

*State of Tennessee*

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**Department of Education**

Office of Local Finance

Effective July 2011

**Tennessee Internal  
School Uniform  
Accounting Policy**

**M** **ANUAL**

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## **Preface**

The purpose of the *Tennessee Internal School Uniform Accounting Policy Manual* (referred to herein as the “Manual”) is to provide uniform policies and procedures for the management of student activity and other internal school funds in Tennessee public schools. The 1976 Tennessee General Assembly amended Section 49-2-110, *Tennessee Code Annotated*, to require the Tennessee Department of Education to prepare a “Uniform Accounting Policy Manual,” subject to the approval of the Comptroller of the Treasury and the Commissioner of Finance and Administration, for use in individual schools.

In preparation of the first Manual, a working committee was formed and resource materials were obtained from other states that used uniform policies and procedures. Comments were also solicited from numerous sources, including accountants, auditors, school business administrators, and finance personnel, and the Tennessee Society of Certified Public Accountants. Two separate review committees, one comprised of directors of schools and the other comprised of school principals, each provided recommendations that were incorporated into the Manual.

This is the third edition of the Manual. The original edition was entitled the *Tennessee Internal School Financial Management Manual* and was released in 1988. Subsequent updated editions were released in 1999 and now 2011.

Section **1**

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# Introduction

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL

## **Section 1: Introduction**

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### **Title 1, History of Internal School Accounting**

#### **1959 Internal School Accounting Law**

Responsibility and accountability for money within individual schools was first addressed in Tennessee state law when the legislature passed “The Internal School Accounting Law,” Public Chapter 168 of the 1959 Legislative Acts. The act was the legislature’s response to growing public criticism of the inadequate accountability for the ever-increasing amounts of money received and spent in individual schools. The Internal School Accounting Act provided for local boards to authorize individual schools to receive money for student activities and other events, and established student activity and other internal school funds as the property of the respective schools. The act also provided local boards of education and principals with definite authority and responsibility for the proper administration and safekeeping of all such internal school funds.

The Internal School Accounting Law [currently codified as Section 49-2-110, *Tennessee Code Annotated (TCA)*] further required local boards to provide regulations, standards and procedures and an accounting Manual covering the various phases of student activity and other internal school fund accounting. Some local boards of education in Tennessee met this responsibility, and with the assistance of individual school principals and school business officials, developed very good systems for the handling of internal accounts. However, many boards made little or no progress in this important phase of school operations.

#### **Tennessee Internal School Uniform Accounting Policy Manual**

Due to the lack of action by many local boards regarding the accountability for internal school funds, in 1976, the legislature added an amendment to Section 49-2-110, *TCA*, which required the Department of Education to prepare a uniform accounting policy manual for local school systems, subject to the approval of the Comptroller of the Treasury and the Commissioner of Finance and Administration. The amendment required each local school system to adopt such manual when issued and maintain all student activity fund books and records in accordance with the requirements of the manual. As a result, in 1977, the *Tennessee Internal School Financial Management Manual* was prepared and distributed.

The original *Tennessee Internal School Financial Management Manual* encompassed both accounting procedures and administrative policies in an effort to help bring local boards into compliance with Section 49-2-110, *TCA*. Subsequent additions to and revisions of the Manual continued this dual direction. However, current management trends indicate an increasing shift to school-based decision making, recognizing that mandated uniform administrative policy for schools in such incredibly diverse economic

and social situations might not always serve the best interest of the students, and ultimately, the public. The Tennessee General Assembly acknowledged this trend, and in 1992, provided that local boards could initiate a program of school-based decision making. This trend was also acknowledged during the process of subsequent Manual revisions. As a result, the Manual frequently refers to board policy, and the board's responsibility for establishing administrative policy.

## Section 1: Introduction

### **Title 2, The Internal School Accounting Act**

The Internal School Accounting Act (Section 49-2-110, *TCA*) provides boards of education and school principals with definite authority and responsibility for the administration and safekeeping of all internal school funds. This Act allows school boards to authorize student activity and other internal school funds and determines such funds to be the property of the respective schools.

Each board of education is required to provide reasonable regulations, standards, and procedures for schools, and also to provide an accounting manual for student activity and other internal school funds. The Internal School Accounting Act makes school principals liable for the safekeeping, management, and accounting of all student activity and other internal school funds in accordance with this Manual and guidance established by each respective board of education.

## Section 1: Introduction

### **Title 3, Purpose, Revisions and Waivers, Exemptions**

#### **Purpose and Applicability of the Manual**

Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds. The purpose of the *Tennessee Internal School Uniform Accounting Policy Manual* is to provide the minimum accounting procedures and documentation necessary to provide the required accountability. Section 49-2-110, *TCA*, requires local systems to adopt this Manual and maintain all books and records in accordance with the requirements of the Manual. **As noted, procedures presented in this Manual represent the minimum procedures that meet the internal control objectives. These procedures are required unless the school develops alternative procedures that provide the same or better controls. Likewise, example forms and reports presented in this Manual contain the minimum information required to be included on the forms or reports; however, a school may add additional information.** (NOTE: Every form required by this Manual is not included in the Appendix.)

The Tennessee Department of Education will make the Manual available to each local board of education and individual school. Money must be provided by the boards of education to implement the procedures contained in this Manual.

#### **Revisions and Waivers**

Any local education agency may request revisions to or waivers of existing procedures by submitting such requests in writing to the State Commissioner of Education together with draft copies of the proposed changes. All requests will be given appropriate consideration, subject to the approval of the Comptroller of the Treasury and the Commissioner of Finance and Administration.

#### **Exemptions**

Organizations composed of parents and teachers or parents and students (including, but not limited to, parent-teacher associations, parent-teacher organizations, band booster clubs, and athletic booster organizations) working in coordination with the schools shall not be required to use or comply with any recordkeeping or accounting requirements provided for in this Manual or other board of education policy manuals, and are also exempt from the accounting, recordkeeping, and other requirements of Section 49-2-110, *TCA*. However, school support organizations, as defined in Section 49-2-603, *TCA*, are required to maintain financial records for at least four (4) years, as specified in Section 49-2-604, *TCA*. In addition, school support organizations shall adopt a written policy that specifies reasonable procedures for accounting for its assets (Section 49-2-604, *TCA*).

## Section 1: Introduction

### **Title 4, Accountability and General Principles**

#### **Accountability**

Schools must establish procedures to ensure that all internal school funds are handled properly, consistent with the requirements of this Manual, and in a manner that minimizes the impact on instruction. School officials are in a position of public trust and should be held accountable for that trust. Prior to authorizing or requiring collections, management should evaluate the ability of school personnel to provide adequate accountability demanded by the public. Local school boards, directors of schools, and individual school principals should never require, authorize, or otherwise sanction school collections that cannot be adequately accounted for.

#### **General Principles**

The board of education must promulgate policies, rules, and regulations pertaining to student activity, cafeteria, and other internal school funds. Such funds shall be administered in accordance with guidelines set forth in this Manual and with any additional rules and regulations adopted by the board of education.

While the methods of recording and reporting transactions vary depending on the size of the school and the extent of computer use, basic information related to internal school fund transactions must be prepared and retained on file, regardless of the accounting methods used. NOTE: All manually prepared documentation (e.g., ticket reconciliations, collection logs) should be recorded in permanent ink.

Each principal shall ensure that all school personnel comply with the Manual and with any additional regulations, standards, or procedures for student activity, cafeteria, or other internal school funds established by the board of education. School principals should participate in the preparation, modification, and interpretation of policies, regulations, and procedures that affect student activity, cafeteria, and other internal school funds.

The following principles must be adhered to when developing rules and regulations for internal school funds:

1. Since Tennessee public schools are referred to as being “free” (Section 49-6-3001, *TCA*), money raised by students must be used to finance normal and legitimate extracurricular activities. Student activity funds should be used to supplement and not replace funds necessary to fulfill the local board’s obligation to provide an instructional program, property, equipment, and salaries.



2. Money or property received by a school official, employee, or volunteer, acting in his or her official capacity, becomes public money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.
3. Activities or events that generate student activity money should, in general, contribute to the educational experience of students and should not conflict with, but add to, the school's instructional program.
4. School fundraising and the use of school facilities or equipment for the raising of internal school money should be in accordance with the school system's policies. The cost of using school facilities should be considered in drafting these policies. In the absence of related board of education policies, school fundraising is prohibited.
5. Money restricted for the use of a specific group should be spent in such a way as to benefit those students currently in school who have contributed to the accumulation of such money.
6. Whenever possible, student body representation should be required in order to enhance the democratic management of student activity money to be raised and expended by, or for, the student body.
7. Activities and events organized to raise funds for either the student body as a whole or for a select or special group or segment of the student body shall be conducted on a voluntary basis only. Students who do not participate in such activities or events shall not be punished or discriminated against in any way. Likewise, a student's grade shall not be affected as a direct result of participation in, or lack of participation in, any fundraising activities or events.

Section **2**

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# Audit Requirements

Tennessee Internal  
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## **Section 2: Audit Requirements**

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### **Title 1, School Audit Requirements**

#### **Purpose and Frequency of Audits**

To maintain a public trust, the board of education and its employees are required to account for all money and other assets for which they are responsible. The purpose of a school audit is to ensure accountability for the safekeeping and proper handling of school funds and to determine compliance with the Manual. The auditor should direct audit findings and recommendations and other comments to the board of education and to the respective school principal(s).

School activity and other internal funds maintained by each school must be audited annually in accordance with Section 49-2-112, *Tennessee Code Annotated (TCA)*.

#### **Auditors**

The annual audit must be prepared by a certified public accountant in good standing with the Tennessee State Board of Accountancy, or by the Comptroller of the Treasury. When considered necessary by the board of education, audits other than the annual audit may be performed by independent accountants, if approved by the Office of the Comptroller. Audits may be performed by internal audit staff, as long as the audits are performed in accordance with audit standards established by the Comptroller of the Treasury.

#### **Audit Standards and Approval**

The accounts and records of each individual school must be maintained in accordance with the Manual. Audits of student activity and other internal school funds must be conducted in accordance with generally accepted government auditing standards. While the board of education has a responsibility to review and approve each school audit report, an audit will not be considered as having met the requirements of Section 49-2-112, *TCA*, until the board has been so notified by the Comptroller of the Treasury.

### **Contract to Audit Accounts**

A uniform Contract to Audit Accounts (prepared and made available by the Comptroller of the Treasury) must be completed by the auditor and the board of education, subject to the approval of the Comptroller of the Treasury. The Contract to Audit Accounts should be awarded and finalized by September 30 of the fiscal year to be audited to permit the auditor to properly plan and perform certain audit procedures during the regular school year. (For example, applicable USDA procedures must be performed while students are in attendance.)

The board of education should ensure that all special audit procedures (such as USDA procedures for centralized county cafeteria systems) are addressed in the special provision section of the Contract to Audit Accounts.

The Contract to Audit Accounts should be executed online through the Contract and Report System (CARS) located on the Division of Municipal Audit, Comptroller of the Treasury's website.

Section **3**

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**Duties and  
Responsibilities**

Tennessee Internal  
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## **Section 3: Duties and Responsibilities**

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### **Title 1, Local Boards of Education**

Duties and responsibilities of the local board of education include, but are not limited to, the following:

1. Adopting the Manual prepared by the Tennessee Department of Education in accordance with Section 49-2-110, *Tennessee Code Annotated (TCA)*.
2. Causing all employees who handle money and accounting records in individual schools to be bonded in accordance with Section 49-2-110, *TCA*.
3. Causing an annual audit to be performed of the accounts and records of all schools under the board's jurisdiction in compliance with Sections 49-2-110 and 49-2-112, *TCA*. Such audit should be awarded and contracted by September 30 of the fiscal year to be audited.
4. Reviewing annual audit reports of internal school funds for any audit findings and recommendations and taking appropriate action necessary to resolve such findings.
5. Providing policies concerning the supervision and administration of internal school funds and making such policies available to all personnel. Some of the necessary policies include purchasing, fundraising, use of school facilities/equipment by outside organizations, and sale of competitive foods.
6. Providing to the individual schools the required personnel, supplies, and equipment.
7. Submitting written requests through the director of schools to the Tennessee Commissioner of Education for revisions or waivers to the requirements contained in this Manual.

## Section 3: Duties and Responsibilities

### Title 2, Directors of Schools

Duties and responsibilities of the directors of schools include, but are not limited to, the following:

1. Notifying the Comptroller of the Treasury, Division of Municipal Audit, at (615) 532-4460, if the director becomes aware of any evidence of fraud related to internal school funds. Additional information regarding the reporting of fraud (or suspected fraud) can be found online at the Division of Municipal Audit's website. A fraud reporting form that should be completed is accessible from this website.
2. Implementing all policies, rules, and regulations pertaining to the supervision and administration of internal school funds in schools under the director's jurisdiction in accordance with established policies and rules of the local board.
3. Approving applicable fundraising activities of the individual schools that involve participation of the general student population in the marketing process of the fundraising effort.
4. Annually posting or publishing a list of organizations that are recognized as school support organizations as defined in Section 49-2-603, *TCA*.
5. Approving fundraising activities conducted by school support organizations as required by Section 49-2-604, *TCA*.
6. Making available to each principal (and succeeding principal) the Manual and other policies, rules, and regulations pertaining to internal school accounting.
7. Requiring additional training of school employees, as considered necessary, to implement the procedures in the Manual and other policies, rules, and regulations of the board of education.
8. Reviewing annual audit reports and ensuring that remedial action is taken to resolve any audit findings and recommendations.
9. Ensuring that financial records of individual schools are transferred intact to the custody of successor principals.
10. Ensuring that financial reports of individual schools are submitted in accordance with the Manual and any other board of education requirements, and informing the local board of any deficiencies, audit findings, or other significant information noted upon review of the financial reports.

11. Submitting written requests to the Commissioner of Education, at the direction of the local board of education, for revisions or waivers to the requirements contained in the Manual.



## Section 3: Duties and Responsibilities

### **Title 3, School Principals**

Duties and responsibilities of individual school principals include, but are not limited to, the following:

1. Notifying the Comptroller of the Treasury, Division of Municipal Audit, at (615) 532-4460, if the principal becomes aware of any evidence of fraud related to internal school funds. Additional information regarding the reporting of fraud (or suspected fraud) can be found online at the Division of Municipal Audit's website. A fraud reporting form that should be completed is accessible from this website.
2. Implementing and complying with the regulations, standards, and procedures contained in the Manual and any other policies adopted by the local board of education that has jurisdiction over the school.
3. Providing for the safekeeping and handling of all school money and other school property, irrespective of the source of such money or property (Section 49-2-110, *TCA*).
4. Submitting reports and other materials to the director of schools or board of education on a timely basis, as directed.
5. Delivering all financial records, books, ledgers, computer files, reports, and supporting documentation, as directed by the director of schools or board of education.
6. Assuming responsibility for equipment located at the school, including equipment security, inventory control, care, and utilization.
7. Complying with purchasing procedures prescribed by the board of education, including bid policies and procedures established by the board for student activity and other internal school funds.
8. Notifying the director of schools or the director's designee and appropriate local law enforcement agency when equipment is stolen, misplaced, or destroyed.
9. Complying with the provisions of Section 49-6-2007, *TCA*, regarding the disposition or transfer of property.
10. Maintaining a current edition of the Manual on school premises and making it available to all school personnel.

## Section 3: Duties and Responsibilities

### **Title 4, Tennessee Department of Education**

Duties and responsibilities of the State Department of Education include, but are not limited to, the following:

1. Preparing a uniform accounting policy manual pursuant to Section 49-2-110, *TCA*, and making a copy available to each local board of education.
2. Revising the existing Manual periodically and making the revised Manual available to each local board of education.
3. Consulting annually with each director of schools to determine the nature and scheduling of any in-service meetings considered necessary for school principals, bookkeepers, and other financial personnel.
4. Providing technical assistance to directors of schools and boards of education for implementation, administration, and interpretation of the requirements of the Manual.
5. Providing training assistance to school personnel as requested.
6. Granting approval to written requests submitted by boards of education through the directors of schools for revisions or waivers to provisions of the Manual when deemed appropriate by the Commissioner of Education, in collaboration with the Comptroller of the Treasury and the Department of Finance and Administration.

## Section 3: Duties and Responsibilities

### **Title 5, Comptroller of the Treasury**

Duties of the Comptroller of the Treasury include, but are not limited to, the following:

1. Approving, in collaboration with the Tennessee Department of Education and the Commissioner of Finance and Administration, the Manual prepared by the Department of Education in accordance with Section 49-2-110, *TCA*.
2. Reviewing and approving the uniform Contract to Audit Accounts between boards of education and auditors of internal school funds in accordance with Section 49-2-112, *TCA*.
3. Reviewing and approving audit reports of internal school funds.
4. Providing technical assistance in the administration, interpretation, and implementation of the requirements contained in the Manual, upon request by local boards of education.
5. Working in conjunction with the Tennessee Department of Education to consider requests submitted by boards of education for approval of revisions or waivers to certain provisions of the Manual.

### Section 3: Duties and Responsibilities

#### **Title 6, Commissioner of Finance and Administration**

Duties of the Commissioner of Finance and Administration include, but are not limited to, the following:

1. Approving, in collaboration with the Tennessee Department of Education and the Comptroller of the Treasury, the Manual prepared by the Tennessee Department of Education in accordance with Section 49-2-110, *TCA*.

Section **4**

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**Administration  
of Internal  
School Funds**

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL

## **Section 4: Administration of Internal School Funds**

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### **Title 1, Internal School Funds**

#### **Background**

Section 49-2-110, *Tennessee Code Annotated (TCA)*, establishes the authority for schools to receive and account for student activity and other internal school funds. Section 49-2-603, *TCA*, though explicitly only applicable to that part, includes detailed definitions for these funds. This Manual has incorporated these definitions, as summarized below.

#### **Internal School Funds**

Internal School Funds are defined as any and all money received and accounted for at individual schools, and specifically include, but are not limited to:

1. Any donation or grant made to the school, a school club, or any academic, arts, athletic, or social activity related to a school;
2. Funds for cafeteria services operated at the school;
3. Fees collected by the school;
4. Funds transferred to the local school from the school board that are to be accounted for at the local school level;
5. Funds raised through cooperative agreements with outside organizations;
6. Rental fees charged outside entities for use of school facilities; and
7. Student activity funds.

#### **Student Activity Funds**

Student activity funds include money received from any source for school-sponsored student activities or school-sponsored events held at or in connection with a school, and specifically include, but are not limited to funds:

1. Derived from a school-sponsored academic, art, athletic, or social event involving students;
2. Raised by school-sponsored clubs involving students;
3. Raised by school-sponsored fundraisers involving students who are under the supervision of a school employee;

4. Received from a commission for the direct sale of items to students pursuant to a cooperative agreement between the school and an outside organization;
5. Received for the direct sale of items to students from a school-run bookstore located on school grounds;
6. Raised from fees charged to students;
7. Obtained from interest from any account that contains student activity funds;
8. Obtained from any related school-sponsored activity that involves the use of school personnel, students, and property during the school day (the regular hours of operation of the school during which classes are conducted).

