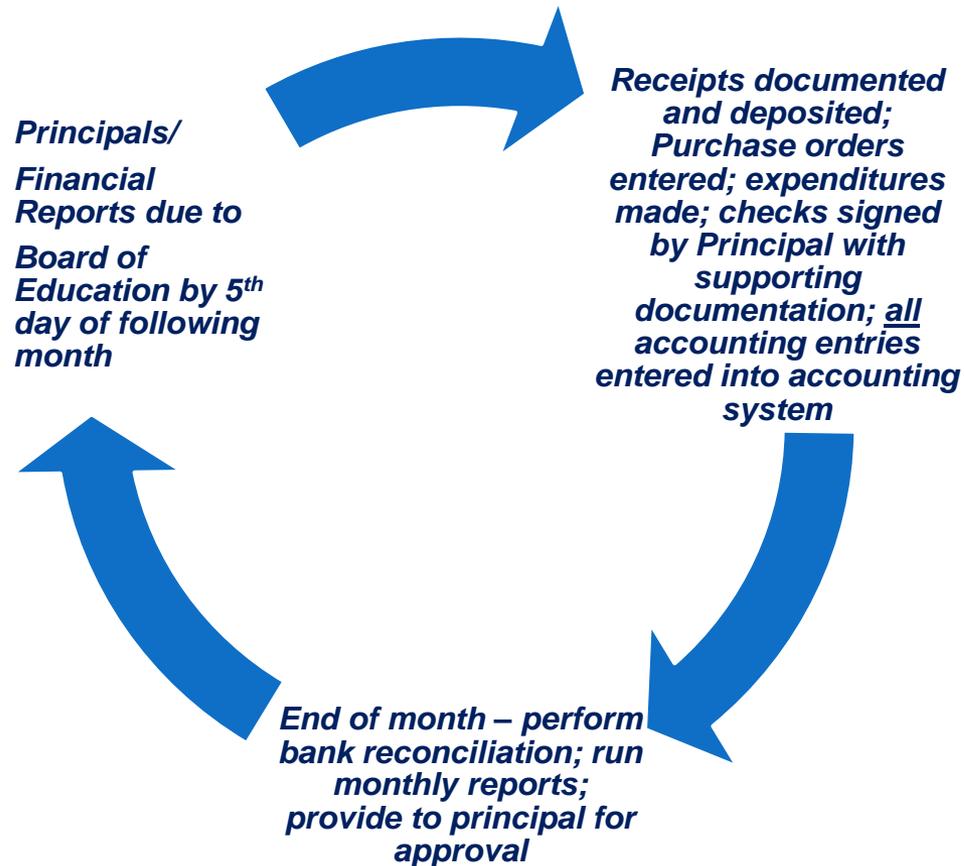


Chart of Accounts for ALSDE

- Alabama Department of Education adopted a computerized accounting system that was designed to serve as a flexible tool to meet the needs of all school systems within the State of Alabama.
- The 27-digit code, with 9 components, provides a **common means of communication to be used in planning, recording, accumulating, controlling, and reporting the financial activities of the school systems within the state.**

Account Code Components

A - B - C - D - E - F - G - H - I

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

A: Fund (2)

B: Account Type (1)

C: Function (4)

D: Object (3)

E: Cost Center (4)

F: Fund Source (4)

G: Appropriation Year (1)

H: Program (4)

I: Special Use (4)

Fund

- XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX
- Public (12)
- Non Public (32)

Account Type

- XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX
- Assets (1)
- Liabilities (2)
- Fund Equity (3)
- Revenues (4)
- Expenditures (5)

Function

XX-X-~~XXXX~~-XXX-XXXX-XXXX-X-XXXX-XXXX

Revenues

- Public (7110-7490)
- Non-Public (7510-7910)
- Transfers In (92XX)
- Interest (6810)

Expenditures

- Instruction (1100)
- Student Support (2110-2190)
- Instructional Staff Support (2210-2290)
- School Administration (2310-2390)
- Operation & Maintenance (3100-3900)
- Student Transportation (4110-4190)
- Other Expenditures (9800)
- Transfers Out (9910)

Object

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

- Personnel Services (001-199)
- Employee Benefits (200-299)
- Purchased Services (300-399)
- Materials & Supplies (400-499)
- Capital Outlay (500-599)
- Other Objects (600-899)
- Other Fund Use (900-997)

Cost Center

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

- Identifies the location
- Each school has its own number
- Your school “number” is **the only one you should know and use** (unless you work in the central office)

Fund Source

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

- Public (7101)
- Non-Public (7501)

- Remember that once nonpublic funds are commingled with public funds, they become public so making sure the funding source is accurate is a very important step in activity fund accounting.

