

## PART I

### INTRODUCTION

Each Charter School Organizer in accepting the responsibility of administering the financial affairs of the school must recognize not only its responsibilities toward the educational needs of the student population of the school but also the organizer's relationship with and responsibilities toward the taxpayers of the State. Among other items, faithful performance of duty requires accurate accounting and informative reporting of all financial transactions and the establishment of sound business practices for effective and efficient operation of all schools.

A prescribed accounting system for any area of government, including the charter schools, must be flexible enough to adapt to units which are large, small or intermediate in size. The system must be capable of functioning as a manual system or one which may be maintained with mechanical or with electronic data processing equipment. A system must be organized to provide a uniform classification of receipts and disbursements, effective internal controls and audit trails for post-audit purposes. Additionally, the system must conform to legal requirements as established by legislation and administered by the controlling agencies.

The information contained herein is intended to assist you and does not represent legal advice, or a legal opinion, references to statutes or other authoritative materials may not be all inclusive.

### SCOPE OF THE SYSTEM - APPROVAL OF FORMS

The accounting system detailed in the Manual is intended to cover fund accounting by program for any charter school in the State of Indiana with adequate provision for separation by Object classification.

All the necessary forms for fund, program and object accounting are prescribed by the State Board of Accounts in accordance with the Indiana Public Accounting Law. These forms can be used in their original design for manual systems. Although the accounting forms and ledgers cannot be used in systems utilizing electronic data processing equipment, such systems must provide, as a minimum, the information contained in the manual system with no changes in the fund accounting requirements or the classifications of receipts and expenditures.

When the forms and ledgers are modified for use with computer hardware and software, they must be submitted to the State Board of Accounts for approval as replacements for the prescribed forms. The approval process necessitates submitting, to the attention of the State Examiner, each of the forms exactly as they must be modified for use with a computer and a letter from the charter school requesting approval for use in the system of the charter school. The forms submitted shall be a facsimile of the prescribed system (headings of reports, etc.). Otherwise a cross-reference to the prescribed form intended to be replaced shall be submitted.

As a result of advances in computer technology, some computer hardware, software, and application systems can now produce exact replicas of the forms prescribed by the State Board of Accounts. Additionally, some of the prescribed forms are currently replicated on continuous, preformatted computer paper.

The State Board of Accounts prescribes the required accounting system forms, but does not specify the source from which the forms must be obtained. Therefore, the State Board of Accounts will not take exception to the use of forms which provide exact replications of the prescribed forms created by the computer printer or utilizing continuous form computer paper. These exact replications must be identical to the prescribed forms in format, titles and locations of data. These exact replications of prescribed forms are not required to be submitted to the State Board of Accounts for approval and each form should be identified as "PRESCRIBED BY THE STATE BOARD OF ACCOUNTS" in the same location as on the prescribed form.

## DEFINITIONS

The following are definitions, for the purposes of the manual, of frequently used terms.

Clearing Account - A memorandum account for controlling charter school assets or liabilities detached from the regular operation accounts of the charter school.

Contractual Service - A service performed under contract, express or implied, by persons or firms other than charter school personnel.

Expenditure Account - An account for recording amounts expended for a specific purpose.

Fund - A complete accounting entity established for controlling available cash, which has been collected for either general or specific purposes, through the recording of both receipt and disbursement transactions.

Ledger - A collection, group, book, or file of ledger accounts.

Ledger Account - A page, sheet, card, or other hard copy provision for recording all transactions of a particular or related nature.

Object - Identifies the expenditure by function or purpose.

Program - An account for recording and controlling the expenditure of amounts for a general area of related purposes.

Receipt Account - An account for recording amounts received from the same source.

Salaries - Amounts paid for personal services of employees of the charter school, whether on an annual, a monthly, a daily or an hourly basis.