Internal school accounting requires the establishment of funds to account for specific activities of a school's operation. The differences between internal school fund accounting and generally accepted accounting principles are described in the accounting and reporting section of the Manual.

Generally, each school has only three funds: (1) general fund, (2) restricted fund, and (3) school nutrition fund.

### **General Fund**

The general fund is used to account for all money to be used for the general operation of the school or for the welfare of the student body. This includes, but is not limited to, allocations, locker fees, parking fees, library fines, rental income, unallocated interest income, school-wide fundraisers, and donations without stipulations.

All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body and supplement, and not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and salaries. Expenditures meeting these criteria are restricted in purpose only as directed by the board of education, general laws and regulations, and school policies.

The general fund consists of separate revenue accounts and expenditure accounts. Total general fund expenditures (including unpaid obligations as of June 30 each year) must not exceed the beginning fund balance plus current year revenue. A deficit balance in the general fund (representing the net total of all account balances in the general fund) is not allowable.

The principal is considered to be the sponsor of the general fund.

### **Restricted Fund**

The restricted fund is used to account for all money which is restricted for the use of a specific group (club, class, etc.) or legally restricted for a specific purpose (BEP funds, scholarship donations, board appropriations for restricted purposes, etc.). The restricted fund may also be used for grants, donations, and awards in which the intended purpose does not fall under the scope of the General Fund (Governor's Award, performance incentive money, certain corporate donations, etc.).

**All expenditures of restricted fund account money must be for the purpose or group for which the money was raised.**

The restricted fund consists of accounts which include both revenues and expenditures, and each account maintains its own identity. Expenditures in each restricted fund account must not exceed the beginning balance plus current year revenue. A deficit balance in a restricted fund account is not allowable.

The principal may be the sponsor of some restricted fund accounts such as legally restricted scholarships, grants, and donations. The principal generally designates other individuals as sponsors of club, class, and other restricted fund accounts.

### **Local Education Agency (LEA) – School Nutrition Fund**

Each school that receives state and/or federal school nutrition money for the purpose of financing cafeteria operations must establish a separate fund entitled "Local Education Agency - School Nutrition Fund." This fund must be used to account for such money in accordance with state and federal rules and regulations governing school nutrition programs. The school nutrition fund is discussed in Section 8.

In most instances, the cafeteria manager is considered the sponsor of the school nutrition fund.

### **Accounting for Athletics**

Although athletic programs may benefit the welfare of the student body, money raised from sanctioned athletic programs is generally restricted for the use of the athletic program. In addition, parents and other individuals generally demand a separate accounting of money raised by school athletics. Therefore, a sanctioned athletic program must be accounted for in the restricted fund. The board of education must determine which of the following alternatives for athletic accounting will be used by each school.

#### **Alternative 1**

Establish one primary athletic account. Subsidiary or sub-accounts may be established to account for revenues and expenditures in individual sports (e.g., football, basketball, baseball, softball, soccer, etc.). If such subsidiary accounts are established, one or more of the subsidiary accounts may incur a deficit balance provided that the primary account for



athletics (net total of all athletic subsidiary accounts) does not have a deficit balance. Only the primary account should be reported in the audited financial statements. The principal is considered to be the sponsor of the primary athletic account.

**Alternative 2**

Establish a separate account for each individual sport. No individual sport may incur a deficit account balance. The activity for each separate account must be reported in the audited financial statements. The principal generally designates the coach or other individual as the sponsor.

## Section 4: Administration of Internal School Funds

### **Title 2, Internal Control**

#### **Objectives of Internal Control Systems**

The objectives of internal control systems used in administering internal school funds are to provide management with reasonable, but not absolute, assurance that (1) internal school money is spent and related inventory is used in accordance with laws, regulations, and policies; (2) internal school money and related inventories are safeguarded against waste, loss, and misuse; and (3) reliable information is obtained, maintained, and fairly presented and disclosed in reports.

Accounting control is concerned with the plan of organization and the procedures and records that relate to the safeguarding of internal school money and related inventory, and the reliability of financial records. Controls should provide reasonable assurance that:

1. transactions are authorized;
2. transactions are recorded: (a) to permit preparation of financial statements in accordance with the Manual, and (b) to maintain accountability for assets;
3. access to internal school money and related inventory is authorized; and
4. assets recorded in the accounting records are compared with the existing assets periodically, and appropriate action is taken with respect to any differences.

Accounting controls may be classified into transaction cycles. Basic transaction cycles include the revenue/collection cycle, expenditure/disbursement cycle, capital asset cycle, inventory cycle, and the reporting cycle. The expenditure/disbursement cycle includes the payroll and purchasing cycles, which are presented separately in the following discussion.

In layman's terms, internal controls are procedures which will help:

1. limit the opportunity for theft or unauthorized use of the school's money or related inventories;
2. ensure that school money is collected and spent in accordance with laws, regulations, and policies;
3. detect errors or fraud timely;
4. provide correct financial information;
5. provide individuals who handle money with documentation that they properly accounted for all school money they handled; and

6. ensure that amounts of money and inventory reported to the public agree with actual amounts of money and inventory in the school or in school bank accounts.

The following “minimum recommended internal control” procedures, in conjunction with detailed procedures set forth throughout the Manual, represent the minimum procedures that meet the internal control objectives. Applicable procedures are required unless the school develops alternative procedures which provide the same or better controls. In some circumstances, it might be necessary to implement additional internal control procedures to supplement those presented below.

### **Controls Surrounding Electronic Files and Equipment**

Schools rely on computer data for demonstrating financial accountability, making financial decisions, and for reporting to local, state, and federal agencies. Internal controls should be designed and implemented to safeguard computerized data, which includes adopting policies and procedures to minimize the loss or corruption of essential data. At a minimum, policies and procedures should be developed that address internal controls relating to:

1. computer data storage, backup (including off-site storage), and disaster recovery;
2. computer access and authorization, including required sign-on passwords;
3. assigned computer system user rights that match job functions and responsibilities;
4. security software to protect against viruses and the like.

### **Revenue/Collection Cycle**

#### **Internal Control Objectives**

1. All collections are received at the proper time.
2. The correct amount of money is received.
3. All collections are promptly deposited intact and recorded in the accounting records.
4. All collections are properly allocated to the appropriate fund and accounts.

### **Potential Errors Due to the Lack of Internal Control**

1. Amounts due under profit-sharing arrangements are calculated incorrectly.
2. Amounts received from profit-sharing arrangements are incorrect.
3. Amounts received are diverted for personal use.
4. Amounts received and/or sources of collections are incorrectly recorded.
5. Collections are not deposited into the school's bank account.
6. Bank deposits are not made intact within three banking days.
7. Collections and deposits are not recorded promptly.
8. Collections are allocated to the wrong fund or account.
9. Amounts allocated to specific accounts are incorrect.
10. Collections are not received at the proper time.

### **Minimum Recommended Internal Controls**

1. Accounting or bookkeeping staff should be competent and well trained in basic bookkeeping skills.
2. The school should establish and document detailed requirements for collections, including the assignment of related responsibility, timing of collection, and follow-up on uncollected accounts.
3. The principal or designee should recalculate collection amounts (e.g., fundraiser summary, ticket reconciliation, etc.) on a sample basis.
4. All checks received by the school should be immediately endorsed with a restrictive endorsement, such as **“For Deposit Only – Volunteer High School.”**
5. At the time of collection, individuals collecting money should prepare prenumbered receipts, collection logs, or other appropriate documentation.
6. Internal school fund money must be deposited intact (in the form and amount in which collected) in banks within three banking days after the money is received. When possible, school money should be deposited daily. A night deposit should be used as necessary to comply with these provisions.
7. Cash registers should be used wherever possible, such as in cafeterias and in bookstores, and cash register tapes should be retained and reconciled daily with collections.

8. All revenue/receipts should be accurately and promptly recorded in the school's accounting records.
9. To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records, and reconciling bank accounts.
10. A person who is independent of the receiving, depositing, and recording functions should compare bank deposits with the prenumbered receipts, collections logs, ticket reconciliation, cash register tapes, etc.
11. Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.
12. Individuals who have responsibility for or access to, cash, property, or other assets of internal school funds should be bonded with fidelity insurance coverage.

## **Purchasing/Disbursement Cycle**

### **Internal Control Objectives**

1. Purchases are properly authorized and do not exceed fund or account balances.
2. Goods and services ordered are for an appropriate school purpose.
3. Goods and services ordered are actually received, and all goods and services received were ordered.
4. Invoices for goods and services are correct.
5. Purchase amounts are recorded in the proper funds, accounts, and fiscal year.
6. Disbursements for purchases are supported by adequate documentation.
7. Checks are written on a timely basis for the correct amount and made payable to the proper payee.
8. Debit cards are used for authorized school purposes and related purchases are made in accordance with established policies and procedures.
9. Credit cards are used for authorized school purposes and charges and related payments are made in accordance with established policies and procedures.
10. Online purchases and payments are for authorized school purposes and are made in accordance with established policies and procedures.
11. Documentation supporting disbursements is canceled in a manner which will prevent duplicate payment.

### **Potential Errors Due to the Lack of Internal Control**

1. Goods or services are ordered or paid for that are not for an appropriate school purpose.
2. Goods are ordered or purchased in excessive quantities or unnecessary services are requested.
3. Goods or services are ordered but not received or rendered, or goods or services are received or rendered, but not ordered or requested.
4. Purchases are recorded but goods or services are not received or rendered.
5. Sales tax is inappropriately paid or not paid when applicable.
6. Invoices do not match goods and services received or rendered.
7. Invoices have incorrect prices and/or math extensions.
8. Invoice amounts are incorrectly recorded.
9. Purchases are allocated to or recorded in the wrong fund or account.
10. Payments are made for the wrong amount and/or to the wrong vendor.
11. Invoices are paid more than once.
12. Disbursements are not recorded in the accounting records.
13. Purchases are recorded in the wrong fiscal year.
14. Payments are made without adequate documentation.
15. Purchases are not authorized.
16. Purchases are made which create deficit account balances.

### **Minimum Recommended Internal Controls**

1. The availability of money for the fund/account in question should be determined before requisitions are approved.
2. All requisitions should be properly approved prior to the purchase.
3. Prenumbered purchase orders should be used, and access to blank forms should be controlled by the principal or designee.
4. Competitive bids or quotes should be required for purchases that exceed the school system's bid limits established by the board of education or applicable state statute.

5. Merchandise received should be opened immediately, physically inspected and counted, and documented on a receiving report to verify that goods were actually received in good condition and in the quantities ordered. Likewise, services performed should be approved and accepted and documented on the invoice to verify the service was performed as requested.
6. Invoice prices should be compared to prices shown on purchase authorizations, and invoices should be checked for mathematical accuracy.
7. Invoices should be compared to purchase authorizations and matched with receiving reports before payment is approved.
8. When payment is made, the invoice (or other supporting documentation) along with the purchase authorization should be canceled to prevent duplicate payment. The paid check number and account distribution number or code should be stamped or written on the invoice or other supporting documentation.
9. Unpaid invoices (or other supporting documentation) for goods or services received should be reviewed at least monthly and approved as required.
10. Access to blank checks and signature stamps, if used, should be restricted to avoid unauthorized use.
11. All disbursements/expenditures should be accurately and promptly recorded in the school's accounting records.
12. To the extent possible, the following duties should not be performed by the same person: approving requisitions; preparing purchase authorizations; receiving goods or services; approving payment; preparing checks; signing checks; and preparing bank reconciliations.
13. Bank reconciliations should be performed on a timely basis. If the person preparing the bank reconciliation performs other cash functions, the reconciliation must be reviewed by someone who is independent of those functions.
14. A policy should be established that prohibits school employees from using the school's tax-exempt status for making personal purchases.
15. Establish a policy that at no time should an employee make purchases of personal items using a school's credit card, debit card, check, petty cash, cash collections, etc., even if the intent is to reimburse the school.
16. When gift cards are given as awards, a listing should be prepared to document and account for all gift cards purchased. At a minimum, the listing must include columns for (1) the dollar amount(s) for each individual card, (2) the individuals who were awarded the respective cards, and (3) the signature of

the recipient to indicate that they received the gift card. The reason for the awards should also be clearly documented.

17. Debit Cards

- (a) Establish a policy that the use of debit cards is to be limited to small incidental purchases, not normal operating expenditures.
- (b) Establish a policy that cash advances from debit cards are prohibited.
- (c) Establish individual transaction and daily dollar limits for each card.
- (d) Allowable and prohibited expenditure types should be established (e.g., personal purchases must be strictly prohibited, regardless of whether the intent is to reimburse the school).
- (e) Establish a policy that employees will be required to reimburse the school for any unauthorized purchases. The policy should address procedures for when an employee fails to reimburse the school after a reasonable amount of time. This may include deducting the amount from the employee's paycheck or holding the employee's paycheck until payment is made. Unauthorized purchases include, but are not limited to, cash advances, personal items, purchases that do not have adequate supporting documentation – that is, original itemized invoices and receipts, etc.
- (f) Debit cards that have not been issued or are currently not being used should be stored in a safe or in a locked drawer to provide for their safekeeping.
- (g) A listing should be maintained of all issued cards and all authorized users.
  - i. When multiple employees use one debit card, a separate log should be maintained for each debit card. This log should include columns for (1) printed name of user, (2) signature of user, (3) date checked out, and (4) date returned. The bookkeeper should initial the entry twice: at the time the card is checked out and again when the card is turned in.
  - ii. The listing of issued cards should be checked before final paychecks are issued to departing employees to ensure the debit cards are turned in.



- (h) Actual (original) invoices that support each debit card purchase should be submitted timely. Each individual original invoice, receipt, etc., must have the following information written on it (or written on an attached sheet of paper if the receipt or invoice is too small):
  - i. Description of the school purpose for the purchase;
  - ii. Nature and description of individual items purchased if not clearly apparent from the invoice/receipt; and
  - iii. The name of the person who made the purchase.
- (i) Timely reconciliations of monthly debit card statements should be performed. Reconciliations should be approved by someone other than the preparer of the reconciliation.
  - i. When the reconciliation is performed, the bookkeeper shall review individual purchases to determine that (1) the dollar amount reported on the supporting documentation agrees with the corresponding amount on the monthly statement; (2) the date of the supporting documentation is reasonable to the date of the purchase; and (3) the supporting documentation represents items purchased for legitimate school purposes.
- (j) Each person who is issued a debit card or who is authorized to use a debit card should be required to read and sign that they are aware of debit card procedures.
- (k) The principal should be notified immediately regarding any lost or stolen cards.
- (l) Transactions should be monitored for possible multiple transactions on the same day made to circumvent established dollar limits, individual purchases over established limits, unauthorized purchases, etc.

#### 18. Gift Cards

The practice of purchasing gift cards that are then given to school employees to make school purchases is strongly discouraged. If gift cards are used in this manner, the same controls enumerated above for debit cards should be followed.

19. Credit Cards

- (a) Establish a policy that the Principal is the only employee authorized to apply for a credit card in the name of the school.
- (b) Credit cards that have not been issued or are currently not being used should be stored in a safe or in a locked drawer to provide for their safekeeping.
- (c) A listing should be maintained of all issued credit cards and all authorized users as listed in the credit card agreement.
  - i. When multiple employees use one credit card, a separate log should be maintained for each credit card. This log should include columns for (1) printed name of user, (2) signature of user, (3) date checked out, and (4) date returned. The bookkeeper should initial the entry twice: at the time the card is checked out and again when the card is turned in.
  - ii. The listing of issued cards should be checked before final paychecks are issued to departing employees to ensure the credit cards are turned in. The credit card company should be requested to remove their name as an authorized user and school records should be updated accordingly.
- (d) Establish a policy regarding authorized uses for credit cards. Normally credit cards are only used for transactions in which the use of a standard purchase order is either impossible or would result in a delay of the delivery of goods or services during a time of emergency. Credit cards may also be used to facilitate out-of-town travel by employees or school groups on official school business or school trips. All use of credit cards shall be done in accordance with the school's purchasing policies and procedures.
- (e) Establish a policy that cash advances from credit cards are prohibited.
- (f) Establish individual transaction and daily dollar limits for each card.
- (g) Allowable and prohibited expenditure types should be established (e.g., personal purchases must be strictly prohibited, regardless of whether the intent is to reimburse the school).
- (h) Establish a policy that employees will be required to reimburse the school for any unauthorized purchases. The policy should address procedures for when an employee fails to reimburse the school after a reasonable amount of time. This may include deducting the amount

from the employee's paycheck or holding the employee's paycheck until payment is made. Unauthorized purchases include, but are not limited to, cash advances, personal items, purchases that do not have adequate supporting documentation – that is, original itemized invoices and receipts, etc.

- (i) Actual (original) invoices that support each credit card purchase should be submitted timely. Each individual original invoice, receipt, etc., must have the following information written on it (or written on an attached sheet of paper if the receipt or invoice is too small):
  - i. Description of the school purpose for the purchase;
  - ii. Nature and description of individual items purchased if not clearly apparent from the invoice/receipt; and
  - iii. The name of the person who made the purchase.
- (j) Timely reconciliations of monthly credit card statements should be performed. Reconciliations should be approved by someone other than the preparer of the reconciliation.
  - i. When the reconciliation is performed, the bookkeeper shall review individual purchases to determine that (1) the dollar amount reported on the supporting documentation agrees with the corresponding amount on the monthly statement; (2) the date of the supporting documentation agrees with the date of the purchase; and (3) the supporting documentation represents items purchased for legitimate school purposes.
- (k) Each person who is issued a credit card or is authorized to use a credit card should be required to read and sign that they are aware of credit card procedures.
- (l) The principal should be notified immediately regarding any lost or stolen cards.
- (m) Transactions should be monitored for possible multiple transactions on the same day made to circumvent established dollar limits, individual purchases over established limits, unauthorized purchases, etc.
- (n) The bookkeeper shall ensure that the credit card statement is paid in full each month so that no finance charges are incurred.

(o) Copies of each month's credit card statement shall be made available to the principal, internal auditors, and/or members of the board of education upon request.

(p) Some credit card agreements offer premium or bonus incentives based upon purchases made with their credit card. Premiums that consist of noncash items should be handled in accordance with the Ethics Policy of the respective city or county. Premiums that consist of cash should be deposited into the General Fund.

20. Online Banking

Controls related to online banking are included in Section 6, Title 5, of this Manual.

**Payroll Cycle (for noncentralized school nutrition funds only)**

**Internal Control Objectives**

1. Payroll expenditures are within the budget authorization.
2. Employees are paid the correct amount for work performed.
3. Employee withholdings, deductions, and net pay are computed correctly.
4. Payroll-related liabilities are accrued and properly documented.
5. Payroll costs are allocated to the correct fund and account.
6. Payroll expenditures are recorded correctly.