Appropriation Year

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

- Current year appropriations (0)
- Local schools should not use any other year so **“0” is all you should use.**

Program

XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX

- Regular Education (1000-1999)
- Special Education (2000-2999)
- Vocational/Technical Education (3000-3999)
- Non-Regular Day Education (4000-5999)
- Program Pool (8000-8999)
- Non-Instructional (9000-9997)

Special Use Code

- **XX-X-XXXX-XXX-XXXX-XXXX-X-XXXX-XXXX**
- Always need a special use code for checks cut to Central Office
- Substitutes (1047)
- Postage (1048)
- Transportation checks (1050)
- Phone bills (1051)
- Reimbursements (1054)

Receipt of Funds Journal Entry

- When a bookkeeper receives cash or a check, the bookkeeper will be inputting the following basic entry into the accounting system:

Cash

XXX

Revenue

XXX

- This can be done either through several journal entries or one compound journal entry
- The **correct coding and funding source** must be considered in order to answer which specific accounts were affected.

Local School Revenue Chart of Accounts

Local School Revenue Sources (7000-7999)

Local School Revenue – Public (7000-7400) 12

Admissions	7110
Appropriations	7140
Concessions	7180
Commissions	7220
Dues & Fees (Required)	7260
Fines & Penalties	7300
Fund Raiser	7340
Grants	7380
Sales	7420
Donations	7430
Accommodations	7440
Other	7490

Local School Revenue – Non-Public (7500-7999) 32

Concessions	7510
Dues & Fees (Self-imposed)	7610
Fund Raiser	7710
Donations	7810
Accommodations	7850
Other	7910

Other Revenue Coding Options

- Transfers In (92xx)
- Other Local Revenue (69xx)
- Interest (6810)
- Legislative Special Appropriations (1760)

Expenditures of Funds

- Expenditures are the results of spending funds.
- Within the local schools, expenditures will be paid by check, signed by the Principal, and supported by proper documentation.
- Purchases will also be approved by the Principal (with a signed purchase order when required) before the purchase is made.
- Accounting records should be posted daily.
- Monthly financial reports reflecting accurate balances and activities of the accounts of the school should be reviewed and approved by the Principal.

Expenditure Journal Entries

When a bookkeeper creates a purchase order, the bookkeeper will be inputting the following basic entry into the accounting system:

Encumbrances	XXX	
Reserved for Encumbrances		XXX

Once the order is received, this journal entry is reversed in order that the invoice may be paid.

Reserved for Encumbrances	XXX	
Encumbrances		XXX

When a bookkeeper makes a payment using a check, the bookkeeper will be inputting the following basic entry into the accounting system:

Expenditure	XXX	
Cash or Accounts Payable		XXX

Expenditure or Function Codes

- **The areas are:**
 - **Instruction (1100)**
 - **Student Support (2110-2190)**
 - **Instructional Staff Support (2210-2290)**
 - **School Administration (2310-2390)**
 - **Operation & Maintenance (3100-3900)**
 - **Student Transportation (4110-4190)**
 - **Other Expenditures (9800)**
 - **Transfers Out (9910)**

What if you do not know which code to use????

- **When in doubt, bookkeepers must ask the Chief Financial Officer, or a designated employee for local schools within the central office, for clarification on how to code non-routine expenditures to avoid coding edits that may affect month-end or year-end close out procedures.**
- This is the application of GAAP.
- This is also an important internal control procedure.

Accounting for Activity Funds - Recap

- Policies relating to student and district activity funds **should be in writing** and distributed to all activity fund supervisors, sponsors, and accounting personnel. A useful set of general policies includes **at least** the following:
 - ▣ All activity funds should be subject to sound internal control procedures.
 - ▣ All activity funds should be accounted for on the same fiscal year basis as all other school district funds.
 - ▣ All activity funds must be audited and subject to well-defined procedures for internal and external auditing.
 - ▣ All employees responsible for handling and recording activity fund monies should be bonded by the district.