## SINGLE ENTRY ACCOUNTING SYSTEM

The description of the system prescribed in the manual is generally for use as a single entry system on the cash basis of accounting. It is provided with certain Clearing Accounts which are used as memorandum accounts to provide a record of transactions that temporarily change the nature of some assets or liabilities. The proper use of the system will provide the school administration, its governing body, and the controlling state and federal agencies with the necessary information regarding financial transactions of a current operating nature. Subsidiary ledgers are necessary to maintain area cost or property and plant records which may be desired or found to be necessary for other purposes. Some of these may be included as component parts of a double entry system.

## DOUBLE ENTRY ACCOUNTING SYSTEM

Although the Manual does not mandate the use of double entry accounting for charter schools, it does not prohibit the adoption of a double entry accounting system. The system described herein can be modified to double entry accounting. Some additional accounts that are required are presented in this part along with representative journal entries and "T" accounts showing the results of those journal entries.

The fund concept is followed throughout the Manual; therefore the balance sheet accounts presented are for specific funds. Each fund has its own set of self-balancing accounts.

Capital assets and long term debt are not recognized in individual funds, but are recorded in two separate self-balancing groups of accounts.

Each fund has asset, liability, budgetary, and fund balance accounts in which are recorded on a control basis all of the transactions affecting that fund. Subsidiary appropriation, expenditure, and revenue accounts are maintained in the manner explained in other parts of the Manual. The General Ledger Control Accounts are for the most part posted from totals developed from posting detailed appropriation, encumbrance, expenditure, and revenue accounts.

The system as presented herein embraces double entry accounting but is not on an accrual basis. That is, revenue is not recognized until actually received and expenditures are not recognized until the cash disbursements are made. The concept of profit accountability and the necessity to properly match revenue with the expense of generating the revenue typically present in commercial accounting systems is not pertinent to school accounting. Instead, emphasis is placed on the disclosure of dollar accountability and the matching of actual expenditures with planned expenditures as presented in the school budget.

Therefore, in summary, emphasis shifts from accounting practices concerning the matching of costs and revenues toward techniques designed to account for and control the expenditure of funds in accordance with predetermined plans as shown by the budget adopted by the school board.

## CHART OF ACCOUNTS

### GENERAL FUND

#### Asset and Budgetary Accounts

Cash  
 Petty Cash  
 Cash Change  
 Investments  
 \* Supplies Inventory  
  
 Estimated Revenue  
  
 # Encumbrances  
 # Expenditures

#### Liability, Fund Balance and Budgetary Accounts

Payables  
 # Revenue  
 # Appropriations  
  
 Reserve For Encumbrances – 2009  
 Reserve For Encumbrances - 2010  
 \* Reserve For Supplies Inventory  
 Fund Balance

\* Optional Account

# These are control accounts for which detailed subsidiary accounts are provided in the prescribed system.

In order to show the interrelationship of the balance sheet accounts and the method of posting them, some typical journal entries are illustrated.

The first group are those that would be required to initially set up the double entry system.

The second group illustrates various transactions. These entries are presented in summary form for an entire period. Actual entries would be made from totals of postings to subsidiary ledgers on a monthly basis.

The third group illustrates the method of closing the nominal or temporary accounts at the end of the year.

The fourth group illustrates capital asset requirements.

#### SPECIAL REVENUE FUNDS

##### Asset and Budgetary Accounts

Cash  
 Investments  
 # Encumbrances  
  
 # Expenditures  
 Estimated Revenue

##### Liability, Fund Balance and Budgetary Accounts

Payables  
 # Revenue  
 Reserve For Encumbrances - 2010  
 # Appropriations  
 Fund Balance

# Control Accounts for which subsidiary ledgers are included in the prescribed system.

#### DEBT SERVICE FUND

##### Asset and Budgetary Accounts

Cash  
 Investments  
 # Expenditures  
 Estimated Revenue

##### Liability, Fund Balance and Budgetary Accounts

Payables  
 # Revenue  
 # Appropriations  
 Fund Balance

# Control Accounts. Detailed accounts in subsidiary ledgers are included in prescribed accounting system.

CAPITAL PROJECTS FUND

Asset and Budgetary Accounts

- Cash
- Investments
- # Encumbrances
- # Expenditures
- Estimated Revenue

Liability, Fund Balance and Budgetary Accounts

- Payables
- # Revenue
- Reserve For Encumbrances - 2010
- # Appropriations
- Fund Balance

# Control Accounts for which subsidiary ledgers are included in the prescribed system.

Reserve for Encumbrance accounts are established for each year in which construction contracts are signed and carried forward from year to year until the particular project is completed or abandoned.