**Potential Errors Due to the Lack of Internal Control**

1. An excessive number of persons are hired.
2. Duplicate payments are made.
3. Employee time sheets are not accurate or are not maintained.
4. Employees are paid for work not performed.
5. Payroll expenditures exceed the budget authorization.
6. Employees are over or underpaid; deductions are incorrect.
7. Paychecks are not received by the correct employees.
8. Paychecks are issued for fictitious employees.

9. Vacation and sick leave records are not accurate or are not current.
10. Payroll amounts are recorded incorrectly.
11. Payroll is recorded in the wrong fund or account.
12. Payroll is recorded for the wrong payroll period.

### **Minimum Recommended Internal Controls**

1. Cumulative payroll costs are compared to the budget authorization, if applicable, prior to disbursement.
2. Payroll computation for new employees and changes in deductions for existing employees are calculated by one person and reviewed by a different person, whenever possible.
3. Personnel files include current documentation of employees' authorized pay rates and for all payroll deductions.
4. Attendance records, time sheets, or time cards are signed by the employee, approved by a designated person, and submitted to the payroll clerk where the records are used to compute payroll.
5. Payroll checks are distributed by an employee who is independent of the payroll function.
6. The person who distributes payroll checks should require identification from any employee not personally known by him or her.
7. Employee vacation and sick leave records are current and are reviewed periodically by both the supervisor and the employee.
8. Payroll disbursements are promptly and accurately recorded in the proper fund.

### **Capital Asset Cycle**

Although capital assets are not required to be recorded in the financial statements of internal school funds, the school's property records provide the basis for recording capital assets in the financial statements of the county, municipality, or special school district. Therefore, this cycle addresses not only controls related to the safekeeping of capital assets, but also controls over the recording of such assets.

### **Internal Control Objectives**

1. Assets purchased are properly authorized and are beneficial to the school.

2. All capital assets are correctly recorded in the school's records and are physically on hand.
3. School records correctly reflect the sale, theft, abandonment, or damage of capital assets; and all obsolete capital assets have been noted and reported to the board of education.
4. Restrictions on the use or disposition of property and equipment are complied with.
5. Donated capital assets are valued and recorded correctly.
6. All capital assets are identified in such a way as to identify them as school or board of education property.

### **Potential Errors Due to the Lack of Internal Control**

1. The cost of capital assets is recorded incorrectly.
2. Capital assets are purchased that do not benefit the school.
3. Capital assets no longer in use have not been removed from the books.
4. The school's capital assets are used for personal benefit or other unallowable purposes.
5. Donated assets are not recorded or are recorded incorrectly.

### **Minimum Recommended Internal Controls**

1. Formal approval of the director of schools should be required for all capital asset purchases; and items costing in excess of a specified amount should be approved by the board of education.
2. Detailed property and equipment records should be maintained that include asset description, date purchased or received by donation, cost or fair value of donation, location, etc.
3. Applicable laws and school policies should be followed when disposing of capital assets.
4. Designated individuals are responsible for assuring compliance with the terms of restricted donations or property purchased with grants.
5. At least annually, a physical inspection and count of capital assets should be performed and compared with the school's records.
  - a. Reconciliations should be prepared and discrepancies should be immediately followed up and explained.

- b. Reconciliations are reviewed by a responsible individual.
6. Equipment and other applicable property should be properly identified by numbered metal tags or other means of identification.
7. Items should be kept secure and safeguarded from loss due to fire, theft, or misplacement.

## **Inventory Cycle**

### **Internal Control Objectives**

1. Inventory recorded represents a complete listing of materials, supplies, and items held for use in operations or for sale that are owned by the school, including donated materials, and such assets are physically on hand at the balance sheet date.
2. Inventory listings are accurately priced, extended, footed, and summarized, and the totals are properly recorded in the accounts.
3. Inventory is valued correctly.
4. Excess, obsolete, and defective recorded inventory is reduced to net realizable value in the accounting records.
5. Inventory is properly classified on the balance sheet, and disclosure is made of restricted, pledged, or assigned inventory and the methods used to value inventory.
6. Inventory is safeguarded from theft and loss.

### **Potential Errors Due to the Lack of Internal Control**

1. Inventory recorded is incomplete.
2. Prices on inventory lists are not accurate and/or extended, and the footed amounts and totals do not agree with amounts recorded in the school's records.
3. Inventory is not valued correctly.
4. Obsolete inventory is not removed from the books.
5. Inventory is not safeguarded or insured.

### **Minimum Recommended Internal Controls**

1. All inventories should be accurately and promptly recorded in the school's accounting records.
2. Inventories should be adequately safeguarded against loss, theft, physical deterioration, or misuse by being kept in locked enclosures, access to which is granted only to authorized personnel.
3. Responsibility for establishing and monitoring inventory levels should be fixed by assigning custody of inventories to specific individuals.
4. The individual responsible for receipt, storage, and issuance of goods should be independent of responsibility for purchases, sales, and inventory records.
5. Personnel should be required to report obsolete, unusable, and overstocked items, and approval should be required and obtained before disposing of such inventories.
6. Periodic physical inspections and counts should be performed and balanced to the school's records.
7. Inventories should be covered by insurance.
8. Inventories should be appropriately valued based on the cost flow assumption selected.

### **Reporting Cycle**

#### **Internal Control Objectives**

1. The financial statements are prepared in accordance with an "other comprehensive basis of accounting" as shown in the accounting and reporting section of this manual.
2. Transactions are properly classified and summarized by account activity and balances are properly stated.
3. Financial statements are prepared on a basis consistent with that of the previous year. Notes to financial statements call attention to any differences between the school's financial statement presentations and generally accepted accounting principles.
4. Financial statements and accompanying notes provide adequate informative disclosures.
5. Adequate procedures exist to provide a clear cutoff of transactions at year end.
6. Adequate control is exercised over the preparation of financial statements.



7. Adjusting entries are properly approved and posted to the school's books and records.

### **Potential Errors Due to the Lack of Internal Control**

The types of errors that could occur are almost unlimited. The reporting of financial information involves nonroutine activities that are best controlled by more general management controls.

### **Minimum Recommended Internal Controls**

1. Management should be kept informed of changes in the Manual.
2. Statements and schedules should be checked by a person other than the bookkeeper and reviewed by the principal or designee.
3. The Manual should be complied with and additional required procedures and policies should be documented.
4. Records should be sufficiently safeguarded.
5. Nonpermanent (pencil) entries and liquid paper (white-out) in accounting records are prohibited.

## Section 4: Administration of Internal School Funds

### **Title 3, Insurance/Bonding of Employees**

Employees of the local board who handle money and accounting records of individual schools must be bonded in accordance with Section 49-2-110, *TCA*. A blanket corporate fidelity (or dishonesty) bond covering all applicable employees must be provided by the local board. Personal or signed fidelity (or dishonesty) bonds are not acceptable. The board of education shall determine the amount of the bond, giving consideration to the total amount of money and/or property that is handled in each school.

The board of education should determine and provide the type and amount of insurance coverage necessary to indemnify the school and board of education for loss of school cash, equipment, files and records, etc., due to theft, vandalism, fire, or other perils.

## Section 4: Administration of Internal School Funds

### **Title 4, Safekeeping of Cash**

Internal school fund money must be deposited intact (in the form and amount in which collected) in banks within three banking days after the money is received. When possible, school money should be deposited daily. A night deposit should be used as necessary to comply with these provisions.

School money should **never** be taken home by individuals for safekeeping or left at a school overnight unless it is stored in a school safe or vault. When a safe or vault is used for money and records, the following procedures should be followed:

1. The combination to the safe or vault should be changed whenever there is a change in personnel who had access to the vault.
2. The combination should be changed at least once every two years or more frequently as deemed necessary.
3. The combination should not be accessible to unauthorized persons.
4. A copy of all current combinations should be filed in the director of schools' office in a secure location.

Each principal must know the amount of insurance coverage for the school to ensure the amount of money left overnight in the building does not exceed the insured amount. In the event the school incurs a loss in cash or property, the principal must communicate the loss immediately to the appropriate law enforcement officials and director of schools to allow the board of education to report the loss to appropriate insurance companies in a timely manner.

## Section 4: Administration of Internal School Funds

### **Title 5, Property Acquisition and Management**

#### **Definition**

For the purpose of administering internal school funds, “property” includes all items necessary for the education of the students and for administration and operation of the school. This definition includes, but is not limited to, such items as:

#### **Capital Assets and Sensitive Minor Equipment**

1. Construction of or additions to facilities, including betterments, improvements or repairs, and maintenance;
2. Equipment such as copiers, computers, playground items, cafeteria equipment, etc.; and
3. Sensitive minor equipment such as cameras, calculators, DVD players, laptop computers, etc.

#### **Inventory**

1. Workbooks and other instructional supplies;
2. Office and classroom supplies such as paper goods, rubber bands, etc.;
3. Resale products; and
4. Food inventory and supplies.

This section addresses property purchased with internal school money or donated to internal school funds. The board should establish policies regarding records which must be maintained for other property purchased by the board of education which is under the supervision of the individual principals.

#### **Property Acquisition**

##### **General Fund**

As noted previously, student activity funds should be used to supplement and not replace money necessary to fulfill the local board’s obligation to provide an instructional program, property, equipment, and staff development. Therefore, the purchase of property from the general fund is limited only in that all expenditures from the general fund must supplement, not replace, the board’s required contributions.

##### **Restricted Fund**

Restricted fund money may be used to purchase property, as defined above, in accordance with the procedures prescribed in the Manual.

## **Property Management**

It is essential to account for property (whether donated or purchased with individual school money) and to establish and maintain adequate internal controls for such property, including the following:

### **Capital Assets and Sensitive Minor Equipment**

1. Establish and maintain records on a current basis. Identify items and record information that includes:
  - (a) Item description
  - (b) Location
  - (c) Manufacturer
  - (d) Model number
  - (e) Serial number
  - (f) Date received
  - (g) Vendor name or donor
  - (h) Purchase price or appraised value
  - (i) Responsible individual
  - (j) Date of inventories
  - (k) Disposition
2. Submit detailed lists (suitable for insurance purposes) at least annually to the director of schools or the board of education.
3. Designate an individual to be responsible for specific items. Removal of any items from the school's premises should be approved in advance in writing by this individual. All such removals should be for official use only.
4. Mark each piece of equipment for school ownership identification by using a method which is as permanent as possible, preferably prenumbered property tags or bar code tags.
5. Conduct physical counts periodically, compare results with property records, and investigate differences noted.
6. Record purchases, donations, and disposals as they occur.

## **Inventory**

1. Establish and maintain inventory records which detail inventory items both in dollars and in quantities.
2. Conduct physical counts periodically. If a perpetual system is used, compare results with inventory records, and investigate differences noted.
3. Designate persons to be responsible for specific inventory items (safekeeping, distribution, etc.).

## Section 4: Administration of Internal School Funds

### **Title 6, Retention and Disposal of Records**

#### **Retention of Records**

##### **Custodian of Records**

All internal school fund accounting records are the property of the board of education and must be preserved in the applicable individual school, except as expressly authorized by the board.

##### **Payroll Records**

Payroll records (including, but not limited to, personnel files, time cards/reports, and employee vacation and sick leave records) shall be retained for 45 years or until the applicable employee retires, whichever is later.

##### **Accounting Records, Supporting Documents, and Other Records**

The following original records (including data in an electronic format) should be retained for a minimum of five years or until all applicable audit exceptions are resolved, whichever is later:

1. Prenumbered cash receipts
2. Collection logs, ticket reconciliations, signed recorded counts, remittance advices, and other collection documentation
3. Ledgers
4. Journals
5. Audit reports
6. Capital asset and inventory records (retain five (5) years after disposal of property)
7. Purchase orders
8. Vendor invoices
9. Fire prevention reports
10. Lunchroom reports (except payroll records)
11. Daily attendance records
12. Bids
13. Gross profit analysis documentation

14. Bank statements and canceled checks

- (a) If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.
- (b) If imaged statements are issued, the school should require the bank to include both the front and back of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible.
- (c) When imaged copies are not included with the bank statement, the school should either request the bank to send the copies to the school, download copies from the bank's website, or determine an alternative method to obtain adequate supporting documentation for cancelled checks and deposit slips.
- (d) Any alternative method must meet the following criteria: (1) be cost effective; and (2) provide timely access to the documentation. Front and back copies are required regardless of the method used to obtain the copies or the format of the copies (paper or electronic).

15. Contracts, agreements, and other authorizations

16. Superseded individual school policies

**Current Individual School Policy Manual**

The manual should be continually updated and include all required policies.

**Extension of Retention Period**

If desired, local boards have the authority to extend the retention time beyond that period stated in the Manual.

**Disposal of Records**

Records not listed above may be destroyed at the end of a period designated by the local board. However, no records should be destroyed for at least one year or until the audit related to those records is completed and all applicable audit findings and recommendations are resolved, whichever is later.

The disposal process should be supervised by the principal to ensure complete destruction. A detailed list of all records destroyed and the related destruction date should be prepared, signed by all persons participating in the destruction of records, and submitted to the director of schools.



## Section 4: Administration of Internal School Funds

### **Title 7, Cooperative and Noncooperative Activities**

#### **Cooperative Activities**

##### **Definition**

A cooperative activity is one in which the school shares directly in the proceeds. Although they do not lend themselves to strict classification as student body activities, cooperative activities benefiting the student body are frequently undertaken by outside groups. The activity may involve salvage drives, carnivals, paid entertainment, food sales, etc., and is generally conducted after the normal school day. The activity may or may not involve the use of school facilities.

##### **Agreement**

Prior to the commencement of a cooperative activity, a written agreement concerning each party's responsibilities and the division of expenses and profits should be made between the outside group and the school in accordance with the board of education's policy.

##### **Proceeds**

The school shares directly in a percentage of the proceeds of a cooperative activity.

##### **Accounting for Proceeds**

If all proceeds from the event are collected by the school, the proceeds should be receipted by the school and a distribution made to the outside group based on the prior written agreement. If proceeds are collected by the outside group, a designated individual from the school should verify that the division of the collections was based on the written agreement and a prenumbered receipt should be issued for the school's share.

#### **Noncooperative Activities**

##### **Definition**

A noncooperative activity is one in which the school generally permits the use of school equipment or facilities without charge. However, there may be activities where the school charges a rental fee.

##### **Agreement**

Prior to the commencement of a noncooperative activity, a written agreement must be made setting forth the fee, if any, to be charged as well as other pertinent information in accordance with the board of education's policy.

**Accounting for Rental Fees**

Rental fees derived from noncooperative activities should be properly receipted and used in accordance with board policies.

## Section 4: Administration of Internal School Funds

### **Title 8, Fundraising and Resale Activities**

#### **Resale Activities**

For purposes of this Manual, resale activities encompass any activities involving the disbursement of money by the school for goods or services for resale. Resale activities may or may not be fundraisers as defined below. In some schools, resale activities such as bookstores, annuals, teacher lounge vending, etc., may not be intended or designed to generate a profit and therefore would not be considered fundraisers.

#### **Required Authorization**

Resale activities not intended to generate a profit may be conducted at the discretion of the principal, unless otherwise provided by board policies. Resale activities designed to generate a profit are defined as school-sponsored fundraisers and shall be authorized as explained later in this Section.

#### **Records**

Accountability is necessary regardless of whether or not the intention is to raise funds and generate a profit or to break even from the resale activity.

The school should execute a written agreement with the vendor for applicable resale activities, such as the yearbook.

For ongoing resale activities such as bookstores, concessions, vending, etc., monthly profit analysis reports must be completed to document collections, expenses, and any profit or losses of money or product. These reports must be filed with the other school records. The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected. For annuals, magazine sales, candy sales, and other similar activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity.

## **Fundraising Activities**

There are two types of fundraising activities – school-sponsored and those conducted by school support organizations. First, this Section will detail school-sponsored fundraising activities and later describe school support organization fundraising efforts.

### **1. School-Sponsored Fundraising Activities**

For purposes of this Manual, a school-sponsored fundraiser is considered to be any activity conducted by the school which is intended or designed to generate a profit.

#### **For the Benefit of the School**

Normally school-sponsored fundraisers are conducted by the school in order to generate a profit and provide supplemental revenue for the general fund or an individual club or class account. These fundraising activities could include vending operations, bookstores, pictures, concessions, carnivals, book sales, candy sales, magazine sales, walk-a-thons, car washes, bake sales, or similar activities such as project graduation. Fundraising activities do not include membership dues, fees, fines, ticket sales for sanctioned athletic events, activity fees, and similar fees.

#### **On Behalf and for the Benefit of an Outside Party**

Schools also participate in fundraisers on behalf of outside groups such as “Hoops for Hearts” and “Relay for Life” which raise money for organizations such as the American Heart Association and the American Cancer Society. Because the funds raised do not provide financial resources for the school, revenue should not be recognized and reported in the school’s accounting records. Instead, a liability account (payable to the organization the funds are being raised for) should be established. This does not include school service clubs who conduct their own fundraisers in order to provide donations for charitable purposes.

#### **General Principle**

School-sponsored fundraising activities shall be for the purpose of supplementing money for school programs and not for replacing funds which are the responsibility of the local board of education. School-sponsored fundraising activities shall, in general, contribute to the educational experience of the students and shall not conflict with the instructional program. When conducting resale and fundraising activities, school officials and employees should be aware of state laws regarding illegal conflicts of interest, kickbacks, and other such unlawful activities.

#### **Required Authorization**

The school board shall adopt policies regarding school-sponsored fundraising activities. Those policies must address: (1) the participation of the general student population and the use of school facilities and property in fundraising efforts; (2) board limitations, if any, on the expenditure of money thus raised; (3) disciplinary action, such

as personal financial sanctions and/or formal reprimands, applicable to principals and/or sponsors of student organizations who knowingly authorize/allow unapproved fundraising activities [NOTE: individual school policies may address disciplinary action applicable to sponsors of student organizations]; and (4) other requirements or limitations that the board may choose to impose.

**▶ In the absence of local board policies, all fundraising activities are prohibited.**

The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal. Authorization should include the following information:

1. a list of the proposed fundraising activities;
2. purpose of the fundraising activity;
3. proposed uses of funds raised; and
4. expected student involvement in fundraising activity (school-wide or individual class or club);

**Records for Fundraisers Involving Resale Activities**

The documentation required for resale items intended to generate a profit is described at the beginning of this Title (refer to “Records” under the heading “Resale Activities”).

**Records for Fundraisers not Involving Resale Activities**

A written agreement should be obtained when the school-sponsored fundraiser involves an outside vendor (such as school pictures). The agreement should set forth the division of profits that result from the activity, payment of sales tax, delivery date(s), package prices or other charges, scheduled date(s) of service, etc.

Accurate and systematic records of all cash collected should be maintained. Once collections are complete, the designated school authority should ensure that a proper division of profits is made in accordance with the written agreement and that the outside vendor’s portion is remitted. If an outside vendor makes the collections, the school must independently verify total sales and total collections to ensure proper division of profits. The documentation used to verify the school’s percentage must be internally generated, not received from an outside party (the vendor).

