

PART 2

INTRODUCTION

Each member of the school board in accepting the responsibility of administering the financial affairs of a public school system must recognize not only the responsibilities toward the educational needs of the student population of the unit but also the board's relationship with and responsibilities toward the taxpayers of the school corporation and of the State. Among other items, faithful performance of duty requires adequate budgeting, 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 public 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 and appropriation accounting by program for any public school corporation 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 mechanical posting equipment or 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.

Computer hardware, software and application systems can now produce exact replicas of the forms prescribed by the State Board of Accounts. An exact replica of a prescribed form is a computerized form that incorporates all of the same information as the manual prescribed form. Prescribed form replication is the preferred approach from the State Board of Accounts' position. These exact replicas are the equivalent of the prescribed form and require no further action for the school corporation to install the form within their accounting system.

Governments are required by law to use the forms prescribed by this department. However, if it is desirable to use a form other than the prescribed manual form, that is not an exact replica; the new form must be approved by State Board of Accounts. All forms previously approved by sending copies to State Board of Accounts and receiving a form approval letter are approved with the conditions contained with the letter.

If a government implements, consistent with the provisions of Indiana Code and Uniform Compliance Guidelines, an automated accounting system that is to be considered for approval, the responsible official is not required to maintain the prescribed forms replaced by the automated system while awaiting the approval. New forms must be in place during at least one (1) State Board of Accounts audit and must not be an element of an audit finding or audit result and comment that is responsible or partially responsible for an exception found during an audit to be considered approved. The government is responsible for placing on new forms the year of installation in the upper right corner. This reference should be similar to "Installed in _____ School Corporation, (Year)." The School Corporation must maintain and present for audit a log of forms installed with the year installed for all forms that replace forms prescribed by State Board of Accounts.

The government agrees to comply with the following conditions, if applicable, for any new forms installed.

1. The forms and system installed are subject to review and/or recommendations during audits of the government to ensure compliance with current statutes and uniform compliance guidelines.
2. The government shall continue to maintain all prescribed forms not otherwise covered by an approval.
3. All transactions that occur in the accounting system must be recorded and accessible upon proper request. Transactions can be maintained electronically, with proper backups, microfilmed, or printed on hardcopy. These transactions include, but are not limited to, all input transactions, transactions that generate receipts, transactions that generate checks, master file updates, and all transactions that affect the ledgers in any way. The system must be designed so that changes to a transaction file cannot occur without being processed through an application.
4. The ability must not exist to change data after it is posted. If an error is discovered after the entry has been posted, then a separate correcting entry must be made. Both the correcting entry and the original entry must be maintained.
5. If the government owns the source code, sufficient controls must exist to prevent unauthorized modification. If the government does not own the source code, the vendor shall provide representatives of the State Board of Accounts with access to all computer source codes for the system upon request for audit purposes. In addition, the vendor shall provide representatives of the State Board of Accounts with a document describing the operating system used, the language that the source code is written in, the name of the compiler used, and the structure of the data files including data file names, data file descriptions, field names, and field descriptions for the system.
6. Any receipts, checks, purchase orders, or other forms that require numbering shall be either prenumbered by an outside printing supplier or numbered by the government's computer system with sufficient controls installed in the system to prevent unauthorized generation of the form or duplication of numbers.
7. All receipts must be either in duplicate or recorded in a prescribed or approved register of receipts.
8. All checks must be either in duplicate or recorded in a register of checks generated by the computer.
9. Recap sheets for each deposit for deposit advices, if applicable, will be maintained indicating direct deposits. Individual wage assignment agreements will be kept on file to support direct deposit.
10. "Installed by _____ School Corporation, (Year)" shall be printed, in the upper right corner, on each approved form furnished by a printing supplier and, when practical, on those printed from accounting systems at the unit. Upon the installation of a new form the form will be entered on a log for this purpose with the date of installation; and the name and number of the prescribed form replaced. The log must be available for audit.
11. The government officials are responsible to ensure that forms and accounting systems installed comply with the uniform compliance guidelines for information technology services published in the School Administrator and accounting manuals. This includes ensuring that customization of the system done by the vendor for implementation at the government is done in such a manner that the system remains compliant.
12. In the event a change is required due to the passage of a State or Federal law, the government agrees to implement the change in a timely manner.