CAPITAL ASSETS

Assets

- Land
- Structures and Improvements
- Equipment

Other Credits

- Investment In Capital Assets

The capital assets is a group of accounts in which are recorded acquisition of all capital assets.

The entries in these accounts are made in addition to the normal posting to the regular fund accounts. For example the purchase of equipment costing \$10,000 would be recorded in the General Fund as follows:

Expenditures	10,000	
Cash		10,000

The corresponding entry in the capital assets group is:

Equipment	10,000	
Investment in Capital Assets		10,000

These accounts would be used only if capital assets are to be recorded in the accounting records.

## GENERAL LONG TERM DEBT ACCOUNT GROUP

Assets

Amount Available in Debt Service Fund  
 Amount To Be Provided for Retirement of Long Term  
 Debt

Liability

Leases Payable  
 General Obligation Bonds Payable

The general long term debt account group is a group of accounts in which are recorded the unmatured portion of the charter schools long term indebtedness.

## OTHER FUNDS

Other funds of the Charter school would be kept with generally the same Chart of Accounts as the General Fund or Capital Projects Fund.

## IMPLEMENTATION OF DOUBLE ENTRY ACCOUNTING SYSTEM

Charter schools that desire to implement a double entry accounting system should contact the State Board of Accounts for assistance before proceeding.

## ILLUSTRATED JOURNAL ENTRIES

Opening Entries

(1) Cash	10,000	
Petty Cash	100	
Cash Change	500	
Fund Balance		10,600
To set up cash balances and fund balance.		
(2) Investments	5,000	
Fund Balance		5,000
To set up cost of investments not previously recorded.		
(3) Supplies Inventory	2,000	
Reserve For Supplies Inventory		2,000
To set up initial supplies inventory (these accounts are optional and would not ordinarily be used).		
(4) Fund Balance	1,500	
Reserve For Encumbrances - 2010		1,500
Set up prior year encumbrances to be carried forward to current year. This entry would be made only when double entry records are established for the first time. The Reserve for Encumbrance Account will ordinarily be carried forward from the previous year.		

The above entries set up the basic General Ledger for the first time.

Transaction Entries

(5) Estimated Revenue	100,000	
Appropriations		95,000
Fund Balance		5,000

To establish estimated revenues and appropriations at the beginning of the budget year. If the appropriations had been in excess of Estimated Revenue the balancing entry to Fund Balance would have been a debit.

Opening Entries

(6) Encumbrances	4,000	
Reserve For Encumbrances - 2010		4,000

This account records the balance of encumbrances as shown by subsidiary appropriation and encumbrance ledgers. It should be adjusted to actual outstanding encumbrances before financial statements are taken from the records, but at least at June 30 and December 31 each year. Most charter schools will find it desirable to make the entry monthly. At the end of the budget year, the Encumbrance Account will be closed and the Reserve for Encumbrances carried forward to the succeeding year.

(7) Expenditures	95,400	
Cash		95,000
Payroll Deductions		400

To record cash expenditures and payroll deductions. This entry is made from totals of posting subsidiary appropriation and expenditure ledgers.

(8) Cash	102,000	
Revenue		102,000

To record revenue received.

(9) Reserve For Encumbrances - 2009	100	
Fund Balance		100

This entry cancels the encumbrances brought forward from the prior year and credits fund balance with the excess of the encumbrance brought forward over the actual expenditures made against the encumbrance.

(10) Cash	2,600	
Investments		2,500
Revenue		100

To record liquidation of investments and interest received.

(11) Investments	3,000	
Cash		3,000
To record purchase of investments.		