Accounting for Activity Funds - Recap

(continued)

- ❑ One or more activity fund supervisors should be formally designated by the board of education.
- ❑ Depositories for student activity funds should be approved by the board of education and be further subject to the same security requirements as all other board funds.
- ❑ All activity funds should operate on a cash basis, meaning that no commitments or indebtedness may be incurred unless the fund contains sufficient cash.
- ❑ A system of purchase orders and vouchers should be applied to all activity funds that requires written authorization for payment and should be strictly enforced.
- ❑ A system for receipting cash should be adopted that includes using pre-numbered receipt forms for recording cash and other negotiable instruments received.
- ❑ All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and should not be used for making change or disbursements of any kind.
- ❑ Copy of minutes from all meetings of the activity fund should be filed with bookkeeper each month.

Accounting for Activity Funds - Recap

(continued)

- All receipts should be deposited daily. Un-deposited receipts should be well secured.
- A system for disbursing funds that includes using pre-numbered checks and multiple original signatures (no signature stamps) should be adopted as the sole means for disbursing activity fund monies.
- A perpetual inventory should be maintained on pre-numbered forms, receipts, and other documents to create an adequate audit trail.
- Bank statements for activity funds should be reconciled as soon as they are received.
- Using activity fund receipts to cash checks to accommodate individuals, to make any kind of loan, to pay any form of compensation directly to employees, or to extend credit should be strictly prohibited.
- Monthly financial reports on all activity funds should be prepared and submitted to the administration and the board of education. A full reporting of activity funds should be included in the district's annual financial statements.
- Student activity fund monies should benefit those students who have contributed to the accumulation of such monies.
- A board-approved process should be specified for all fundraising activities, and any fundraising event should require advance approval.

Lines of Authority for Activity Funds

- Controls include establishing lines of authority and a set of policies to guide the operation of all activity funds.
- Proper control begins with the appropriate recognition of lines of authority over all monies handled by the school district.
- The following slides detail the ideal line of authority within the Alabama local schools starting with the Local Education Agency/Board of Education – this was taken from the National Center for Education Statistics (NCES).

Lines of Authority for Alabama LEAs Regarding Activity Funds

Board of Education

Adopt policies to govern the establishment and operation of all activity funds.

Superintendent of Board of Education

Directly responsible for administering all Board Policies.

Chief Financial Officer

Overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the Board. Also responsible for implementing and enforcing appropriate internal control procedures.

Lines of Authority for Alabama LEAs Regarding Activity Funds

Principal

Activity Fund supervisor for that school. Overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and adequately supervising all bookkeeping responsibilities. Should be a signatory of all disbursement, including checks drawn on the activity fund.

Sponsors

Responsible for supervising all activities of the organization including approving student activity fund transactions. Should be employees of the district and under the direct control of the Principal.

Parent Support Organization Officers

Responsible for the activities of the organization and assurances they follow their bylaws and established laws, regulations and board policies for the operations of the organization.

Common Accounting Activities

- Fundraisers
- Ticket sales
- Concessions
- Commissions
- Others.....

Accounting for Ticket Sales

- Wherever admission is charged, tickets should be sold for admission to the school-related event.
- The use of tickets for admission events is an **internal control procedure** that assures that entrants to events paid the same admission fee.
- From an accounting perspective, all admission revenues are **deposited in the school's bank account**.
- Pre-numbered tickets may be printed for a specific event or may be sold from a roll of generic tickets.

Report of Ticket Sales

- The report of ticket sales form should contain the following information:
 1. Name of the event.
 2. Date of the event.
 3. A line for the name or signature of the person receiving the tickets for sale.
 4. The beginning and ending ticket numbers of the tickets issued.
 5. The beginning and ending ticket numbers of the tickets not sold.
 6. A line for the signature of the person receiving the unsold tickets and cash collected.
 7. A space for reconciling collections based on ticket sales to actual cash returned.

Bookkeepers Role in Ticket Sales

- Issue Master Receipts for cash collected.
- Issue Master Receipt for change cash.
- **Verify that individuals are aware that they must not use cash collected or change cash to cash any checks, including school checks issued for officiating, security, ticket sellers, or ticket collectors.**
- Deposit funds intact.
- Input journal entries in system to show economic event occurrence.

Mountain Brook City Schools Ticket Sales Report

**Pre-Numbered tickets must be used for all events where admission is charged.
A separate form must be used for each admission gate/booth.**

Attach original first and last tickets to this form as verification of beginning and ending ticket numbers.