**Records for Fundraisers With or Without Designated Purposes**

To document that profits from school-sponsored fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the

money is expended. The disposition of excess proceeds or a change in authorized purpose must be approved by the director of schools.

A fundraiser summary report is not required when a fundraiser is conducted without a designated purpose and when the profits are used for the general operation of the school or the administrative activities of an individual club or class account. **However, school officials should be prepared to provide detailed financial information (in accordance with BOE policy and TCA open-record statute) related to any school account when requested by an outside party.**

## **2. School Support Organization (SSO) Fundraising Activities**

Section 49-2-604, *TCA*, states the school board shall adopt policies regarding the use of school facilities for fundraising purposes, cooperative agreements, and school support organizations. A group or organization may not use a school district's or school's name, mascot, or logos, property or facilities for the raising of money, materials, property, or securities until such policy is in place.

The policy must address:

1. Prior to raising money, a school support organization shall submit to the director of schools a form that documents:
  - (a) the organization's non-profit status;
  - (b) the goals and objectives of the organization; and
  - (c) the telephone number, address, and position of the organization's officers.
2. Annually, prior to the beginning of the school year, the organization shall submit a form to the director of schools that verifies the organization's continued status as a non-profit entity and also update the information for current officers.
3. School support organizations (SSO) shall annually, after the end of the school year, provide to the director of schools, a statement of total revenues and disbursements.
4. SSO's must obtain the approval of the director of schools prior to scheduling any fundraising activity.

Section 49-2-604, *TCA*, also states that a school representative may not act as treasurer or bookkeeper for a SSO and that a school representative may not be a signatory on the checks of the SSO. (Accordingly, a school representative would also be prohibited from having a debit card related to a SSO account.) The law prohibits a majority of the voting members of the board of an SSO from being comprised of school representatives.

**School Support Organizations—Defined**

School support organizations include the following organizations that collect or receive money, materials, or property from students, parents, or members of the general public and whose primary purpose is to support a school district, school, school club, or academic, arts, athletic, or social activities related to a school:

1. booster club
2. foundation
3. parent-teacher association
4. parent-teacher organization
5. parent-teacher support organization, or
6. any other nongovernmental organization

**School Representative—Defined**

If the SSO's primary mission is to support a school system or individual school, then a school representative includes:

1. a school board member;
2. the director of schools;
3. a principal; and
4. any person primarily responsible for accounting for either school system or individual school funds.

If the SSO's primary mission is to support a local school club or academic, arts, athletic, or social activity related to a school, then a school representative includes:

1. a school board member;
2. the director of schools;
3. a principal;
4. any person primarily responsible for accounting for either school system or individual school funds; and
5. any school system employee who is charged with directing or assisting in directing the related school club or activity.

School representative does specifically include coaches, assistant coaches, band directors, or any other school sponsor of a related club or activity.

## State Sales Tax

The State of Tennessee's "Retailers' Sales Tax Act" (Section 67-6-102, *TCA*) addresses payment of taxes applicable to purchases made for resale by schools. Section 67-6-102, Subsection (23), *TCA*, states:

(H) Notwithstanding the exemptions provided by sections 67-6-322 and 67-6-329 for sales to schools, "retail sale" and "sale at retail" subject to tax include any sale of tangible personal property or taxable services to a public or private school, grades kindergarten through twelve (K-12) or school support group, where such property or services are intended for resale by the school or school support group. Resales of such tangible personal property or taxable services by such school or school support group shall not be subject to tax. If for any reason a vendor does not collect and remit tax to the department on the sale of these items to the school or school support group, then the school or school support group shall be liable for use tax based on the purchase price of the items. This subsection (23) (H) does not apply to sales of school books and school lunches.

A school should not pay sales tax to an out-of-state vendor on items purchased for resale unless the vendor has supplied a Tennessee sales tax identification number. When sales tax is not paid to the vendor, the school is liable for use tax on the purchase price.

Resale items include **anything** purchased by the school and subsequently resold to students, teachers, clubs or other school organizations, the public, etc. (regardless of whether items are resold for profit or at cost). Sales tax should be paid on the purchase price of all resale items except for the exemptions noted above regarding books and school lunches. Also, as noted in Subsection 1, Section 67-6-102, *TCA*, sales tax does not apply to sales made during a "temporary sales period which occurs on a semi-annual or less frequent basis." In order for this exemption to apply, there can be no more than two resale activities per year by each school. If there are more than two resale functions, then the exemption requirements are not met and sales tax is payable on **all** resale transactions. As a rule, all schools have in excess of two resale activities per year.

School support organizations and other non-governmental groups may not use the school's or school district's tax exemption to purchase items.



**Emphasized Internal Control Features**  
**School-sponsored Fundraisers and Resale Activities**

1. Someone who is not involved in the collections or recordkeeping for the fundraiser should prepare the profit analysis report.
2. For vending operations, when the vendor does all product work and the school only receives a percentage, a counter controlled by school personnel should be placed on the machines. If a counter is not used, cash must be counted by school personnel (preferably two persons should be present) when removed from machines in order to establish the amount of collections to be used in calculating the division of profits per the written agreement. Other procedures may be employed which accomplish the independent verification.
3. A responsible school employee should verify the receipt of all incoming items for resale by comparing the items received to the invoiced amounts and descriptions, noting any discrepancies on the invoice, and signing the invoice.
4. In instances where schools have large quantities of items for resale or maintain bookstores or school stores, a physical count of the inventory should be taken at the end of each school year. Such an inventory should consist of a listing indicating the merchandise on hand, the number of units on hand, unit cost and total cost of all units on hand and signature(s) of person(s) responsible for the physical count.

## Section 4: Administration of Internal School Funds

### **Title 9, Donations & Other Miscellaneous Revenues/Receipts**

#### **Donations**

Legally restricted donations or allocations to individual schools must be used in accordance with the stipulations placed on their use by the contributor. Such donations and allocations include those received from local businesses, the local board of education, individual donors, or authorized transfers made from one restricted fund account to another restricted fund account or to the general fund. Any stipulations governing the use of donations or allocations should be documented in writing by the donors (e.g., donations for the purchase of computers, scholarship programs, etc.).

The school must prepare a form prior to the end of each school year for each source of legally restricted donations or allocations. This donation/allocation summary report must include: amount donated or allocated; source and purpose; date received; and detailed list of all related disbursements.

#### **Premiums (Bonus Incentives)**

Credit card companies, banks, office supply stores, fundraiser companies, and other vendors may offer gifts as premiums or bonus incentives to conduct business with their organization. Any cash (or cash equivalent) incentives should be deposited into the general fund. Other non-cash premium incentives should be handled in accordance with the ethics policy of the respective city or county.

#### **Returned Check Fees**

Any fees charged for returned checks by the school to a customer should be recorded as revenue in the fund or account in which the bank fee was recorded. If the bank charges fees which the school does not try to recoup, the fees should be recorded as an expenditure in the fund or account in which the returned check was originally recorded. If the school charges a fee in excess of the bank fee, such excess fees should be recorded in the general fund. Refer to Appendix A – Exhibit 13 for illustrative journal entries.

**Interest Earned on Bank and Investment Accounts**

Interest earned on bank and investment accounts is considered the property of the respective accounts as follows:

| <b>Source of Account Deposits:</b> | <b>Considered Revenue To:</b>   |
|------------------------------------|---|
| 1. General Fund                    | 1. General Fund   |
| 2. Restricted Fund Accounts        | 2. General Fund or Restricted Fund Accounts as set forth in the school's policies |
| 3. School Nutrition Fund           | 3. School Nutrition Fund  |

When interest is added to a bank or investment account by the depository and is not physically received by the school, the bookkeeper should make the appropriate entry in the general journal.

**Teachers' Materials and Supplies Funds**

The Basic Education Program (BEP), as detailed in Section 49-3-359(a) TCA, provides two hundred dollars for every teacher in kindergarten through grade 12. This money is to be used by teachers for instructional supplies. One hundred dollars (\$100) shall be spent as the individual teacher directs. The remaining \$100 per teacher shall be pooled for the benefit of the school and spent as determined by a committee of teachers. The purpose of this pool is to permit purchase of items or equipment that may exceed \$200 in value to benefit the instructional program for all such teachers at the school.

Eligible teachers include regular, vocational, special education, art, music, and physical education teachers. Every teacher who qualifies to receive funding for instructional supplies is eligible to serve on the school's committee that will determine the use of pooled funds.

If a school chooses to account for these funds through internal school funds, then the steps below must be followed:

1. Allocate \$200 per eligible teacher to each school.
2. Allocate \$100 of the above amount to each eligible teacher.
3. Notify all teachers and principals of this allocation and the procedures for expending these funds.
4. Send the appropriate amount of funds to each school to be deposited in a restricted account of the internal school funds. The title of this restricted account shall be the

“Teachers Materials and Supplies Account.” Sub-accounts must be maintained to ensure proper allocation to individual teachers and to “school pools.”

5. Expend the funds through the restricted account according to current purchasing or reimbursement procedures.

The individual teacher allocation should be used to enhance the instructional program. Examples of appropriate supplies include reading books, workbooks, reading work sheets, periodicals, supplies for experiments, maps, tapes, software, bulletin board materials, etc.

If a teacher does not expend the entire \$100 allocated by the end of the school year, the remainder shall go into the teacher pooled funds. Teacher pooled funds can be carried over to subsequent school years if determined by the committee of teachers at such school. Otherwise, the remainder will revert back to the General Purpose School Fund.

### **Grants**

The board of education must establish policies regarding direct application for grants by individual schools. Upon board authorization, individual principals may apply for grants. A separate restricted fund account must be established when grants are received directly by internal school funds. All related cash receipts and disbursements must be recorded in this account. In addition, a schedule of expenditures of federal awards and state financial assistance as described in Section 7 of this Manual must be prepared.

### **Student Fees / Fee Waiver**

Section 49-2-110(c), *TCA*, prohibits the imposition of fees as a condition of attending school or receiving instruction. Therefore, fees must not be required of any Tennessee student as a requisite for school attendance, enrollment in any class or course, or for using school equipment. The board of education will pay all fees for students who have on file with the board an approved waiver application.

Some boards of education provide these fees through an annual allocation and others on a reimbursement basis. When fees are paid through an annual allocation, the bookkeeper should periodically submit to the board a comprehensive list of waived fees, including the student’s name, amount of fee, and purpose of fee. Payment from the board to the school for waived fees should be recorded by source (e.g. Board of Education Fee Waiver revenue).

### **Extended School Program (ESP)**

When ESP money is collected at the individual schools, there are various methods of collecting and recording the money. One method is to receipt and deposit the money in a school bank account, just as other internal school money. The principal then reports these collections and pays ESP money to the board of education by school check. Since the school is acting only as a collection agency for the board of education, this activity will not affect any revenue or expenditure accounts. The bookkeeper should record these transactions in the general journal by making the appropriate debits and credits in the cash and liability accounts. These funds should be audited by the school system's auditor for internal control and compliance requirements.

Another method is for the school to issue board of education receipts and deposit the money directly into a special board of education account set up for this purpose. The school is still acting as a collection agent for the board of education; however, with this method, the school would not record anything in the internal school fund records. A drawback to this method is that the auditor for the board of education would have additional work in testing the internal control structure of each school that collects money for the board of education in this manner.

Schools also serve as the place of collection for other board of education administered programs such as adult education, day care, and summer school programs. The recordkeeping for these activities should be the same as for the Extended School Program.

### **Student Deposits and Fines Collected for the Board of Education**

Occasionally, boards of education may require school personnel to collect money on behalf of the board of education that must be accounted for in the school's accounting records. Reasonable fines may be assessed for lost or damaged school property, such as textbooks, library books, equipment, etc., or for other purposes. Such money collected for the board by the school must be remitted to the board by check, and a receipt must be obtained from the board of education.

## Section 4: Administration of Internal School Funds

### **Title 10, Loans and Accommodations**

Student activity and other internal school funds must not be used for any purpose which represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, and other school charges, but must not be cashed for the purpose of making change or as an accommodation to individuals, including school personnel. Checks should be accepted for the exact amount of purchase only. Public property must not be taken from the school premises for personal benefit. Local board employees or other individuals must not make purchases for personal benefit through a school in order to take advantage of the school's tax exempt status or other purchasing privileges.

School support organizations and other non-governmental groups may not use the school's or school district's tax exemption to purchase items.

## Section 4: Administration of Internal School Funds

### **Title 11, Budgets for Internal School Funds**

The budget is an estimated plan of anticipated revenues and proposed expenditures for a fiscal year. (Tennessee public schools have a fiscal year beginning July 1 and ending June 30.) For the general fund, the budget should present the beginning general fund balance, estimated revenues, proposed expenditures, and the estimated ending general fund balance. For each restricted fund, the budget should present separately the beginning account balance, estimated revenues, proposed expenditures, and the estimated ending account balance.

As soon as possible after school begins, students, in consultation with the activity/club sponsor, should develop and adopt a budget that will be used during the current fiscal year. Each sponsor should submit a copy to the principal for use in preparing a comprehensive school budget that is submitted to the board through the director of school's office. A copy of the school budget should be retained on file at the school for future reference and audit purposes.

Local Education Agency – School Nutrition Funds are a special revenue fund(s) of the respective county government. As a result, the budgeting process is the responsibility of the Board of Education. All revenues and expenditures should be budgeted in accordance with applicable laws and regulations.

Section **5**

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**Operating  
Procedures**

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL



## **Section 5: Operating Procedures**

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### **Title 1, Recording Transactions and Documentation**

Internal accounting requires all transactions pertaining to school money to be recorded in the accounting records daily. For purposes of the Manual, “accounting records” include data stored in the form of electronic files and spreadsheets as well as a system of double-entry accounting records maintained manually. Accounting procedures and forms used in a school system should be uniform, especially within the same grade levels. Accounting methods and procedures that exceed the minimum requirements presented in the Manual may be implemented as considered necessary by the board of education.

The school should maintain board and/or principal authorizations, and written policies and agreements (as applicable) for: (1) fundraisers, (2) cooperative and noncooperative activities, (3) use of a petty cash fund, (4) use of school property and equipment, and (5) other documentation as necessary to support compliance with the provisions of this Manual.

Original source documents form the basis for recording financial transactions in the accounting records. Such documents include, but are not limited to, prenumbered receipt books, collection logs, vendor invoices, delivery reports, receiving reports, payroll records, bank statements, bank-validated deposit tickets, canceled checks, inventory records, and property records. These source documents must be retained for future reference and audit purposes.

## Section 5: Operating Procedures

### Title 2, Revenues/Receipts

#### Definitions

For purposes of this title, the following definitions apply:

#### **Bookkeeper**

The individual responsible for recording financial transactions in the school records.

#### **Cashier**

An individual in the central office who collects money and writes receipts.

#### **Teachers/Others**

Teachers, assistants, volunteers, support staff, etc., who collect money for vending, fundraisers, field trips, fees, concessions, and other activities and remit it to the central office.

#### **Day/Daily**

Refers to business days, i.e., Monday through Friday excluding banking holidays.

#### **Separation of Duties**

The use of a cashier is necessary for optimal separation of duties. However, some schools may not have adequate personnel to allow someone other than the bookkeeper to collect money and write receipts. In these situations, as noted throughout this Manual, school personnel should develop alternative procedures that minimize the risks associated with this lack of separation of duties. These procedures might include more frequent profit analyses, comparison with prior year collections and with expected receipts, etc., by someone other than the bookkeeper. **HOWEVER, WHEN AT ALL POSSIBLE, SOMEONE OTHER THAN THE BOOKKEEPER SHOULD COLLECT MONEY AND WRITE RECEIPTS.**

#### **General**

Money within an individual school may be obtained from many sources including athletics, concessions, plays, publications, stores, gifts, vending machines, etc. Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the designated school employee. The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity.

Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability. The use of teacher assistants and other support staff could be considered, as well as schedules designating

the time of day for collecting and remitting the collections to the central office. This schedule should be developed with the understanding that all money must be deposited within three days of the initial collection. The principal should never authorize or require any collection which cannot be adequately accounted for.

## **Collection of Money by Teachers/Others**

### **General**

Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected. Few of these individuals are trained bookkeepers, yet many must collect and account for field trips, fees, fundraisers, etc. At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures. When feasible, the principal should consider collection options which do not require teachers to collect money from students within the classroom.

### **Records**

Teachers/others who collect money should prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity. All collections by teachers/others should be remitted to the cashier daily or more frequently, if necessary.

#### **1. Prenumbered Receipts**

The principal may choose to require all teachers/others who collect money to issue a prenumbered receipt to each payer. If so, the following requirements apply:

- (a) All prenumbered receipt books must be controlled by a designated individual, who issues the books sequentially. That individual must maintain a record showing the receipt book issued (beginning and ending receipt numbers), date issued, and the signature of the teacher/other who received the book.
- (b) The receipt book used should contain at least three-part prenumbered receipts. The first copy is written and given to the payer. The second copy is taken to the cashier along with the related collections, and the third copy is for the teacher/other. Normally there will be more than one receipt taken to the cashier. Accordingly, the teacher should record the total amount turned in to the cashier that reconciles to the receipt issued by the cashier to the teacher. The teacher should tally the amount in her receipt book and this should agree with the receipt from the cashier. The cashier should write the receipt numbers (range) on the receipt given to the teacher.

- (c) Teachers/others are accountable for all prenumbered receipts, including voided receipts, issued to them by the designated individual in control of the receipt books. All copies of every voided receipt must be retained by teachers/others.
- (d) The receipt must identify the payer, the amount remitted, method of payment, and the date. If the receipt itself does not identify the purpose(s) for the payment and the corresponding amount(s), other documentation must be attached to permit the bookkeeper to record the transaction.

## **2. Collection Logs**

A collection log may be prepared as an alternative to prenumbered receipts. School pictures, yearbooks, field trips, beta club dues, etc., are collections that are often recorded on collection logs. The log documents the name of the school, the purpose of the collection, the name of the teacher/other or club/class, the payers, amounts remitted, methods of payment, the date(s) of collection, and the daily total. When daily collections are completed, the collections should be counted by the teacher/other and reconciled with the daily total on the collection log. Noted errors should be corrected and unexplained differences should be documented.

All collections should be turned in to the cashier daily or more frequently if the teacher/other feels it necessary for the safeguarding of money. The cashier must count the money and issue a prenumbered receipt to the teacher/other at the time the collections are remitted. In addition, the cashier should record the amount, receipt number, and receipt date on the collection log, and initial the information on the collection log. The teacher/other may continue to use the same log until all collections for that activity are completed. On the final collection date, the teacher should bring the collection log to the bookkeeper and retain a copy. Teachers are encouraged to retain these logs for at least three years in the event of audit questions.

## **3. Ticket Reconciliations**

Use of a ticket reconciliation form is an internal control that is required for all events, such as athletics or entertainment, for which a fee is charged or paid in advance, and a collection log is not used. Detailed procedures for the use of ticket reconciliations follow below.