Closing Entries

(a) Reserve For Encumbrances - 2009	1,400	
Appropriations	95,000	
Fund Balance	3,000	
Expenditures		95,400
Encumbrances		4,000
(b) Revenue	102,100	
Estimated Revenue		100,000
Fund Balances		2,100

Note that expenditures includes both expenditures from current year appropriations and expenditures from prior year encumbrances brought forward.

"T" ACCOUNTS SHOWING ILLUSTRATED JOURNAL ENTRIES

<table border="0"> <tr><td colspan="2"><hr/></td></tr> <tr> <td>(1) 10,000</td> <td>(7) 95,000</td> </tr> <tr> <td>(8) 102,000</td> <td>(11) 3,000</td> </tr> <tr> <td>(10) 2,600</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Cash Change</td> </tr> <tr> <td>(1) 500</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Supplies Inventory</td> </tr> <tr> <td>(3) 500</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Estimated Revenue</td> </tr> <tr> <td>(5) 100,000</td> <td>(b) 100,000</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Revenue</td> </tr> <tr> <td>(b) 102,100</td> <td>(8) 102,000</td> </tr> <tr> <td></td> <td>(10) 100</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Payroll Deductions</td> </tr> <tr> <td></td> <td>(7) 400</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Encumbrances</td> </tr> <tr> <td>(6) 4,000</td> <td>(a) 4,000</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Fund Balance</td> </tr> <tr> <td>(4) 1,500</td> <td>(1) 10,600</td> </tr> <tr> <td>(a) 3,000</td> <td>(2) 5,000</td> </tr> <tr> <td></td> <td>(5) 5,000</td> </tr> <tr> <td></td> <td>(9) 100</td> </tr> <tr> <td></td> <td>(b) 2,100</td> </tr> </table>	<hr/>		(1) 10,000	(7) 95,000	(8) 102,000	(11) 3,000	(10) 2,600		<hr/>		Cash Change		(1) 500		<hr/>		Supplies Inventory		(3) 500		<hr/>		Estimated Revenue		(5) 100,000	(b) 100,000	<hr/>		Revenue		(b) 102,100	(8) 102,000		(10) 100	<hr/>		Payroll Deductions			(7) 400	<hr/>		Encumbrances		(6) 4,000	(a) 4,000	<hr/>		Fund Balance		(4) 1,500	(1) 10,600	(a) 3,000	(2) 5,000		(5) 5,000		(9) 100		(b) 2,100	<table border="0"> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Petty Cash</td> </tr> <tr> <td>(1) 100</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Investments</td> </tr> <tr> <td>(2) 5,000</td> <td>(10) 2,500</td> </tr> <tr> <td>(11) 3,000</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Reserve For Inventory</td> </tr> <tr> <td></td> <td>(3) 2,000</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Appropriations</td> </tr> <tr> <td>(a) 95,000</td> <td>(5) 95,000</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Reserve For Encumbrances</td> </tr> <tr> <td colspan="2" style="text-align: center;">2010</td> </tr> <tr> <td></td> <td>(6) 4,000</td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Reserve For Encumbrances</td> </tr> <tr> <td colspan="2" style="text-align: center;">2009</td> </tr> <tr> <td>(9) 100</td> <td>(4) 1,500</td> </tr> <tr> <td>(a) 1,400</td> <td></td> </tr> <tr><td colspan="2"><hr/></td></tr> <tr> <td colspan="2" style="text-align: center;">Expenditures</td> </tr> <tr> <td>(7) 95,400</td> <td>(a) 95,400</td> </tr> </table>	<hr/>		Petty Cash		(1) 100		<hr/>		Investments		(2) 5,000	(10) 2,500	(11) 3,000		<hr/>		Reserve For Inventory			(3) 2,000	<hr/>		Appropriations		(a) 95,000	(5) 95,000	<hr/>		Reserve For Encumbrances		2010			(6) 4,000	<hr/>		Reserve For Encumbrances		2009		(9) 100	(4) 1,500	(a) 1,400		<hr/>		Expenditures		(7) 95,400	(a) 95,400
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ANYWHERE, INDIANA  
CAPITAL ASSETS  
TRIAL BALANCE  
July 1, 2009