Complete yellow sections when issuing tickets and change cash/seed.

Complete green sections after event.

EVENT: **DATE(S):**

GATE/BOOTH #: **ISSUED TO:**

SCHOOL: **TICKETS/SEED REC'D:**
Signature of Gate/Booth Worker verifying tickets/seed received

ROLL #1 ISSUED
Ticket Numbers Issued: to @ each Ticket Color

Total # Tickets

Ticket Numbers Returned: to @ each

ROLL #2 ISSUED
Ticket Numbers Issued: to @ each Ticket Color

Total # Tickets

Ticket Numbers Returned: to @ each

ROLL #3 ISSUED
Ticket Numbers Issued: to @ each Ticket Color

Total # Tickets

Ticket Numbers Returned: to @ each

ROLL #4 ISSUED
Ticket Numbers Issued: to @ each Ticket Color

Total # Tickets

Ticket Numbers Returned: to @ each

	Total # Tickets Sold	\$ Amount Per Ticket	Collections Expected Per Roll
Roll #1			
Roll #2			
Roll #3			
Roll #4			
	Total Sales		

Change Cash Issued/Seed	
Total Cash Turned In	
Total Turned in for Sales	
Total Sales	
Variance	

Initials of Worker Verifying Amt Turned In



	Initials	Date
Tickets Issued by:		
Change Cash/Seed Issued by:		

Total Sales/Receipts verified by:
Date: Revised: 12/2/09

Mountain Brook City Schools
Ticket Sales Master Reconciliation Report

Gate /Booth #	Total Change Cash/ Change Cash Funds*	Total Sales Expected	Total Receipts received (Including Change Cash	Variance
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
	\$0.00			

*attach copy of change cash purchase order and check

**GL # change cash was drawn from: 12-1-0115-000-00 - 7101-0-0000-
32-1-0115-000-00 - 7501-0-0000-

TOTAL AMOUNT OF DEPOSIT				DATE DEPOSITED
VARIANCE FROM TOTAL RECEIPTS RECEIVED				SHOULD BE ZERO

VERIFIED BY:



Deposit Receipt Posting		\$0.00	Total Deposit from above
		\$0.00	Seed Money - Post to FC 0115*
		\$0.00	Total Gate Receipts Revenue -
		\$0.00	Post to activity gate receipts account line

Ticket Sales Alternatives

- Online ticketing
 - HomeTown Ticketing, GoFan
 - Contactless ticket scanning
 - Eliminates cash from ticketing
 - Revenue reporting to balance with ACH deposits
 - Import file generated for entry into accounting system
 - Athletic events, drama, show choir, etc.

Accounting for Fundraising

- Fundraising activities could include vending operations, bookstores, pictures, concessions, carnivals, book sales, candy sales, magazine sales, walk-a-thons, car washes, bake sales, or more involved outside activities such as golf tournaments.
- **Do not include** membership dues, fees, fines, ticket sales for sanctioned athletic events, activity fees, and similar fees. (These are co-curricular.)
- The Principal **must approve each school fundraising activity** conducted by students, teachers, school employees, or school-related organizations.

Fundraising Approval

1. Date of the request.
2. Name of the individual making the request.
3. Activity account to receive proceeds from fundraiser.
4. Class, club, or organization that will conduct activity, if applicable.
5. Name of fundraising project.
6. Beginning and ending dates of fundraiser.
7. Description of fundraising activity, such as: name of company supplying items for sale; description of items for sale; estimated cost of items for sale; sales price of items; description and estimated cost of related fundraiser expenses; description of method of sales and collections; estimated profit from fundraiser; and purpose of fundraiser.

Bookkeepers Role in Fundraising

- Make sure approval form is submitted and signed.
- Issue Master Receipt for funds collected.
- Verify that all income is accounted for from fundraiser.
- Verify that all expenditures related to fundraiser are accounted for from fundraiser and processed in normal payment methods for expenditures.
- Make deposits in timely basis.
- Verify that the Principal is given a form of reconciliation of fundraising process.

Mountain Brook City Schools

Fund Raiser Accountability Procedures



A file on each fund raiser must be maintained in the financial office of each school.

NOTE: A fund raiser may also require ticket sale accountability documentation.

Fund Raiser Authorization Form completed by teacher/sponsor/responsible party, submitted to Principal at least 30 days in advance. If same fund raiser has been held in previous years, prior reconciliation should be reviewed to ensure fund raiser was profitable.