The principal may choose not to use tickets for events for which a nominal fee (\$1 or less) is charged as an admission fee. A written policy addressing this issue should be established at the beginning of the school year. For situations in which ticket reconciliations or collection logs are not used, two individuals should collect the admission fee and a recorded count of collections signed by both responsible individuals should be prepared. (The procedures outlined below under the heading “Recorded Counts Signed by Two Individuals” must be followed.)

*Ticket Reconciliation Procedures*

The following procedures should be followed when tickets are sold for admission to an event.

- (a) All admission tickets should be prenumbered. For events in which several different prices are charged, a different ticket color and/or numerical series for each price group should be used. The principal is responsible for accounting for all tickets and ensuring the safekeeping of the ticket inventory.
- (b) Prior to the tickets and ticket reconciliation form being given to the ticket seller, a designated individual other than the ticket seller will record the beginning ticket number and the amount of change to be given to the ticket seller. The ticket seller should initial this information to document verification of the information on the form.
- (c) A separate person should be assigned responsibility for collecting tickets at the point of admission. To reiterate, there must be two separate individuals involved in the ticket sales for the control to be effective: one person who sells tickets and collects money and another person who requires that a ticket be submitted in order to gain entrance into the event.
- (d) When the event's ticket sales are complete, the ticket seller should count and record the collections (with a subtotal for cash payments and a subtotal for check payments) and complete and sign the ticket reconciliation form. The ticket seller, or other designated individual, retains a *copy* of the original ticket reconciliation while the original must accompany the money and unsold tickets that are turned in to the cashier.
- (e) The cashier should issue an official receipt made out to the persons signing the ticket reconciliation, or to another designated individual, assigned responsibility for retaining copies of the ticket reconciliations and for reconciling receipts received to the ticket reconciliations. The cashier should review and recalculate the ticket reconciliation form. If a discrepancy between the ticket reconciliation and the official receipt exists, the principal should be notified in writing so that the principal may determine necessary action.

Any alternate procedures should be designed to ensure that all money that should be collected is collected and remitted for deposit.

**4. Recorded Counts Signed by Two Individuals**

Some activities, such as bake sales, car washes, and concessions, preclude remitting money to the cashier directly following the close of an event and do not lend themselves to the use of a collection log or prenumbered receipt. The

collection record for these activities may consist of only a recorded count signed by two responsible individuals at the close of the activity. The following procedures should be followed.

- (a) Two individuals should collect the receipts and a recorded count of collections signed by both responsible individuals should be prepared. In order for this control to be effective, two individuals must be present. The collections along with the recorded count that has been signed by both individuals should be turned in to the cashier for a receipt.
- (b) The form used for the recorded count should include the date, purpose, and amount of collections (with a subtotal for cash payments and a subtotal for check payments). In addition, the form should include a statement that “the money collected for this fundraiser was counted by the parties who have signed below” followed by the signatures of the two responsible persons. One of the responsible persons will retain the original recorded count and a duplicate or copy should accompany the money.
- (c) The cashier should issue and submit an official receipt made out to the persons who signed the recorded count of collections, or to another designated individual assigned responsibility for retaining copies of the recorded counts of collections and for reconciling receipts received to the counts. If a discrepancy between the recorded count and the official receipt exists, the principal should be notified in writing so that the principal may determine necessary action.

### **Additional Related Internal Control Policies and Procedures**

1. When fees are waived, collection documentation must include the student name, amount of fee, and purpose of fee for all waived amounts. This list of waived fees can be included on the collection log. When prenumbered receipts are used, a separate list must be prepared and submitted with the collections.
2. **Daily collections from any source should never be used for the purpose of providing change for events.** When additional money is needed for the purpose of providing change for events, a check should be written to the individual responsible for the change. The change received should be recorded in the “Cash on Hand Account.” The exact amount of the change should be redeposited as soon as feasible and the deposit slip marked “Redeposit.” (Refer to Appendix A – Exhibit 14 for illustrative journal entries.)
3. The principal should prohibit teachers/others from turning money over (leaving money on the cashier’s desk) without receiving a receipt.

## **Collection of Money by Cashier**

At the beginning of each school year, the principal should ensure that the cashiers are informed of the required procedures and forms used for collection of money and the consequences for noncompliance with the required procedures.

### **1. Receipt procedures**

- (a) The cashier must count the money and issue a prenumbered receipt at the time money is remitted. In all cases, the cashier should issue a receipt to the responsible individual(s). A receipt should not be issued to the revenue source such as gate receipts, vending, bookstore, etc.
- (b) All prenumbered receipt books must be controlled by a designated individual (other than the cashier), who issues the books sequentially. That individual must maintain a record showing the receipt book issued (beginning and ending receipt numbers), date issued, and the signature of the cashier.
- (c) The receipt book used should contain at least three-part, prenumbered receipts. The first copy is written and given to the payer. The second copy is taken to the bookkeeper, and the third copy is for the cashier.
- (d) The cashier is accountable for all prenumbered receipts, including voided receipts, issued to him/her by the designated person controlling the prenumbered receipt books. All copies of every voided receipt must be retained by the cashier.
- (e) The receipt must identify the payer, the amount remitted, method of payment, and date. If the receipt itself does not identify the purpose(s) of the collection and corresponding amount(s), other supporting documentation must be attached to permit the bookkeeper to record the transaction.

### **2. Other Procedures by Cashier**

- (a) The cashier should record the amount, receipt number, and receipt date on each collection log, and initial the information on the collection log.
- (b) The cashier should restrictively endorse all checks, e.g., “FOR DEPOSIT ONLY/Tennessee High School.”
- (c) Someone other than the cashier or bookkeeper should open all mail daily, lists all checks received on a collection log, and restrictively endorse the checks. A copy of the log should accompany the money when it is

remitted to the cashier each day. The cashier must issue a receipt to the person remitting the money and include the checks in the daily deposit.

- (d) Daily collections should be reconciled with the total of all receipts issued. The last receipt included in the deposit should be marked to indicate the receipt numbers included in the deposit, the amount deposited, and the date of the deposit. Using daily collections for cashing checks or making purchases is prohibited.
- (e) Depending on the type of accounting system used, some schools may require the cashier to prepare a daily cash report, which summarizes each day's collections by type (i.e. yearbooks, fundraising, pictures, vending, etc.) This record is used by the bookkeeper for daily posting.
- (f) The cashier should complete a duplicate deposit slip. All checks should be listed individually on the deposit slip, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip. When preparation of the daily deposit is completed, the cashier should turn over to the bookkeeper the bookkeeper's copies of the receipts and any other supporting documentation, such as: remittance advices (documentation received from vendors and individuals identifying the reason why payment was made to the school) received with mail payments, daily cash report, teacher collection logs, ticket reconciliations, etc. All of the collections and the deposit slip should be turned over for deposit to an individual who is not involved in the collecting and recording process. (Refer to Section 6 for deposit procedures.)

### **Additional Related Internal Control Policies and Procedures**

1. Cashiers should not allow teachers/others to turn money over (leaving money on the cashier's desk) without receiving a receipt.
2. **Daily collections from any source should never be used for the purpose of providing change for events.** When additional money is needed for the purpose of providing change for events, a check should be written to the individual responsible for the change. The change received should be recorded in the "Cash on Hand Account." The exact amount of the change should be redeposited as soon as feasible and the deposit slip marked "Redeposit." (Refer to Appendix A–Exhibit 14 for illustrative journal entries.)



### **Recording of Collections by Bookkeeper**

The bookkeeper should obtain all applicable collection documentation from the cashier, such as the bookkeeper's copies of the receipts and any other supporting documentation, including: remittance advices (documentation received from vendors and individuals identifying the reason why payment was made to the school) received with mail payments; daily cash reports; collection logs; ticket reconciliations; etc. Prior to posting to the cash receipts journal, the bookkeeper should determine that the amounts and totals on the collection logs, and other documentation are mathematically correct and that the corresponding receipts agree. The bookkeeper should record on his/her copy of the prenumbered receipt the applicable account codes and corresponding amounts. The bookkeeper should then record the collections in the cash receipts journal. All collection documentation should be filed in a manner which allows the bookkeeper to easily find requested documentation.

The bookkeeper should obtain and file the validated duplicate deposit slip (or the duplicate deposit slip with deposit receipt attached).

## Section 5: Operating Procedures

### Title 3, Purchasing

#### Purchase Authorization

The board of education should develop a detailed purchasing policy for the expenditure of internal school funds and the principals of the individual schools should ensure compliance with the policy. The dollar limitations established in this title apply unless otherwise provided in the board's policy. (Refer to Section 1, Title 3, page 1-4, under the heading "Purpose and Applicability of the Manual".)

All purchases must be for an appropriate purpose; that is, they must not detract from or be in opposition to the overall educational process. The principal or principal's designee is responsible for determining the appropriateness of purchases. In determining appropriateness, the following questions should be considered:

1. Is this an expenditure for which the board of education is responsible?

**NOTE:** Although disbursements for educational and professional development could be considered to indirectly benefit the welfare of the student body, these disbursements are the responsibility of the board of education and would not be legitimate expenditures of money raised by students. As noted previously in the Manual, since Tennessee schools are referred to as being free, (Section 49-6-3001, *Tennessee Code Annotated*), money raised by students must be used to finance normal and legitimate extracurricular activities. This money should be used to supplement and not replace money for activities and services provided by the board. Staff development is the responsibility of the board.

2. Is this expenditure for a school purpose?
3. Is this expenditure for the welfare of the student body?

If student organizations (whose activities are accounted for in restricted accounts), excluding athletics, raise funds through noninstructional fees, membership dues, and fundraisers, then purchases by these organizations must be approved by the membership of the organization and documented in their minutes. In addition, a student authorization form should be completed and given to the bookkeeper along with the purchase request. Permission for certain routine and recurring expenses, such as refreshments for meetings, may be documented once for the entire year.

A purchase requisition is a request to make a purchase. A purchase authorization is a prior written authorization by the principal, or designee, approving the purchase of goods and services. A prenumbered purchase authorization is required for each purchase of goods and/or services of \$100 or more except for emergency repairs or purchases,

reimbursements from restricted accounts not sponsored by the principal, and purchases of goods and services made under contract. Please note that all online payments and purchases should have a purchase requisition that has been approved by the bookkeeper and principal (or designee) before a purchase is made, *regardless of amount*. Formal documented approval from the board of education must be obtained and on file at the school before a school begins the practice of making online payments and purchases.

Principals should make all teachers/others aware that purchases made which do not require prior written approval may, in certain circumstances, become the personal responsibility of the employee. For example, the principal should not authorize payment in any amount for purchases that:

- are not appropriate; or
- are to be paid out of accounts that do not have sufficient balances.

Each purchase of goods and services should be supported by adequate documentation.

If the sponsor of a club, class, or other restricted account has complied with the above requirements, it would be reasonably expected that the principal would authorize payment from that restricted account. In no circumstances should prior approval be given if the account or fund balance is insufficient.

### **Purchasing Procedures for Teachers/Others**

To initiate a purchase which does not require advertised bids, including purchases from other school accounts, a prenumbered purchase requisition should be completed. The purchase requisition should include the date of request, the name of the individual requesting the purchase, the fund/account to be charged, the items/services to be purchased, and the amount of each item/service. Any documented quotes required by the school system's purchasing policy should be attached to the purchase requisition.

As noted above, purchases may not be charged to class or club accounts without the prior written permission of the student membership that raised the money. Documentation of this approval should also be attached to the purchase requisition.

The prenumbered purchase requisition is given to the bookkeeper.

### **Purchasing Procedures for Bookkeeper**

When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is available. If sufficient money is available, the bookkeeper should sign and date the form, and, if the purchase is over \$100, or if it is an online payment or purchase, *regardless of the amount*, forward it to the principal for approval. After the prenumbered purchase

requisition form is signed by the principal, it becomes a **purchase authorization**. This form also can be used as a **purchase order**, if one is needed for the purchase. The original should go to the vendor, one copy should be filed in the outstanding purchase requisition/purchase authorization folder, and the other copy should be given to the individual initiating the purchase request.

When requisitions are used for purchases that are (1) made by check (i.e., not online) and (2) less than \$100, the bookkeeper should review the account to be charged to determine if sufficient money is available. If sufficient money is available, the bookkeeper should initiate the purchase (or follow alternate procedures established by the principal). Two copies of the purchase requisition should be filed in the outstanding purchase requisition/purchase authorization folder (unless a purchase order is needed for the vendor), and the other copy should be given to the individual initiating the purchase request.

Documents such as invoices, receiving reports, and/or delivery receipts, together with other related support provide the bookkeeper with adequate supporting documentation to make payment. An invoice is an itemized document from a third party that describes in detail the type, quantity, and charges for goods and services purchased. A receiving report is a document prepared by the school to record the verification of items/services received and accepted. A delivery receipt accompanies the delivery and itemizes the items delivered. If receiving reports and/or delivery receipts are used, they should be signed and dated by a designated individual to indicate that the items listed were received and accepted, and the report/receipt should be filed with other documentation. If receiving reports and/or delivery receipts are not used, the invoice should be signed and dated by the designated individual who received and accepted the items. When authorized services have been completed, a designated individual should sign and date the invoice or receiving report to indicate that the service was completed properly and accepted.

**The bookkeeper should require and obtain adequate supporting documentation before disbursing any school money.** Periodic statements from vendors and copies of invoices are not adequate documentation to support disbursements. If a copy of an invoice must be used rather than the original, the bookkeeper should include a written explanation on the invoice stating the reason. When items/services are purchased for which vendors do not provide formal invoices (e.g., commencement speakers, officials for athletic contests, etc.), the school should prepare a document and have it signed by the vendor.

When a vendor invoice or other invoice documentation is received, the bookkeeper should match the related purchase authorization and accompanying receiving report/delivery receipt with the invoice to verify that the items/services shown on invoice were actually ordered and received, and that prices charged are correct. Before payment is made, the bookkeeper should check the mathematical accuracy of amounts charged (unit costs multiplied by quantities), and should ensure that sales tax is not charged or

paid for tax-exempted purchases. Payment should be made in time to take advantage of any discounts allowed for early payment.

Each payment should be properly recorded in the school's cash disbursements journal. Since the fiscal year for Tennessee schools is from July 1 through the following June 30, the cost of any goods or services received by June 30 must be recorded as an **expenditure** for that fiscal year. If payment for those goods and services received during the year is not made by June 30, an account payable exists. An outstanding purchase authorization (goods and services **not** received during the fiscal year) at June 30, is **not** recorded as an expenditure or an account payable for that year.

Purchases and reimbursements from one school account to another (such as the senior class reimbursing the football account for a portion of the football homecoming flowers) **are not equity transfers**, and should not be reported as transfers in the school's operating statement. Purchases (arm's-length transactions) should be recorded as revenue in the account selling the items/services and as an expenditure in the account purchasing the items/services. Reimbursements should be recorded as an expenditure in the reimbursing account and as a reduction of expenditures in the account receiving the reimbursement. Since no check is being issued, these entries would be made in the general journal. (Refer to Appendix A–Exhibit 15 for illustrative journal entries.)

After payment is made, each page of the invoice and attached documentation, including the purchase authorization and receiving report/delivery receipt, should be stamped "Paid" or canceled in some manner to prevent duplicate payment. If duplicates or copies of checks are not attached to the supporting documents, the check number, date, and amount paid should be clearly marked on each purchase authorization and paid invoice. Supporting documents (copy of check, invoice, purchase authorization, receiving report/delivery receipt, etc.) should be filed together or in such a way that they can be easily reassembled.

### **Purchasing Procedures by Principal or Designee**

The principal should review all purchase requisitions in excess of \$100, as well as all purchase requisitions for online purchases and payments, *regardless of the amount*, signed by the bookkeeper to determine if the disbursement is for an appropriate purpose. The principal should then sign and date the purchase requisition to indicate authorization to make the purchase. The purchase requisition/authorization should then be returned to the bookkeeper. **Purchase requests/authorizations must not be signed in advance of their preparation.**

For disbursements of less than \$100 that are made by check, the principal's determination of appropriateness should be made when supporting documentation is reviewed prior to signing the check. The principal's signature on the check indicates that the disbursement was considered appropriate.

All online purchases and payments should have a purchase requisition that has been approved by the bookkeeper and principal (or designee) before an online disbursement is made, *regardless of the amount.*

### **Bid Process and Required Documented Quotes**

Each board of education should establish bid policies and procedures for student activity and other internal school funds within its jurisdiction, provided that limits for purchases requiring advertised bids cannot exceed the bid limit set forth for boards of education in applicable public or private statutes. Each board of education should also establish policies regarding purchases which should require documented quotes from vendors. All required quotes must be documented. The recommended policy is to require documented quotes for purchases from \$500 to the advertised bid limit.

Large individual purchases must be made only after proper advertising and bid procedures have been followed in accordance with such policies. This requirement shall also apply to purchases of like items which individually cost less than the amount specified in the applicable law but which are customarily purchased in lots of two (2) or more if the total purchase price would exceed the amount set by the law (i.e. purchases of like computers or uniforms). Purchases shall not be subdivided in order to circumvent applicable bid policies.

Some vendors allow schools to purchase certain items directly from the vendor at the price quoted in contracts established by the Purchasing Division of the Tennessee Department of General Services. Schools are not required to follow the normal bid procedures when purchasing in this manner. Schools should contact the Tennessee Department of Education for information on the established contracts.

### **Prior Authorization Required**

Expenditures that require prior authorizations, bidding, and the like, should be anticipated in time to permit processing and proper clearance of written authorization requests. Expenditures must not be made until authorizations have been granted.

The following expenditures must be approved by the local board (or the board's designee) or the local legislative body, as noted:

1. The local board must approve the purchase of a single piece of equipment costing more than \$5,000, or a lesser amount, if mandated by the board, or by a public or private act.
2. The local board must approve the purchase of equipment (regardless of cost) that is to be attached to or that requires the alteration of the building.

3. The local board must approve the construction or installation of permanent fixtures.
4. The local board must approve accounts payable that will not be liquidated during the current fiscal year.
5. **The Local Legislative Body must approve lease-purchase agreements or other contracts that will have the effect of creating long-term liabilities, since schools are prohibited from recording long-term liabilities in the school accounts.**

#### **Limitations on Disbursements**

Revenue raised for specific purposes must be expended for that purpose, unless otherwise authorized. Authorizations must be granted by the group or activity, club, or class that raised the revenue and must be properly documented.

Money raised through fundraising activities must be used for the authorized purpose. Any change of purpose must be approved by the director of schools.

#### **Expenditures Made by Pupils and Employees**

Students or school employees are not permitted to make purchases in the name of the school without proper written authorization. Schools are not liable to pay for any unauthorized purchases made by a student or school employee.

## Section 5: Operating Procedures

### **Title 4, Petty Cash**

#### **Authorization**

School officials and employees are discouraged, but not prohibited, from making petty cash disbursements. However, the creation and use of a school petty cash account must be specifically authorized in writing by the board of education for a prescribed amount and for the maximum amount of a single petty cash transaction.