Land	\$	30,000		
Buildings		500,000		
Improvements Other Than Buildings		100,000		
Machinery and Equipment		800,000		
Construction in Progress		--		
Assets Under Capital Lease		--		
Investments in Capital Assets:				
General Fund	\$	800,000		
Special Revenue Fund		200,000		
Capital Projects Funds		400,000		
Donations		30,000		
		\$ 1,430,000	\$ 1,430,000	
Totals		\$ 1,430,000	\$ 1,430,000	

JOURNAL ENTRIES

Example 1

Capital assets of \$10,000 (machinery and equipment) are purchased outright from the General Fund.

	DR	CR
Machinery and Equipment	\$ 10,000	
Investment in Capital Assets - General Fund		\$ 10,000
(To record purchase of capital assets with General Fund resources.)		

Example 2

A capital assets (truck) is purchased from the General Fund for \$15,000 (\$17,000 less trade-in of \$2,000 for capital assets originally purchased for \$14,000 from the General Fund).

	DR	CR
Machinery and Equipment	\$ 17,000	
Investment in Capital Assets - General Fund		\$ 17,000
(To record purchase of capital assets with trade-in from General Fund resources.)		
Investment in Capital Assets - General Fund	\$ 14,000	
Machinery and Equipment		\$ 14,000
(To record retirement of trade-in.)		

Example 3

A computer system is acquired through the General Fund through a capital lease at a cost of \$25,000 - net present value. The total of all lease payments is \$35,000 (\$10,000 represents the interest portion of the lease).

	<u>DR</u>	<u>CR</u>
Assets Under Capital Lease	\$ 25,000	
Investment in Capital Assets - General Fund		\$ 25,000
(To record assets acquired through a capital lease.)		

Example 4

\$20,000 is expended from a Capital Projects Fund for the construction of a new building not yet completed.

	<u>DR</u>	<u>CR</u>
Construction in Progress	\$ 20,000	
Investment in Capital Assets - Capital Projects Fund		\$ 20,000
(To record expenditures incurred in Capital Projects Funds for construction.)		

Example 5

Another \$30,000 is expended for the building from the Capital Projects Fund and the building is completed.

	<u>DR</u>	<u>CR</u>
Buildings	\$ 50,000	
Construction in Progress		\$ 20,000
Investment in Capital Assets - Capital Projects Fund		30,000
(To record completed building project.)		

Example 6

Capital assets originally costing \$30,000 from the Transportation Fund are sold for \$5,000.

	<u>DR</u>	<u>CR</u>
Investment in Capital Assets - Special Revenue Funds	\$ 30,000	
Machinery and Equipment		\$ 30,000
(To record sale of capital assets originally purchased with transportation funds.)		

Example 7

Capital assets with an original cost of \$10,000 are considered obsolete and scrapped.

	<u>DR</u>	<u>CR</u>
Investment in Capital Assets - General Funds	\$ 10,000	
Machinery and Equipment		\$ 10,000
(To record disposal of equipment.)		

Example 8

The charter school receives a donation of ten (10) acres of land from the Chamber of Commerce with a fair market value of \$50,000.

	<u>DR</u>	<u>CR</u>
Land	\$ 50,000	
Investment in Capital Assets - Donations		\$ 50,000
(To record donation of land.)		

ANYWHERE, INDIANA  
CAPITAL ASSETS  
TRIAL BALANCE  
July 1, 2007

Land	\$ 80,000	
Buildings	550,000	
Improvements Other Than Buildings	100,000	
Machinery and Equipment	773,000	
Construction in Progress	--	
Assets Under Capital Lease	25,000	
Investments in Capital Assets:		
General Fund		\$ 828,000
Special Revenue Fund		170,000
Capital Projects Funds		450,000
Donations		80,000
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Totals	<u>\$ 1,528,000</u>	<u>\$ 1,528,000</u>

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