Fund Raiser may not begin until authorization form has been reviewed/signed by all necessary parties.

Principal:

Does/does not approve fund raiser.



If Principal approves - form is forwarded to CFO at Central Office (CFO will review and forward to Superintendent for approval). Form is returned to school bookkeeper after Superintendent review.

If Principal does not approve - form is forwarded to Bookkeeper for notification/filing.

Bookkeeper:

Forwards copy of authorization form to requestor notifying them of decision.



Start a file for the fund raiser. (If fund raiser is not approved - file is complete.)

Coordinate with responsible party to secure requisitions, generate purchase orders, ticket sale forms (if applicable), secure receiving documents and invoices.

Fund Raiser Accountability Report completed by responsible party and/or bookkeeper.

Bookkeeper:

Coordinate with responsible party after completion of fund raiser to complete. Accountability Report - Print supporting documentation (detailed activity reports). Complete ticket sales reconciliation documentation - if applicable. Forward to Principal for review and signature.



Principal:

Review Accountability Report, sign and return to Bookkeeper.

Bookkeeper:

File accountability report and supporting documentation in fund raiser file.

Fund raisers must be authorized no less than 30 days in advance. 

School: _____

Start Date: _____ 

Dec		2009					
Sun	Mon	Tue	Wed	Thu	Fri	Sat	
29	30	1	2	3	4	5	
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	
27	28	29	30	31	1	2	
3	4	5	6	7	8	9	

End Date: _____ 

Dec		2009					
Sun	Mon	Tue	Wed	Thu	Fri	Sat	
29	30	1	2	3	4	5	
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	
27	28	29	30	31	1	2	
3	4	5	6	7	8	9	

The following fund raiser is proposed by _____

Organization/Group/Class _____ 

to raise funds for: _____

Project/Purpose of Funds Raised _____

This fund raiser has been held in prior ye _____

Yes

No

Identify below all elements involved in this effort, i.e. company name, type of merchandise, place of sale, sale price, projected profit, and any other pertinent details.



Requested by: _____

Name _____ 

Date _____

Principal's Action: Approved _____

Not Approved _____ 

Principal's Signature _____

Date _____

CFO Review: _____

CFO's Signature _____

Date _____

Superintendent: Approved _____

Not Approved _____

Superintendent's Signature _____

Date _____

NOTE: Authorization forms (approved and unapproved) must be maintained with school financial records. An accountability report must be completed and attached upon conclusion of approved fund

Bookkeeper _____

_____ Copy of completed form forwarded to requesting pa _____

File Started _____ 

_____ Requisitions Received _____

_____ PO's generate _____

_____ Accountability Report completed _____

← Lines of authority

Monthly Financial Reporting

- The monthly financial reports serve as the source of information necessary for the Principals to properly manage the schools.
- Accounting records are the basis of the monthly financial reports; therefore, it is essential that each school's records are **accurate, current, and they exhibit the true financial position of the school funds.**
- Monthly financial statements are submitted to the Board of Education according to a scheduled date each month, normally at the beginning of the month, for the previous month financial transactions.

Trial Balance

- List of all the ledger accounts with their respective balances at a point in time.
- Should be prepared to determine if general ledger debit and credit balances are equal.
- The trial balance is normally used to verify the accuracy of posting.
- Normally, the first step in the preparation of financial statements and reports.

Monthly Financial Reports

- The School Fiscal Accountability Act (No. 2006-196) requires local boards of education to post monthly financial reports and annual school budgets on the board of education's website.
 - ▣ Copy of bank statements signed by Principal.
 - ▣ Return check form signed by Principal.
 - ▣ Bank Reconciliation Report signed by Principal.
 - ▣ Savings Account Bank Reconciliation Report signed by Principal.
 - ▣ Journal Entry Listing for Fixed Assets Reports
 - ▣ Fixed Asset Inventory Cards
 - ▣ Monthly Financial Report signed by Principal
 - ▣ Open Purchase Order Report.
 - ▣ Copies of checks (and supporting documentation)
 - ▣ Copies of student refund checks

Activity Fund Reports

- Monthly report of cash receipts and disbursements to the activity fund should be prepared and reviewed by the activity fund supervisor and submitted to school district office including:
 - ▣ Beginning Cash Balance
 - ▣ Cash Receipts
 - ▣ Cash Disbursements
 - ▣ Ending Cash Balance
 - ▣ Unpaid Purchase Orders
 - ▣ Unencumbered Cash

Activity Fund Reporting (continued)

- School bookkeeper should prepare a monthly financial report for EACH student organization showing the organization's:
 - ▣ Cash receipts
 - ▣ Cash disbursements
- Should be reviewed by activity fund supervisor and submitted to the organization sponsor for review of the sponsor's records.
- Internal audits should be performed periodically to verify the records are accurate.