DEFINITIONS

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

Allotment - The authority by board resolution to spend part of an advertised appropriation from a particular expenditure account.

Appropriation - The authority to spend, by approved budget classification, from a particular program.

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

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

Encumbrance - An obligation by way of issuing a purchase order or entering into a contract which is to be met from an appropriation and allotment for which a part of the appropriation and allotment has been reserved. The amount ceases to exist as an encumbrance when it has been liquidated.

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 school corporation, whether on an annual, a monthly, a daily or an hourly basis.

School Board - The governing body of a school corporation, including Board of School Commissioners, Board of Education, Board of School Trustees, etc.

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, the taxpayers of the corporation 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 school corporations, it is evident that steps must be taken toward a double entry system and we recommended that all school business officials begin preparations toward 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

Liability, Fund Balance and Budgetary Accounts

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

Assets

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 school corporations long term indebtedness.

OTHER FUNDS

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

IMPLEMENTATION OF DOUBLE ENTRY ACCOUNTING SYSTEM

School corporations 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

Transaction Entries

(6) Encumbrances	4,000	
Reserve For Encumbrances - 2010		4,000
<p>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 school corporations 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.</p>		
(7) Expenditures	95,400	
Cash		95,000
Payroll Deductions		400
<p>To record cash expenditures and payroll deductions. This entry is made from totals of posting subsidiary appropriation and expenditure ledgers.</p>		
(8) Cash	102,000	
Revenue		102,000
<p>To record revenue received.</p>		
(9) Reserve For Encumbrances - 2009	100	
Fund Balance		100
<p>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.</p>		
(10) Cash	2,600	
Investments		2,500
Revenue		100
<p>To record liquidation of investments and interest received.</p>		
(11) Investments	3,000	
Cash		3,000
<p>To record purchase of investments.</p>		

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.

<hr/>		Petty Cash		<hr/>	
(1)	10,000	(7)	95,000	(1)	100
(8)	102,000	(11)	3,000		
(10)	2,600				
<hr/>		Cash Change		<hr/>	
(1)	500				
<hr/>		Supplies Inventory		<hr/>	
(3)	500				
<hr/>		Estimated Revenue		<hr/>	
(5)	100,000	(b)	100,000		
<hr/>		Revenue		<hr/>	
(b)	102,100	(8)	102,000		
		(10)	100		
<hr/>		Payroll Deductions		<hr/>	
		(7)	400		
<hr/>		Encumbrances		<hr/>	
(6)	4,000	(a)	4,000		
<hr/>		Fund Balance		<hr/>	
(4)	1,500	(1)	10,600		
(a)	3,000	(2)	5,000		
		(5)	5,000		
		(9)	100		
		(b)	2,100		
<hr/>		Investments		<hr/>	
(2)	5,000	(10)	2,500		
(11)	3,000				
<hr/>		Reserve For Inventory		<hr/>	
		(3)	2,000		
<hr/>		Appropriations		<hr/>	
(a)	95,000	(5)	95,000		
<hr/>		Reserve For Encumbrances		<hr/>	
		2010			
		(6)	4,000		
<hr/>		Reserve For Encumbrances		<hr/>	
		2009			
(9)	100	(4)	1,500		
(a)	1,400				
<hr/>		Expenditures		<hr/>	
(7)	95,400	(a)	95,400		

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	
		<hr/>	<hr/>
Totals	\$	<u>1,430,000</u>	\$ <u>1,430,000</u>

JOURNAL ENTRIES

Example 1

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

	<u>DR</u>	<u>CR</u>
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).

	<u>DR</u>	<u>CR</u>
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

	<u>DR</u>	<u>CR</u>
Investment in Capital Assets - Capital Projects Fund (To record completed building project.)		30,000

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 Machinery and Equipment (To record sale of capital assets originally purchased with transportation funds.)	\$ 30,000	\$ 30,000

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 Machinery and Equipment (To record disposal of equipment.)	\$ 10,000	\$ 10,000

Example 8

The school corporation 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 Investment in Capital Assets - Donations (To record donation of land.)	\$ 50,000	\$ 50,000

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
	<u> </u>	<u> </u>
Totals	<u>\$ 1,528,000</u>	<u>\$ 1,528,000</u>