#### **Establishment of Account**

To establish authorized petty cash accounts, a check should be written to the designated individual in charge of the petty cash account (petty cash custodian). Petty cash accounts should be maintained on an imprest basis whereby a fixed sum of money is maintained at all times. The lowest amount of money possible should be maintained in the petty cash account.

#### **Petty Cash Vouchers/Invoices**

For each disbursement, a petty cash voucher should be completed in ink. The voucher should indicate the date, the items purchased, the payee, and the disbursement amount. The person receiving the cash should sign the voucher. The petty cash custodian must ensure that all petty cash vouchers are supported by invoices, cash tickets, or other adequate documentation.

#### **Replenishing Petty Cash and Recording Expenditures**

The amount of cash on hand and petty cash vouchers written must total to the original fixed amount of the petty cash account at any point in time. When cash has been reduced to the point that routine requirements cannot be met, a check should be issued to the petty cash custodian to replenish the exact amount of vouchers on file in the petty cash drawer. The paid vouchers with related supporting documentation will be used by the bookkeeper to charge expenditures to the appropriate account codes in the accounting records. The only entries to the petty cash account would be to establish the account originally, increase or decrease the account, or to close the account.



### **Emphasized Internal Control Procedures**

1. The person responsible for handling petty cash should approve, date, initial, and mark each voucher “paid” to prevent reuse. Petty cash funds should be maintained in a secure location that restricts access to the authorized petty cash custodian only. **Petty cash should never be used to cash personal checks for any individual or to issue refunds and should never be commingled with personal funds of any school employee.**
2. The principal or principal’s designee should periodically review petty cash disbursements and the supporting documentation to ensure that these purchases are appropriate.

## Section 5: Operating Procedures

### **Title 5, Refunds and Travel**

#### **Refunds**

Refunds in excess of \$2 should be disbursed only by check and should not be paid from a petty cash account. Refunds are reductions of revenue, rather than new expenditures.

#### **Travel and Conferences**

Student activity and other internal school funds must not be used to pay for travel expenses for employee development, conferences, seminars, registration fees, etc., of school personnel. Boards of education are responsible for establishing travel policies pertaining to school personnel and for reimbursing school personnel for travel directly related to education conferences, seminars, etc., and employee development or training costs. This limitation does not apply to employee travel expenses associated with club or class activities, such as the Beta Club, Senior Class, etc.

#### **Other Travel**

As noted above, the board of education is responsible for establishing all travel policies pertaining to school personnel. All requests for travel reimbursements to authorized school functions should be submitted on a travel expense claim and should be in accordance with board policies. Except for authorized per diem charges or standard mileage amounts, all claims must be supported by invoices, cash receipt tickets, or other adequate supporting documentation, which should be filed as required for other school disbursement documentation.

#### **Travel Advances**

Advances given to school personnel for authorized school activities (such as to teachers for class or club trips) must be made by a check payable to and given directly to the responsible individual. When possible, payment should be made directly to vendors, rather than advances being made to individuals.

Traveler's checks should be used by the employee to reduce the risk associated with carrying large amounts of cash, and to avoid possible difficulty in cashing school checks. Within three days after returning from the trip, a travel expense claim should be completed and submitted to the bookkeeper, along with invoices and other supporting documentation. Unexpended balances of advances and unused traveler's checks should be remitted to the cashier for receipt when the travel expense claim is submitted to the bookkeeper.

The bookkeeper should reconcile all travel advances with the related travel claim and prenumbered receipts to ensure that all school money has been properly accounted for. Related supporting documentation should be filed as required for other school documentation for disbursements. The bookkeeper should record the return of unexpended cash advances and unused traveler's checks in the general journal.

If adequate supporting documentation is not included with the travel claim, the employee is responsible for the payment of money to the school to cover the difference.

Section 5: Operating Procedures

**Title 6, Salary Supplements, Substitute Teachers, and Contracted Services**

**Salary Supplements**

Any supplemental compensation owed to board of education employees for extracurricular activities must be processed through the director of schools' office in the same manner as salary and other payroll payments. Board of education employees may not be compensated directly by individual schools from internal school funds.

Each school should submit to the board of education on a regular basis a payroll record for each individual who is to receive a salary supplement. The payroll record should be signed by the employee, and the principal should include the name of the employee, the date(s) and type of work performed, and the pay rate. The board of education will then calculate the amount of gross pay, employee withholdings (federal income tax, FICA, state retirement, insurance, etc.) and the employer's matching share and will include the salary supplement in the employee's regular payroll check received or in a supplemental paycheck from the board of education.

The board of education will invoice the school for reimbursement of the total amount of the gross salary supplement and the employer's share of the related payroll withholdings.

**Substitute Teachers**

The board of education should establish policies regarding the reimbursement of substitute teachers' salaries related to restricted class and club accounts (i.e., substitute teacher is required when Beta sponsor attends Beta convention). The principal should ensure that all class/club sponsors are informed of applicable policies. If reimbursement from the school is required by the board, the sponsor should ensure that approval is obtained in advance from the membership of the class or club.

**Contracted Services**

The United States *Internal Revenue Code*, Section 6042, paragraph 6667, requires anyone engaged in a trade or business who makes payments totaling \$600 or more during a calendar year to a noncorporate recipient (such as an individual working as a sole proprietor or a partnership) to report such payments to the Internal Revenue Service (IRS) and to provide the payee with a Form 1099-MISC.

The board of education is responsible for preparing and distributing such forms to payees. Failure to issue the required Form 1099 by January 31 may result in the board of education and/or schools being liable for a penalty. Therefore, schools must submit information concerning such payments to the board of education to permit a timely filing of Form 1099-MISC. In determining whether the dollar threshold of \$600 has been

achieved, the board of education must consider payments made to payees by all schools combined.

A board of education, as an employer, must generally withhold income taxes, withhold and pay social security and Medicare taxes, and pay unemployment taxes on wages paid to an employee. The board of education, however, does not have to withhold or pay any taxes on payments made to independent contractors unless the contractor does not provide an EIN.

Individuals who are employed by a board of education and wish to perform contracted services for the school(s) must demonstrate to the board of education in advance that they meet the stringent IRS definition and test of an independent contractor. Generally, most board of education employees will not meet the IRS definition and test of independent contractor. (NOTE: One exception is board of education employees who officiate at athletic events through contract with the TSSAA.) Information concerning the employee versus independent contractor relationship may be found in *Publication 15-A, Employer's Supplemental Tax Guide (Supplement to Circular E, Employer's Tax Guide, Publication 15)*, published by the U.S. Department of the Treasury, Internal Revenue Service.

The board of education should require each contractor to complete IRS Form W-9 and should retain the form on file for future reference and audit purposes.

## Section 5: Operating Procedures

### **Title 7, Borrowing, Lending, and Transfers**

#### **Borrowing and Lending**

Individual schools are not permitted to borrow or loan money for any reason or for any purpose. For purposes of this Manual, a lease-purchase agreement, as referred to in Section 5 of the Manual, is not considered a loan.

#### **Transfers of Money from One School Account to Another**

A transfer is considered a donation or gift to the receiving fund or account. Internal school funds may not be transferred from a restricted fund account without the written permission of the club or activity group that raised the funds. Supporting documentation authorizing such a transfer must be retained on file for future reference and audit purposes.

#### **Prohibited Transfers**

Each primary account in the restricted fund must be self-supporting. Therefore, transfers may not be made from the general fund to a restricted fund account to eliminate an account deficit.

## Section 5: Operating Procedures

### **Title 8, Club and Class Accounts**

#### **General**

Student classes and clubs are considered restricted fund accounts. Disbursements and transfers from these accounts must be approved in writing by the membership of the group.

#### **Unexpended Account Balances**

Accounts created for a class must be established on the basis of a graduation year so that account balances automatically follow the class until graduation. The graduating class should make provisions for the disposition of unexpended money prior to graduation; as such accounts must be closed at the end of the fiscal year. (For example, the class may choose to use any remaining money to open a savings account, independent of the school's bank accounts, to be used for subsequent class reunions.) Accordingly, if disposition of remaining balances has not been made prior to graduation, the balances will be transferred to the general fund. The graduating class will be considered to have forfeited its vested interest in such money after graduation.

The same guidelines apply to the remaining balance of any activity group account that has become inactive, after the activity group has had an opportunity to determine the disposition of the balance, but failed to do so.

Section **6**

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# Banking

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## **Section 6: Banking**

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### **Title 1, Bank Accounts and Investments**

#### **Bank Accounts**

Bank accounts may only be established and maintained in financial institutions whose deposits are federally insured. Bank account balances (including checking and investment accounts combined) must not exceed the amount federally insured unless the financial institution pledges collateral for any deposits in excess of the insured limits and the collateral is maintained in accordance with state statutes.

NOTE: For additional information regarding collateral requirements and the State of Tennessee Bank Collateral Pool, you may call the Department of Treasury at (615) 532-8722 or visit their website at <http://treasury.tn.gov/bank/>. You may also call the Comptroller of the Treasury, Division of Municipal Audit at (615) 532-4460.

Most banks offer interest-bearing checking accounts. The principal should review the various account options provided by their bank to ensure maximum returns on all cash balances.

A combined checking account should be established for the general fund and restricted fund accounts. The school nutrition fund should have a separate checking account.

#### **Investments**

Excess internal school money should be invested to maximize interest earnings. All investments of internal school funds should comply with state statutes. Investment options include savings accounts, certificates of deposit, etc.

## Section 6: Banking

### **Title 2, Deposits**

#### **Frequency of Bank Deposits**

Collections should be deposited daily, if possible, but no more than three days after the initial collection. Night deposits may be necessary to avoid large sums of cash being on hand overnight.

#### **Intact Deposits**

Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.

#### **Deposit Slips**

Deposit slips must be completed in duplicate. All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip. The validated duplicate deposit slip or the duplicate deposit slip with deposit receipt attached should be given to the bookkeeper.

## Section 6: Banking

### Title 3, Checks

#### General

All money must be disbursed by prenumbered checks (except for disbursements from petty cash accounts authorized by the board of education and/or purchases made with debit cards, credit cards, automatic bank drafts, and/or online banking as authorized by the board of education). A check must not be altered, erased, or destroyed. Should an error be made in preparing a check, the word "VOID" should be written on the face of the check, the signature section should be removed, and the check should be retained on file for future reference and audit purposes. **Checks must not be signed in advance of their preparation and issuance.** Checks must not be made payable to "Cash."

Checks must be prenumbered. All check numbers must be used sequentially and be accounted for. The name of the school must appear on the face of each check. The use of duplicate or multi-part checks is strongly recommended since the additional copies can be filed with paid invoices as well as filed numerically. If a manual check-writing system is used, pertinent information must be recorded on the check stubs.

#### Signatures on Checks

Two signatures are required for all checks. In most cases, the principal or principal's designee together with at least one other person must be authorized as cosigners of checks of all internal school fund accounts. Authorized signature cards must be kept current with banks. Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.).

A signature stamp may be used; however, it must only be accessible to the person whose signature is on it. If it is accessible to other employees, the control related to having that person sign and/or authorize the disbursement no longer exists and the signature stamp should be destroyed.

#### Voided Checks

In some instances, it may be necessary to void a check recorded in the cash disbursements journal. If a replacement check is written, the new check should be reissued and a general journal memo entry should be made to record the new check in the accounting records. The outstanding check list should also be updated. No revenue or expenditure accounts will be affected. If a replacement check is not issued, an entry in the general journal must be made for the amount of the original check to restore the amount of the check to the "Cash in Bank" account (debit the cash account and credit the appropriate expenditure account).

### **Outstanding Checks**

The school should follow the guidelines for unclaimed property in Tennessee located at <http://www.tn.gov/treasury/unclaim/>.

### **“Bad” Checks**

Some checks deposited by the school may be returned by the bank for various reasons. (Refer to Appendix A–Exhibit 13 for illustrative journal entries for “bad” or returned checks.) The proper procedure for handling checks of this type is as follows:

- 1. Checks Made “Good”**

If the maker of the returned check immediately redeems the check in cash (i.e., makes the check “good”), the money received must be deposited separately from any other money. The deposit ticket for this special redeposit should be labeled as “Redeposit of Check Number \_\_\_\_” and should identify the payer. Cash received in exchange for a returned check is not considered additional revenue. If the school has not already recorded the “returned” check in its books, it is not necessary to make any entries in the books of record.

- 2. Checks Never Made “Good”**

If it is determined by the principal that a returned check is uncollectible, the amount of the returned check must be recorded in the school’s books. The amount of the “bad” check should be charged as a reduction to revenue and deducted from the available cash in bank balance with a complete explanation. The “bad” check must be filed with the bank statement for substantiation of the above entry.

### **Emphasized Internal Control Feature**

Automatic bank drafts should be properly authorized by the principal on an annual basis. This approval should be documented and maintained in the school’s accounting records. The principal should ensure that the school’s cash flow is sufficient to pay the automatic bank draft payments. All other internal controls and operating procedures related to school purchasing as outlined in Sections 4 and 5 of this Manual also apply to any expenditure made utilizing an automatic bank draft.

## Section 6: Banking

### **Title 4, Bank Reconciliations**

#### **General**

Bank statements must be reconciled with the cash balances presented in the accounting records (general ledger) as of the end of each month. Bank reconciliations should be prepared within 30 days after the bank statements are received from the bank. Canceled checks and deposit slips must be retained on file with the applicable bank statements for future reference and audit purposes and should not be filed with paid invoices or purchase authorizations. If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.

#### NOTE:

If imaged statements are issued, the school should require the bank to include both the front and back of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible.

When imaged copies are not included with the bank statement, the school should either request the bank to send the copies to the school, download copies from the bank's website, or determine an alternative method to obtain adequate supporting documentation for canceled checks and deposit slips.

Any alternative method must meet the following criteria: (1) be cost effective; and (2) provide timely access to the documentation. Front and back copies are required regardless of the method used to obtain the copies or the format of the copies (paper or electronic).

#### **Procedures**

1. Enter the ending balance, as shown on the bank statement, on the appropriate line of the bank reconciliation form.
2. Match all duplicate deposit slips with deposits listed on the bank statement and in the cash receipts journal.
3. Those deposits listed on the cash receipts journal which were not matched with deposits listed on the bank statement represent "Deposits in Transit." List all deposits in transit and record the total on the appropriate line of the bank reconciliation form.
4. Scan the bank statement for any bank charges and record the bank charges in the accounting records.

5. Verify that the amount and payee of the automatic bank draft as recorded in the monthly bank statement agrees with the amount and payee recorded in the school's accounting records. (When the school receives an invoice from a vendor that will be paid by an automatic bank draft, the bookkeeper should record the transaction in the school's accounting records at that time.)
6. Total the amounts shown on the lines for "Balance per Bank Statement" and "Deposits in Transit" and enter this amount on the "Subtotal" line.
7. All checks received with the bank statement should be matched with the checks listed on both the bank statement and the cash disbursements journal to identify those checks that have cleared the bank.
8. List all checks that are shown in the cash disbursements journal that have not yet cleared the bank in the "Outstanding Checks" portion of the bank reconciliation. (Do not include checks written off or voided.)
9. Add all outstanding checks and enter the amount on the appropriate line.
10. Subtract the total amount of outstanding checks from the subtotal and enter the amount on the line for "Balance per Books."
11. Compare the amount shown on the "Balance per Books" line with the total bank balance shown in the general ledger. These amounts should agree. If not, determine the cause of the difference by examining recorded checks, deposits, bank charges, or other items that could affect the bank reconciliation.

### **Emphasized Internal Control Features**

1. Whenever possible, someone other than the person who has responsibility for maintaining the accounting records or issuing checks should receive the bank statements unopened directly from the bank. Transactions reflected in the statement, including paid checks and automatic bank drafts, should be reviewed before giving the bank statement to the person who prepares the reconciliation. Any unusual or improper transactions noted should be reported to the principal.
2. For schools that have limited office employees where the same person who writes checks and makes deposits also reconciles the bank statement, the principal should review the bank statement each month. As noted above, transactions reflected in the bank statement should be reviewed and paid checks scanned for any unusual or improper transactions. This includes ensuring that any automatic bank drafts have been authorized and appear proper. The principal should date and initial the bank statement once he or she has reviewed it.

## Section 6: Banking

### Title 5, Online Banking

#### General

Formal documented approval from the board of education must be obtained before a school begins to utilize online banking. Each school must establish written policies and procedures to ensure internal controls are in place to address the particular risks associated with internet banking. Such policies and procedures play an important role in protecting internal school money by providing accountability for online transactions.

#### Minimum Policies and Procedures

The school should have policies and procedures in place sufficient to properly monitor and control its online banking transactions. Policies and procedures should address the duties, records, and procedures required to implement effective controls over the school's online banking transactions. When designing your transaction processes, there should be a clear segregation of duties and responsibilities performed by personnel such that no single person could initiate, approve, execute, and enter transactions into your system in a manner that would enable fraudulent actions to be perpetrated and concealed. Unless the school has mitigating or stronger controls, following are policies that must be in place and procedures that must be followed when using online banking.

1. The school should have formal documented approval from the board of education to utilize online banking.
2. The school should have controls to ensure that only authorized personnel have access to online banking.
3. The school's policies should include a detailed approval process that must be completed in order for an employee to process an online banking transaction. At a minimum, dual authorization for all (i.e., *regardless of the amount*) online payments must be secured before any online payment is made. The bank should be instructed to set up a profile that requires dual authorization for all payments. Daily authorization limits as well as limits regarding the types of transactions should also be established with the bank.
4. The same requirements regarding supporting documentation for disbursements made by other means (e.g., checks) are also required for payments/disbursements made online. Refer to Section 4, Title 2, and Section 5, Title 3, of this Manual for applicable requirements.
5. All online payments and purchases should have a purchase requisition that has been approved by the bookkeeper and principal (or designee) before an online

disbursement is made, *regardless of the amount*. As with any purchase, approval will be based on appropriateness and sufficient account balances.

6. Online transfers should only be made between school bank accounts (i.e., checking and savings accounts). At a minimum, dual authorization for all (i.e., regardless of the amount) account transfers must be secured before an online transfer is made. The bank should be instructed to set up a profile that requires dual authorization for all transfers. Authorization limits (amounts and individuals) should also be established with the bank.
7. The principal or the principal's designee (other than the bookkeeper) should review ALL withdrawals made from the bank account, as detailed on the monthly bank statement. This review should be documented and should be performed within 10 days of receipt of the monthly bank statement. The principal or designee should look for any unauthorized or unusual payments/withdrawals.
8. Daily account information should also be reviewed online at least once a day. Any unusual payments/withdrawals should be promptly investigated. The school should immediately report to the bank any unauthorized transactions.
9. If the bank reports any unusual or unrecognized transactions to the school, the transactions should be immediately investigated by the school.
10. Timeliness of the checking account reconciliation becomes more important when utilizing online banking. The employee responsible for reconciling the monthly bank statement should perform the reconciliation within 10 days of receipt of the statement. A monthly report listing all online banking transactions that have occurred during the month should be generated. This report should be reconciled to the monthly bank statement by someone independent of the process to verify that all transactions are accounted for, properly approved, and appropriate. Documentation of this additional reconciliation should be filed with the monthly bank statements.
11. Usernames and passwords must be secured and never shared. Usernames and passwords cannot be delegated to other school employees.
12. Employees should always click "no" when prompted by the computer application to "remember" their password information. Choosing "yes" weakens controls surrounding access to computer applications.
13. When performing transactions online, personnel should not leave their workstations unattended while the online bank application is open.