Chapter 5

FINANCIAL REPORTING FOR THE LOCAL EDUCATION AGENCY

Financial Reporting at System Level

- **Financial report users represent a diverse, multiple constituencies including:**
 - **Investors**
 - **Creditors,**
 - **Legislative and oversight bodies,**
 - **The Citizenry**

Difference of Opinion

CITIZENS - -

“Government should operate like a business”

PUBLIC EMPLOYEES –

“Government is not business. What works for business does not work for government.”

Accountability – GASB Objectives

1. **Interperiod Equity** – whether CY revenues were sufficient to pay for CY services.
2. **Budgetary and Fiscal Compliance** – whether resources were obtained and used in accordance with the entity's legally adopted budget.
 - Should also demonstrate compliance with all finance-related legal or contractual requirements.
3. **Service Efforts and Accomplishments (SEA)** – financial reporting should provide information to assist users in assessing the SEA of the governmental entity.
 - Helps users assess:
 - **Economy**
 - **Efficiency**
 - **Effectiveness**

GASB 34

- In June 1999, GASB issued GASB 34 – *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*.
- It established that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:
 - **Management’s discussion and analysis (MD&A).**
 - **Government-wide financial statements – including Statement of Net Assets and a Statement of Activities:**
 - **Fund financial statements**
 - **Notes to the financial statements**

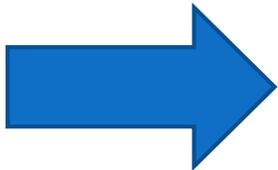
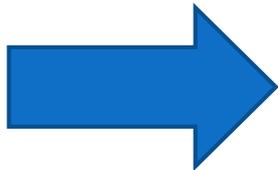
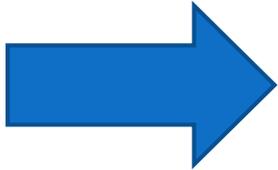
LEA Financial Statements

- **Comprised of three components:**
 - ▣ Government-wide financial statements - designed to provide readers with a broad overview of the Board's finances as a whole - in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status.
 - ▣ Fund financial statements.
 - ▣ Notes to the basic financial statements.

Government-Wide Financials for LEA

- The ***Statement of Net Position*** - PAGE 68 IN MANUAL - most closely related to a balance sheet. It presents information on all of the Board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets.
- The ***Statement of Activities*** – PAGE 69 IN MANUAL - most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board.

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 19,653,119
Accounts receivable, net	40,586
Property tax receivable	5,401,793
Due from other governments	817,714
Inventories	121,361
Total current assets	<u>26,034,573</u>
Capital Assets not being depreciated	
Land and improvements	8,859,215
Construction in progress	657,516
Total capital assets not being depreciated	<u>9,516,731</u>
Capital Assets	
Land improvements	3,598,969
Buildings and improvements	104,540,193
Furniture, equipment and vehicles	12,546,078
Less accumulated depreciation	<u>(34,092,923)</u>
Total depreciable capital assets, net of depreciation	<u>86,592,317</u>
Total assets	<u>122,143,621</u>
LIABILITIES	
Accounts payable	921,985
Deferred revenues	5,715,276
Salaries and benefits payable	3,746,414
Obligations under capital leases - due in less than 1 year	672,252
Obligations under capital leases - due after 1 year	1,294,377
Total liabilities	<u>12,350,304</u>
NET POSITION	
Invested in capital assets, net of related debt	94,142,419
Restricted for	
Capital projects	891,588
Other projects	1,891,565
Unrestricted	12,867,745
Total net position	<u>\$ 109,793,317</u>



Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Total Governmental Activities
Governmental activities					
Instruction	\$ 41,907,026	\$ 1,141,985	\$ 24,433,670	\$ 501,124	\$ (15,830,247)
Instructional support	12,273,077	422,223	5,729,013	113,887	(6,007,954)
Operation and maintenance	5,484,664	115,222	1,138,907	774,098	(3,456,437)
Auxiliary services					
Student transportation services	3,294,864	143,501	2,072,036	306,871	(772,456)
Food services	3,515,856	2,776,150	154,754	-	(584,952)
General administrative services	2,762,156	4,696	438,238	-	(2,319,222)
Other	1,047,261	749,679	296,402	-	(1,180)
Interest and fiscal charges	27,363	-	-	-	(27,363)
Total governmental activities	<u>\$ 70,312,267</u>	<u>\$ 5,353,456</u>	<u>\$ 34,263,020</u>	<u>\$ 1,695,980</u>	<u>(28,999,811)</u>
General revenues					
Taxes					
Property taxes for general purposes					11,349,945
Local sales taxes					5,361,188
Alcohol beverage tax					523,749
Other taxes					55,015
Grants and contributions not restricted					2,080
City Council appropriations/payments					9,550,759
Investment earnings					127,803
Miscellaneous					423,701
Total general revenues					<u>27,394,240</u>
Change in net position					(1,605,571)
Net position, beginning of year					<u>111,398,888</u>
Net position, end of year					<u>\$ 109,793,317</u>

Normal to have negative balances

Change in Net Position

Fund Financial Statements – Governmental Funds

- *Governmental financial statements – Pages 70 - 71 in Manual* - account for basically the same governmental activities reported in the *government-wide financial statements*.
 - ***Balance Sheet – Governmental Funds***
 - ***Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds***
- The *financial statements* presented herein display information on each of the Board's most important governmental funds or ***major funds***.
- The Board's *major funds* are the **General Fund and the Capital Projects Fund**.

Major funds have
their own columns

ASSETS

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 10,517,702	\$ 4,252,442	\$ 4,882,975	\$ 19,653,119
Accounts receivable, net	29,948	6,513	4,125	40,586
Due from other governments	622,599	30,677	164,438	817,714
Inventories	-	-	121,361	121,361
Total assets	\$ 11,170,249	\$ 4,289,632	\$ 5,172,899	\$ 20,632,780

LIABILITIES
AND FUND BALANCES

Liabilities

Accounts payable	\$ 318,929	\$ 479,770	\$ 123,286	\$ 921,985
Deferred revenue	-	-	313,483	313,483
Salaries and benefits payable	3,459,381	-	287,033	3,746,414
Total liabilities	3,778,310	479,770	723,802	4,981,882

Fund balances

Nonspendable	-	-	121,361	121,361
Restricted	-	891,588	1,770,204	2,661,792
Committed	-	-	2,701,509	2,701,509
Assigned	132,404	2,918,274	-	3,050,678
Unassigned	7,259,535	-	(143,977)	7,115,558
Total fund balances	7,391,939	3,809,862	4,449,097	15,650,898

Total liabilities
and fund balances

Total liabilities and fund balances	\$ 11,170,249	\$ 4,289,632	\$ 5,172,899	\$ 20,632,780
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Major funds

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
State	\$ 31,099,426	\$ 1,690,671	\$ 1,000	\$ 32,791,097
Federal	73,688	-	4,344,583	4,418,271
Local	27,241,993	9,597	4,092,717	31,344,307
Other	176,482	-	157,557	334,039
Total revenues	<u>58,591,589</u>	<u>1,700,268</u>	<u>8,595,857</u>	<u>68,887,714</u>
EXPENDITURES				
Current				
Instruction	36,492,694	456,299	3,816,193	40,765,186
Instructional support	10,675,629	594,745	1,036,259	12,306,633
Operation and maintenance	4,665,100	658,495	126,720	5,450,315
Auxiliary services	3,336,550	306,871	3,946,910	7,590,331
General administrative services	2,546,672	14,979	258,426	2,820,077
Other	474,244	322	792,621	1,267,187
Capital outlay	-	5,477,068	-	5,477,068
Debt services				
Principal retirement	817,553	-	-	817,553
Interest	27,365	-	-	27,365
Total expenditures	<u>59,035,807</u>	<u>7,508,779</u>	<u>9,977,129</u>	<u>76,521,715</u>
Excess (deficiency) of revenues over expenditures	<u>(444,218)</u>	<u>(5,808,511)</u>	<u>(1,381,272)</u>	<u>(7,634,001)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	135,831	-	1,319,455	1,455,286
Proceeds from the sale of assets	13,084	-	2,165	15,249
Indirect cost	219,684	-	-	219,684
Other sources	35,533	-	1,425	36,958
Transfers out	(1,319,455)	-	(135,831)	(1,455,286)
Proceeds from the issuance of debt	1,904,630	-	-	1,904,630
Total other financing sources (uses)	<u>989,307</u>	<u>-</u>	<u>1,187,214</u>	<u>2,176,521</u>
Net changes in fund balances	545,089	(5,808,511)	(194,058)	(5,457,480)
Fund balances, beginning of year	<u>6,846,850</u>	<u>9,618,373</u>	<u>4,643,155</u>	<u>21,108,378</u>
Fund balances, end of year	<u>\$ 7,391,939</u>	<u>\$ 3,809,862</u>	<u>\$ 4,449,097</u>	<u>\$ 15,650,898</u>