14. Controls should be in place for when an employee who has access to the school's online bank account leaves the school. The school should immediately contact the bank and request it to remove all access rights for the former employee.
15. When disposing of old, broken, or obsolete computers, the following minimum procedures should be followed:
  - (a) All files, including cache and cookies, should be deleted.
  - (b) The recycle bin should be emptied.
  - (c) The hard drive should be wiped clean.
16. The school should ensure their web browser can process secure transactions including adequate encryption strength.
17. The school should make sure their connection with the website that accepts the payment is secure. As of this edition of the Manual, that may include web addresses following "https:" instead of "http:" in the address bar and a locked padlock icon somewhere on the browser window. Some browsers are also set to have parts of the window display in a different color when on a secure connection.
18. Employees should be made aware to use extreme caution if they receive an email with payment links or dummy lookalike websites in order to guard against attempts to steal account and personal information ("phishing").

Section **7**

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**Accounting  
and Reporting**

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## **Section 7: Accounting and Reporting**

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### **Title 1, Information Provided by Accounting System**

The individual school's accounting system must provide the following information, at a minimum:

1. The source and amount of all money received;
2. The purpose and amount of all disbursements;
3. The fund balances of the general fund and the school nutrition fund, and the individual balances of each restricted fund account; and
4. Data for reports and records that will demonstrate that proper procedures were followed in order to safeguard assets.

## Section 7: Accounting and Reporting

### **Title 2, Accounting Records**

Any accounting system should provide specific and current information concerning financial operating performance and accountability of financial resources. Basic components of an effective accounting system are discussed below.

#### **Revenue and Expenditure Classification**

##### **General Fund**

Accounts in the General Fund may be classified as follows:

- Revenues—source and subsource
- Expenditures—by function, subfunction, and object

At a minimum, revenues must be recorded by source, such as gate receipts, resale items, fees, etc., and expenditures must be recorded by function, such as administration, instruction, etc.

##### **Restricted Fund**

Revenues and expenditures must be recorded by activity, such as Beta Club, Class of 2000, Band Club, etc.

For a suggested listing of account classifications, refer to the Chart of Accounts in Section 9 of this Manual.

##### **School Nutrition Fund**

Accounts in the School Nutrition Fund should be classified as follows:

- Revenues—by source
- Expenditures—by object

Revenues classified by source include, for example, USDA reimbursements, lunch payments, ala carte, interest income, etc. Expenditures classified by object include, for example, labor, food, equipment, nonfood supplies, etc.

#### **Expanded Reporting Levels**

For various reasons, it may be beneficial or necessary for some schools to expand the level of reporting detail of revenue and/or expenditure classifications. This can be accomplished by adding more digits to account codes. Extended levels of reporting classifications may be beneficial for required profit analysis of fundraising activities.

## **Accounting Records**

The following accounting records are required. It is recognized that different accounting systems may produce diverse variations and combinations of these records.

### **General Journal**

The general journal is used to record opening entries, correction of errors, transfers between school accounts, purchases and reimbursements between school accounts, transfers between bank accounts, closing entries, and other unusual transactions that are not recorded in the cash receipts or cash disbursements journals. When entries are made in the general journal, the fund, account, and amount must be identified with an explanation for the entry. All general journal entries (other than memo entries) should be posted to the general ledger at the time the journal entry is made.

### **Cash Receipts Journal**

The cash receipts journal provides a summary record, in chronological order, of all receipts written and deposits made.

### **Cash Disbursements Journal**

The cash disbursements journal provides a summary record, in chronological order, of all checks written.

NOTE 1: Most schools today, whether using a manual accounting system or computerized accounting system, prepare separate cash receipts and cash disbursements journals. However, a cash journal may be used. The cash journal combines the cash receipts and disbursement journals, and provides a summary record, in chronological order, of all receipts written, deposits made, and checks written.

NOTE 2: Use regular checks to transfer cash from checking accounts to regular savings accounts or to purchase certificates of deposit. Enter these checks in the cash disbursements journal as a memorandum entry referring to the general journal. All details and amounts will be entered in the general journal.

### **General Ledger**

The general ledger provides a summary of the journalized activity in the school's accounts, which includes assets, liabilities, fund balance, revenues, and expenditures. Individual schools do not record capital assets and long-term liabilities in the general ledger.

## Section 7: Accounting and Reporting

### **Title 3, Financial Reporting**

#### **Periodic Financial Reports**

##### **Trial Balance**

At the end of each month, after all transactions have been recorded, a trial balance should be prepared to determine if general ledger debit and credit balances are equal. If the totals of the debit and credit columns are equal, the ledger from which the figures were taken is said to be “in balance.” The trial balance is normally used to verify the accuracy of posting and is the first step in the preparation of financial statements and reports.

##### **Cash Receipts and Disbursements Reports**

At the end of each month, a sequential listing of all receipts and a sequential listing of all disbursements should be prepared.

A report detailing cash receipts and disbursements should be prepared for the general fund and for **each restricted fund account**. The general fund cash receipts and disbursements report should be given to the principal or principal’s designee. Cash receipts and disbursements reports for each restricted fund account should be given to the sponsor of each account. These responsible individuals should review the reports. If errors are noted, they should be immediately communicated to the principal for follow-up. If no errors are noted, the responsible individual should sign or initial the report. If errors are noted, the corrective action taken should be written on the report, or a corrected report obtained. The original or corrected report should be returned to the bookkeeper and a copy should be retained by the responsible individual.

##### **Other Reports**

The board of education or director of schools may require individual schools to submit monthly reports detailing receipts, disbursements, outstanding obligations, etc. These reports should be submitted in accordance with established policies.

As noted previously, the board of education must establish policies regarding direct application for grants by individual schools. If direct grants are received, the school must prepare any grantor reports required by the grant contract. In addition, these grants should be included in the financial statements and schedules, in accordance with requirements discussed and illustrated in this Section of the Manual.

## **Financial Statements and Accompanying Schedules**

### **Internal School Funds** (excluding school nutrition funds)

The requirements established in this Manual differ from generally accepted accounting principles (GAAP) primarily in the presentation of the financial statements. These financial statements are required to be prepared annually. The financial statements should be prepared using an “Other Comprehensive Basis of Accounting” as set forth in this Manual. This basis of accounting requires that revenues and expenditures be accounted for using the modified accrual basis of accounting. This basis of accounting and the differences between internal school fund accounting and GAAP are summarized in the notes that follow the illustrative financial statements in this Section.

### **Noncentralized School Nutrition Internal School Funds**

The requirements established in this Manual are in accordance with GAAP for cafeteria funds. Section 8 provides further discussion as well as example financial statements, notes, and supplemental schedules. Any changes in GAAP subsequent to the issuance of this Manual should be implemented by the school system.

### **Illustrative Financial Statements and Schedules**

The exhibits on the following pages are organized as they should be in the annual audit report. It is recognized that accounting systems are diverse and the resulting financial records may require modification to develop external financial statements. While the basic format should be adhered to, modifications which present all required information will generally be considered to meet the requirements of this Manual. School officials should contact the Comptroller of the Treasury, Division of Municipal Audit, if there are questions or concerns regarding such modifications.

The preparation of the financial statements and related schedules is the responsibility of school personnel and **not** the independent public accountant who contracts for the annual audit. All accounting records should be organized, closing entries posted, and financial statements and schedules prepared as soon after the fiscal year end as possible. The audit report must be submitted by December 31 following the fiscal year end. The school system is responsible for getting a copy of this report to the Department of Education. To meet this deadline, records must be organized and financial statements and schedules must be prepared on a timely basis. Any applicable Governmental Accounting Standards Board (GASB) reporting requirements not addressed in this Manual and that do not conflict with the principles set forth in this Manual should continue to apply.

**Typical School System - Internal School Funds  
Annual Financial Report  
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**Typical School System – Internal School Funds  
 Combined Balance Sheet – Regulatory Basis - All Schools  
 June 30, 20x2**

|  | Central<br>High School | Central<br>Middle<br>School | Central<br>Elementary | Total                  |
|--|------------------------|-----------------------------|-----------------------|------------------------|
| <b>ASSETS</b>                              |                        |                             |                       |                        |
| Cash on hand                               | \$ 69                  | \$ 13                       | \$ 35                 | \$ 117                 |
| Cash in bank-checking                      | 6,000                  | 3,800                       | 700                   | 10,500                 |
| Cash in bank-savings                       | 10,000                 | 15,000                      | 4,000                 | 29,000                 |
| Inventory                                  | 994                    | 372                         | -                     | 1,366                  |
| Other assets                               | <u>35</u>              | <u>60</u>                   | <u>-</u>              | <u>95</u>              |
| <b>Total assets</b>                        | <b><u>\$17,098</u></b> | <b><u>\$19,245</u></b>      | <b><u>\$4,735</u></b> | <b><u>\$41,078</u></b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                        |                             |                       |                        |
| Liabilities:                               |                        |                             |                       |                        |
| Accounts payable                           | \$ 78                  | \$ 66                       | \$ 22                 | \$ 166                 |
| Due to Board of Education                  | <u>-</u>               | <u>57</u>                   | <u>-</u>              | <u>57</u>              |
| Total liabilities                          | <u>\$ 78</u>           | <u>\$ 123</u>               | <u>\$ 22</u>          | <u>\$ 223</u>          |
| Fund Balances:                             |                        |                             |                       |                        |
| General Fund:                              |                        |                             |                       |                        |
| Nonspendable                               | \$ 994                 | \$ 135                      | \$ -                  | \$ 1,129               |
| Assigned                                   | -                      | -                           | 2,000                 | 2,000                  |
| Unassigned                                 | <u>8,795</u>           | <u>13,989</u>               | <u>1,000</u>          | <u>23,784</u>          |
| Total general fund                         | <u>\$ 9,789</u>        | <u>\$14,124</u>             | <u>\$3,000</u>        | <u>\$26,913</u>        |
| Restricted Fund:                           |                        |                             |                       |                        |
| Restricted                                 | \$ 585                 | \$ 329                      | \$ -                  | \$ 914                 |
| Assigned                                   | <u>6,646</u>           | <u>4,669</u>                | <u>1,713</u>          | <u>13,028</u>          |
| Total restricted fund                      | <u>\$ 7,231</u>        | <u>\$ 4,998</u>             | <u>\$1,713</u>        | <u>\$13,942</u>        |
| Total fund balances                        | <u>\$17,020</u>        | <u>\$19,122</u>             | <u>\$4,713</u>        | <u>\$40,855</u>        |
| <b>Total liabilities and fund balances</b> | <b><u>\$17,098</u></b> | <b><u>\$19,245</u></b>      | <b><u>\$4,735</u></b> | <b><u>\$41,078</u></b> |

The notes to the financial statements are an integral part of this statement.

**Typical School System – Internal School Funds  
 Combined Statement of Revenues, Expenditures, and Changes  
 in Fund Balances – Regulatory Basis – All Schools  
 For the Year Ended June 30, 20x2**

|  | <b>Central<br/>High School</b> | <b>Central<br/>Middle School</b> | <b>Central<br/>Elementary</b> | <b>Total</b>            |
|--|--------------------------------|----------------------------------|-------------------------------|-------------------------|
| Fund balances, July 1, 20X1  | \$ 8,111                       | \$20,268                         | \$ 2,000                      | \$ 30,379               |
| Prior period adjustment (Note E)   | _____ -                        | _____ -                          | _____ 233                     | _____ 233               |
| Adjusted fund balances, July 1, 20X1   | <u>\$ 8,111</u>                | <u>\$20,268</u>                  | <u>\$ 2,233</u>               | <u>\$ 30,612</u>        |
| Revenues   | \$47,545                       | \$67,472                         | \$50,073                      | \$165,090               |
| Expenditures   | <u>38,935</u>                  | <u>68,538</u>                    | <u>47,593</u>                 | <u>155,066</u>          |
| Excess of revenues over (under) expenditures                                     | \$ 8,610                       | \$(1,066)                        | \$ 2,480                      | \$ 10,024               |
| Other financing sources (uses):  |                                |                                  |                               |                         |
| Operating transfers in   | \$ 3,309                       | \$ 583                           | \$ -                          | \$ 3,892                |
| Operating transfers out  | <u>(3,309)</u>                 | <u>(583)</u>                     | _____ -                       | <u>(3,892)</u>          |
| Total other financial sources (uses)   | \$ _____ -                     | \$ _____ -                       | \$ _____ -                    | \$ _____ -              |
| Excess of revenues and other sources over<br>(under) expenditures and other uses | <u>\$ 8,610</u>                | <u>\$(1,066)</u>                 | <u>\$ 2,480</u>               | <u>\$ 10,024</u>        |
| Changes in reserve for inventory   | \$ 299                         | \$ (80)                          | \$ -                          | \$ 219                  |
| <b>Fund balances, June 30, 20X2</b>  | <b><u>\$17,020</u></b>         | <b><u>\$19,122</u></b>           | <b><u>\$ 4,713</u></b>        | <b><u>\$ 40,855</u></b> |

The notes to the financial statements are an integral part of this statement.

**Notes to the Financial Statements  
Typical School System – Internal School Funds  
For the Year Ended June 30, 20x2**

**Background**

Section 49-2-110, *Tennessee Code Annotated*, provides for internal school funds, establishes responsibility for those funds, and requires schools to adopt and follow a uniform accounting manual.

**Note A - Summary of Significant Accounting Policies**

**1. Financial Reporting Entity**

This report includes only the internal school funds of Typical School System. Internal school funds consist of financial resources accounted for at the individual schools. (*NOTE: For schools with decentralized cafeteria operations, the following statement should be added to this note: The accompanying financial statements do not include all internal school funds of the Typical School System. School food authority operations accounted for at the individual schools are audited and reported separately.*)

**Internal School Funds**

Internal school funds reported in the accompanying financial statements include donations and grants made to the individual schools; fees collected by schools; funds received from the local board of education; funds raised through cooperative agreements; rental fees; and student activity funds.

**Student Activity Funds**

Student activity funds include all money received from any source for school-sponsored student activities or school-sponsored events held at or in connection with a school, and specifically include, but are not limited to funds:

- Derived from a school-sponsored academic, art, athletic, or social event involving students;
- Raised by school-sponsored clubs involving students;
- Raised by school-sponsored fundraisers involving students who are under the supervision of a school employee;
- Received from a commission for the direct sale of items to students pursuant to a cooperative agreement between the school and an outside organization;
- Received for the direct sale of items to students from a school-run bookstore located on school grounds;
- Raised from fees charged to students;

**Notes to the Financial Statements  
Typical School System – Internal School Funds  
For the Year Ended June 30, 20x2**

- Obtained from interest from any account that contains student activity funds;
- Obtained from any related school-sponsored activity that involves the use of school personnel, students, and property during the school day.

**2. Other Comprehensive Basis of Accounting (OCBOA)**

The accounting and financial reporting requirements for internal school funds are set forth in the *Tennessee Internal School Uniform Accounting Policy Manual*, issued by the Tennessee Department of Education. The requirements established in the *Tennessee Internal School Uniform Accounting Policy Manual* differ from generally accepted accounting principles primarily in the presentation of the financial statements and restricted fund revenue and expenditure accounting and reporting. The following is a summary of the basic requirements of this other comprehensive basis of accounting.

The financial statements consist of balance sheets and statements of revenues, expenditures and changes in fund balances.

The combined financial statements present all of the individual schools in a columnar format and are required to be presented before the notes to the financial statements. These statements focus on each of the individual schools rather than the funds within the schools. In keeping with that focus, the columnar headings identify the individual schools rather than the funds.

The individual school financial statements present the detailed fund activity in each school and are included after the notes to the financial statements.

Revenues are classified by source and expenditures are classified by either function or object for the general fund but not the restricted fund. Revenues and expenditures of the restricted fund are recorded based on the specific group or activity which will benefit or expend the funds. The activity in the restricted “accounts” is presented as total revenues and transfers in and total expenditures and transfers out for each account. A corresponding “fund balance” is presented for each account. Although the restricted fund is a single fund, each account within the fund must present its portion of the restricted fund balance. Transfers reported on the financial statements represent authorized movement of funds between restricted accounts as well as between the general fund and restricted fund.

**Notes to the Financial Statements**  
**Typical School System – Internal School Funds**  
**For the Year Ended June 30, 20x2**

**3. Measurement Focus and Basis of Accounting**

The accompanying financial statements are reported using the current financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheets and the fund balances report only spendable resources. Internal school funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. Management policies define available as collectible within 60 days (*change this reference as needed to reflect the school system's policy*) after the fiscal year end. Expenditures are generally recognized when the related fund liability is incurred, if measurable.

**4. Fund Structure**

The accounts of the individual schools are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of the fund's assets, liabilities, fund equity, revenues and expenditures. The funds are grouped in the accompanying financial statements as follows:

**General Fund**

The general fund is used to account for all money to be used for the general operation of the school or for the welfare of the student body. Revenues and expenditures in this fund are not restricted to any specific group or activity.

**Restricted Fund**

The restricted fund is used to account for money that is restricted for the use of a specific segment of the school population or legally restricted for a specific purpose and not intended to benefit the general school population.

**5. Inventory**

Inventories are stated at lower of cost (first-in, first-out) or market (net realizable value). The purchases method is used to account for inventories. Under the purchases method, inventories are reported as an expenditure when purchased (or when received for donated items) rather than being capitalized as an asset. However, significant amounts of inventory, if any, on hand at year-end are reported as an asset in the financial statements. In accordance with generally accepted accounting principles, the fair value of donated goods and supplies are recognized as revenues and expenditures in the financial statements. For the current year no significant amounts of such donations were received.

**Notes to the Financial Statements  
Typical School System – Internal School Funds  
For the Year Ended June 30, 20x2**

**6. Fund Balances**

**Nonspendable Fund Balance**

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for inventory in the general fund.

**Restricted Fund Balance**

Fund balances reported as restricted are the result of externally imposed restrictions placed upon certain resources accounted for in the restricted funds. This includes BEP (Basic Education Program) funds and grant funds.

When both restricted and unrestricted resources are available for use, it is the school system's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assigned Fund Balance**

Amounts that are constrained by each school's intent to be used for specific purposes are reflected as assigned in the accompanying financial statements. This includes accounts reported in the restricted fund at each school, except for those that account for externally restricted resources as described above. Inventory amounts for restricted accounts are reflected as assigned because the use of the proceeds from the sale of those inventories is assigned. Board of Education allocation amounts not spent by the end of the fiscal year are reflected as assigned in the general fund because the Board's intent is for those resources to be expended for instruction, administration, and/or operations and maintenance.