Change in
Fund Balance

Fund Financial Statements – Fiduciary Funds

- Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others.
- **Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations.**
 - ▣ The agency funds reported by the Board consist of **student organization accounts such as clubs and classes.**
- Private-purpose trust funds - also reported in a *Statement of Changes in Fiduciary Net Assets* - report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.
 - ▣ The private-purpose trust fund reported by the Board is a **scholarship fund for students.**

Notes to Financials & RSI

- Provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations.
- The notes contain important information that is not part of the basic financial statements.
- Following the *notes to the basic financial statements*, the required supplemental information provides a comparison of the **original adopted budget to the final amended budget of the Board's General Fund**, which is then further compared to the actual operating results for the fiscal year.
- The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1 - Summary of Significant Accounting Policies - continued

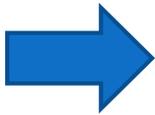
10. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability

Budgets

Annual budgets are adopted for all governmental funds except the Capital Projects Fund, which adopts project-length budgets. All annual appropriations lapse at fiscal year-end.



On or before October 1 of each year, the Board prepares and submits to the State Superintendent of Education the annual budget to be adopted. The Superintendent or Board may not approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The Superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The Superintendent may approve amendments to program budgets without Board approval.

Note 3 - Deposits and Investments

Deposits



The Board's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balances.

Audits of Financial Statements

- Examination of an entity's financial records.
- Done by an independent (outside) accounting entity – CPA firm or Examiners of Public Accounts
- After audit is complete, auditors issue an opinion that states whether the financial statements give a fair picture of the company's financial situation.
 - ▣ Unmodified – Desirable outcome of audit – no material deficiencies found
 - ▣ Modified – Everything good except for.....
 - ▣ Disclaimer – Independent auditors cannot complete audit
 - ▣ Adverse - Financial statements are materially misstated and such misstatements have pervasive effect on the financial statements – worst case scenario for financial reporting and accountability.

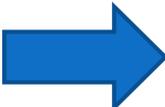
INDEPENDENT AUDITOR'S REPORT

To the Members of the Auburn
City Board of Education
Auburn, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Auburn City Board of Education (the "Board"), a component unit of the City of Auburn, Alabama, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements



Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating

Application of GASB 34 to Activity Funds

- If student activity funds are classified as fiduciary (agency – Fund 32) funds as recommended, they are **not reported in the government-wide financial statements**. Instead, these balances are **reported only** in the fund financial statements.
- District activity funds that are classified as governmental (special revenue – Fund 12) funds are consolidated with all governmental activities in the government-wide financial statements. District activity funds will also be presented in the governmental fund financial statements.
- Fiduciary funds are presented in the fund financial statements by fund type. **Student activity funds, as agency funds, report no operating activity and are, therefore, presented only in the statement of fiduciary fund net assets.**

Finally.....

- Financial reporting within the local schools plays an important role in demonstrating accountability and transparency to the various stakeholders of the local education agency as well as the school.
- This includes the students, parents, employees, vendors, taxpayers, and other stakeholders of the publicly funded entity.
- School officials and staff are in a position of public trust and should be held accountable for that trust.
- Through adherence to a sound internal control system, following related financial reporting policies and procedures, and ensuring personal integrity in their position, **school bookkeepers (YOU!!!) play an important and vital part in ensuring that public trust.**

Recap of why this type of training is so very important

- Everything you do on a daily basis is all about the three objectives of accountability in spending the school's funds (i.e. public's tax dollars):
 - Interperiod equity
 - Following the budget (public policy document)
 - Ensuring efficiency and effectiveness through internal controls