The Board of Education is authorized to assign amounts for specific purposes with respect to the amounts they allocate to the individual schools. The principal is the official authorized to assign all other amounts to a specific purpose. Authorization is established by the *Tennessee Internal School Uniform Accounting Policy Manual*.

**Unassigned Fund Balance**

In accordance with generally accepted accounting principles, the general fund is the only fund at each school that reports amounts for unassigned fund balance. This classification represents fund balance that is not restricted and has not been assigned to specific purposes within the general fund.

When both assigned and unassigned resources are available for use, it is the school system's policy to use assigned resources first, then unassigned resources as they are needed.

**Notes to the Financial Statements  
 Typical School System – Internal School Funds  
 For the Year Ended June 30, 20x2**

The fund balance detail for the Typical School System is reflected below. Additional detail is provided on the individual school financial statements.

|                              | Central High |                 | Central Middle |                 | Central Elementary |                 |
|------------------------------|--------------|-----------------|----------------|-----------------|--------------------|-----------------|
|                              | General Fund | Restricted Fund | General Fund   | Restricted Fund | General Fund       | Restricted Fund |
| <b>Fund Balances:</b>        |              |                 |                |                 |                    |                 |
| <b>Nonspendable:</b>         |              |                 |                |                 |                    |                 |
| Inventory                    | \$ 994       |                 | \$ 135         |                 |                    |                 |
| <b>Restricted for:</b>       |              |                 |                |                 |                    |                 |
| BEP funds                    |              | \$ 246          |                | \$ 136          |                    |                 |
| Grant funds                  |              | 339             |                | 193             |                    |                 |
| <b>Assigned to:</b>          |              |                 |                |                 |                    |                 |
| Unspent BOE allocation funds |              |                 |                |                 | \$2,000            |                 |
| Athletic accounts            |              | 2,112           |                | 1,282           |                    | \$1,713         |
| Class accounts               |              | 1,844           |                |                 |                    |                 |
| Club accounts                |              | 1,640           |                | 1,766           |                    |                 |
| Other purposes               |              | 1,050           |                | 1,621           |                    |                 |
| <b>Unassigned:</b>           | 8,795        |                 | 13,989         |                 | 1,000              |                 |
| <b>Total Fund Balances</b>   | \$9,789      | \$7,231         | \$14,124       | \$4,998         | \$3,000            | \$1,713         |

**Note B - Deposits**

**Legal Provisions**

All deposits with financial institutions in excess of FDIC limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution(s) that participates in the State of Tennessee Bank Collateral Pool administered by the state treasurer. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

**Cash Deposits**

Cash in bank represents funds on deposit in various depositories.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the school's deposits may not be returned to it. None of the school's deposits were exposed to custodial credit risk because all balances were entirely insured by the FDIC or through the Bank Collateral Pool with the State of Tennessee.

**Notes to the Financial Statements  
Typical School System – Internal School Funds  
For the Year Ended June 30, 20x2**

**Note C – Commitments**

**Long-Term Noncancelable Leases**

Typical School System has entered into certain noncancelable leases which have been approved by the local legislative body. These leases are reported as a part of the primary government's long-term debt. However, the various schools are obligated to make the monthly payments on these leases.

Central Elementary School entered into a lease agreement with Apex Corporation for the purchase of a copier. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$2,360.

**Minimum lease payments:**

20X3    \$2,360

Central High School entered into a lease agreement with Apex Corporation for the purchase of a copier. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$3,200.

**Minimum lease payments:**

20X3    \$3,200

**Note D - Capital Assets**

Capital assets acquired by the individual schools are recorded as expenditures at the time of purchase. Title and accountability for capital assets purchased pass automatically to the board of education.

**Note E - Prior Period Adjustment**

Central Elementary School's beginning fund balance was adjusted by \$233 in order to properly reflect fund balance at July 1, 20X1. Revenue was not recorded in the prior year's financial statements, resulting in last year's revenue and ending fund balance being understated.



**Typical School System**  
**Central High School - Internal School Funds**  
**Balance Sheet - Regulatory Basis**  
**June 30, 20x2**

|                              | ASSETS       |                       |                      |           |              |              | LIABILITIES AND FUND BALANCES |                   |               |            |          |            |                                     |                     |
|------------------------------|--------------|-----------------------|----------------------|-----------|--------------|--------------|-------------------------------|-------------------|---------------|------------|----------|------------|-------------------------------------|---------------------|
|                              | Cash on Hand | Cash in Bank-Checking | Cash in Bank-Savings | Inventory | Other Assets | Total Assets | Liabilities                   |                   | Fund Balances |            |          |            | Total Liabilities and Fund Balances |                     |
|                              |              |                       |                      |           |              |              | Due to/ Payable               | Total Liabilities | Non-Spendable | Restricted | Assigned | Unassigned |                                     | Total Fund Balances |
| General Fund                 | \$ 69        | \$ 1,691              | \$ 7,000             | \$ 994    | \$ 35        | \$ 9,789     | \$ -                          | \$ -              | \$ 994        | \$ -       | \$ -     | \$ 8,795   | \$ 9,789                            | \$ 9,789            |
| Restricted Fund:             |              |                       |                      |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Athletic Accounts:           |              |                       |                      |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Athletic                     | \$ -         | \$ 505                | \$ 1,500             | \$ -      | \$ -         | \$ 2,005     | \$ 78                         | \$ 78             | \$ -          | \$ -       | \$ 1,927 | \$ -       | \$ 1,927                            | \$ 2,005            |
| Pep Club                     | -            | 185                   | -                    | -         | -            | 185          | -                             | -                 | -             | -          | 185      | -          | 185                                 | 185                 |
| Class Accounts:              |              |                       |                      |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Class of 20X2                | -            | -                     | -                    | -         | -            | -            | -                             | -                 | -             | -          | -        | -          | -                                   | -                   |
| Class of 20X3                | -            | 362                   | 498                  | -         | -            | 860          | -                             | -                 | -             | -          | 860      | -          | 860                                 | 860                 |
| Class of 20X4                | -            | 777                   | 207                  | -         | -            | 984          | -                             | -                 | -             | -          | 984      | -          | 984                                 | 984                 |
| Club Accounts:               |              |                       |                      |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Beta Club                    | -            | 878                   | -                    | -         | -            | 878          | -                             | -                 | -             | -          | 878      | -          | 878                                 | 878                 |
| Business Club                | -            | 43                    | -                    | -         | -            | 43           | -                             | -                 | -             | -          | 43       | -          | 43                                  | 43                  |
| FFA Club                     | -            | 719                   | -                    | -         | -            | 719          | -                             | -                 | -             | -          | 719      | -          | 719                                 | 719                 |
| Other Accounts:              |              |                       |                      |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| BEP Funds                    | -            | 246                   | -                    | -         | -            | 246          | -                             | -                 | -             | 246        | -        | -          | 246                                 | 246                 |
| Grant - Arts Commission      | -            | 339                   | -                    | -         | -            | 339          | -                             | -                 | -             | 339        | -        | -          | 339                                 | 339                 |
| Student Council              | -            | 255                   | 795                  | -         | -            | 1,050        | -                             | -                 | -             | -          | 1,050    | -          | 1,050                               | 1,050               |
| Total Restricted Fund        | \$ -         | \$ 4,309              | \$ 3,000             | \$ -      | \$ -         | \$ 7,309     | \$ 78                         | \$ 78             | \$ -          | \$ 585     | \$ 6,646 | \$ -       | \$ 7,231                            | \$ 7,309            |
| Total General and Restricted | \$ 69        | \$ 6,000              | \$ 10,000            | \$ 994    | \$ 35        | \$ 17,098    | \$ 78                         | \$ 78             | \$ 994        | \$ 585     | \$ 6,646 | \$ 8,795   | \$ 17,020                           | \$ 17,098           |

The notes to the financial statements are an integral part of this statement.

**Typical School System  
Central High School - Internal School Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Regulatory Basis  
For the Year Ended June 30, 20x2**

|   | Fund Balances<br>7/1/20X1 | Prior Period<br>Adjustments | Adjusted<br>Fund Balances<br>7/1/20X1 | Revenues         | Expenditures     | Other Financing Sources<br>(Uses) |                  | Change<br>{Increase<br>(Decrease)}<br>in Inventory | Fund Balances<br>6/30/20X2 |
|---|---------------------------|-----------------------------|---------------------------------------|------------------|------------------|-----------------------------------|------------------|--|----------------------------|
|   |                           |                             |                                       |                  |                  | Transfers<br>In                   | Transfers<br>Out |  |                            |
| General Fund:                               |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Fund Drives                                 |                           |                             |                                       | \$ 4,300         | \$ 2,580         |                                   |                  |  |                            |
| Resale Items                                |                           |                             |                                       | 6,925            | 5,540            |                                   |                  |  |                            |
| Gifts, Bequests & Donations                 |                           |                             |                                       | 5,250            | -                |                                   |                  |  |                            |
| Fines, Fees & Dues                          |                           |                             |                                       | 374              | -                |                                   |                  |  |                            |
| Administration                              |                           |                             |                                       | -                | 2,140            |                                   |                  |  |                            |
| Instruction                                 |                           |                             |                                       | -                | 1,495            |                                   |                  |  |                            |
| Operation & Maintenance                     |                           |                             |                                       | -                | 1,422            |                                   |                  |  |                            |
| <b>Total General Fund</b>                   | <b>\$ 3,145</b>           | <b>\$ -</b>                 | <b>\$ 3,145</b>                       | <b>\$ 16,849</b> | <b>\$ 13,177</b> | <b>\$ 2,673</b>                   | <b>\$ -</b>      | <b>\$ 299</b>                                      | <b>\$ 9,789</b>            |
| Restricted Fund:                            |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Athletic Accounts:                          |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Football                                    | \$ 1,302                  | \$ -                        | \$ 1,302                              | \$ 13,386        | \$ 13,397        | \$ 636                            | \$ -             | \$ -   | \$ 1,927                   |
| Pep Club                                    | 236                       | -                           | 236                                   | 730              | 145              | -                                 | (636)            | -  | 185                        |
| Class Accounts:                             |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Class of 20X2                               | 700                       | -                           | 700                                   | 4,900            | 4,415            | -                                 | (1,185)          | -  | -                          |
| Class of 20X3                               | 233                       | -                           | 233                                   | 811              | 184              | -                                 | -                | -  | 860                        |
| Class of 20X4                               | 133                       | -                           | 133                                   | 3,512            | 2,661            | -                                 | -                | -  | 984                        |
| Club Accounts:                              |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Beta Club                                   | 200                       | -                           | 200                                   | 878              | 200              | -                                 | -                | -  | 878                        |
| Business Club                               | 965                       | -                           | 965                                   | 232              | 1,154            | -                                 | -                | -  | 43                         |
| FFA Club                                    | 300                       | -                           | 300                                   | 465              | 46               | -                                 | -                | -  | 719                        |
| Other Accounts:                             |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| BEP Funds                                   | 109                       | -                           | 109                                   | 300              | 163              | -                                 | -                | -  | 246                        |
| Grant - Arts Council                        | 188                       | -                           | 188                                   | 1,537            | 1,386            | -                                 | -                | -  | 339                        |
| Student Council                             | 600                       | -                           | 600                                   | 3,945            | 2,007            | -                                 | (1,488)          | -  | 1,050                      |
| <b>Total Restricted Fund</b>                | <b>\$ 4,966</b>           | <b>\$ -</b>                 | <b>\$ 4,966</b>                       | <b>\$ 30,696</b> | <b>\$ 25,758</b> | <b>\$ 636</b>                     | <b>(3,309)</b>   | <b>\$ -</b>  | <b>\$ 7,231</b>            |
| <b>Total General &amp; Restricted Funds</b> | <b>\$ 8,111</b>           | <b>\$ -</b>                 | <b>\$ 8,111</b>                       | <b>\$ 47,545</b> | <b>\$ 38,935</b> | <b>\$ 3,309</b>                   | <b>(3,309)</b>   | <b>\$ 299</b>                                      | <b>\$ 17,020</b>           |

The notes to the financial statements are an integral part of this statement

**Typical School System**  
**Central Middle School - Internal School Funds**  
**Balance Sheet - Regulatory Basis**  
**June 30, 20x2**

|                              | ASSETS       |               |              |           |              |              | LIABILITIES AND FUND BALANCES |                   |               |            |          |            |                                     |                     |
|------------------------------|--------------|---------------|--------------|-----------|--------------|--------------|-------------------------------|-------------------|---------------|------------|----------|------------|-------------------------------------|---------------------|
|                              | Cash on Hand | Cash in       |              | Inventory | Other Assets | Total Assets | Liabilities                   |                   | Fund Balances |            |          |            | Total Liabilities and Fund Balances |                     |
|                              |              | Bank-Checking | Bank-Savings |           |              |              | Due to/Accounts Payable       | Total Liabilities | Non-Spendable | Restricted | Assigned | Unassigned |                                     | Total Fund Balances |
|                              |              |               |              |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| General Fund                 | \$ 13        | \$ 1,520      | \$ 12,396    | \$ 135    | \$ 60        | \$ 14,124    | \$ -                          | \$ -              | \$ 135        | \$ -       | \$ -     | \$ 13,989  | \$ 14,124                           | \$ 14,124           |
| Restricted Fund:             |              |               |              |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Athletic Accounts:           |              |               |              |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Athletics                    | \$ -         | \$ 432        | \$ -         | \$ -      | \$ -         | \$ 432       | \$ 66                         | \$ 66             | \$ -          | \$ -       | \$ 366   | \$ -       | \$ 366                              | \$ 432              |
| Pep Club                     | -            | 179           | 500          | 237       | -            | 916          | -                             | -                 | -             | -          | 916      | -          | 916                                 | 916                 |
| Club Accounts:               |              |               |              |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Beta Club                    | -            | 187           | 458          | -         | -            | 645          | -                             | -                 | -             | -          | 645      | -          | 645                                 | 645                 |
| Biology Club                 | -            | 151           | -            | -         | -            | 151          | -                             | -                 | -             | -          | 151      | -          | 151                                 | 151                 |
| FFA                          | -            | 278           | 492          | -         | -            | 770          | -                             | -                 | -             | -          | 770      | -          | 770                                 | 770                 |
| Home Economics               | -            | 200           | -            | -         | -            | 200          | -                             | -                 | -             | -          | 200      | -          | 200                                 | 200                 |
| Other Accounts:              |              |               |              |           |              |              |                               |                   |               |            |          |            |                                     |                     |
| Band                         | -            | 322           | 404          | -         | -            | 726          | -                             | -                 | -             | -          | 726      | -          | 726                                 | 726                 |
| BEP Funds                    | -            | 136           | -            | -         | -            | 136          | -                             | -                 | -             | 136        | -        | -          | 136                                 | 136                 |
| Grant - Arts Commission      | -            | 193           | -            | -         | -            | 193          | -                             | -                 | -             | 193        | -        | -          | 193                                 | 193                 |
| Student Council              | -            | 202           | 750          | -         | -            | 952          | 57                            | 57                | -             | -          | 895      | -          | 895                                 | 952                 |
| Total Restricted Fund        | \$ -         | \$ 2,280      | \$ 2,604     | \$ 237    | \$ -         | \$ 5,121     | \$ 123                        | \$ 123            | \$ -          | \$ 329     | \$ 4,669 | \$ -       | \$ 4,998                            | \$ 5,121            |
| Total General and Restricted | \$ 13        | \$ 3,800      | \$ 15,000    | \$ 372    | \$ 60        | \$ 19,245    | \$ 123                        | \$ 123            | \$ 135        | \$ 329     | \$ 4,669 | \$ 13,989  | \$ 19,122                           | \$ 19,245           |

The notes to the financial statements are an integral part of this statement.

**Typical School System  
 Central Middle School - Internal School Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balances - Regulatory Basis  
 For the Year Ended June 30, 20x2**

|   | Fund Balances<br>7/1/20X1 | Prior Period<br>Adjustments | Adjusted<br>Fund Balances<br>7/1/20X1 | Revenues         | Expenditures     | Other Financing<br>Sources (Uses) |                  | Change<br>{Increase<br>(Decrease)}<br>in Inventory | Fund Balances<br>6/30/20X2 |
|---|---------------------------|-----------------------------|---------------------------------------|------------------|------------------|-----------------------------------|------------------|--|----------------------------|
|   |                           |                             |                                       |                  |                  | Transfers<br>In                   | Transfers<br>Out |  |                            |
| <b>General Fund:</b>                        |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Fund Drives                                 |                           |                             |                                       | \$ 5,215         | \$ 4,800         |                                   |                  |  |                            |
| Resale Items                                |                           |                             |                                       | 8,312            | 4,050            |                                   |                  |  |                            |
| Gifts, Bequests & Donations                 |                           |                             |                                       | -                | -                |                                   |                  |  |                            |
| Fines, Fees & Dues                          |                           |                             |                                       | 185              | -                |                                   |                  |  |                            |
| Administration                              |                           |                             |                                       | -                | 1,467            |                                   |                  |  |                            |
| Instruction                                 |                           |                             |                                       | -                | 204              |                                   |                  |  |                            |
| Operation & Maintenance                     |                           |                             |                                       | -                | 132              |                                   |                  |  |                            |
| <b>Total General Fund</b>                   | <b>\$ 10,645</b>          | <b>\$ -</b>                 | <b>\$ 10,645</b>                      | <b>\$ 13,712</b> | <b>\$ 10,653</b> | <b>\$ 500</b>                     | <b>\$ -</b>      | <b>\$ (80)</b>                                     | <b>\$ 14,124</b>           |
| <b>Restricted Fund:</b>                     |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| <b>Athletic Accounts:</b>                   |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Athletic                                    | \$ 5,982                  | \$ -                        | \$ 5,982                              | \$ 27,958        | \$ 33,657        | \$ 83                             | \$ -             | \$ -   | \$ 366                     |
| Pep Club                                    | 964                       | -                           | 964                                   | 502              | 467              | -                                 | (83)             | -  | 916                        |
| <b>Club Accounts:</b>                       |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Beta Club                                   | 172                       | -                           | 172                                   | 931              | 458              | -                                 | -                | -  | 645                        |
| Biology Club                                | 137                       | -                           | 137                                   | 395              | 381              | -                                 | -                | -  | 151                        |
| FFA   | 838                       | -                           | 838                                   | 733              | 801              | -                                 | -                | -  | 770                        |
| Home Economics                              | 195                       | -                           | 195                                   | 203              | 198              | -                                 | -                | -  | 200                        |
| <b>Other Accounts:</b>                      |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Band  | 255                       | -                           | 255                                   | 18,364           | 17,893           | -                                 | -                | -  | 726                        |
| BEP Funds                                   | 133                       | -                           | 133                                   | 1,523            | 1,520            | -                                 | -                | -  | 136                        |
| Grant - Arts Commission                     | 56                        | -                           | 56                                    | 1,150            | 1,013            | -                                 | -                | -  | 193                        |
| Student Council                             | 891                       | -                           | 891                                   | 2,001            | 1,497            | -                                 | (500)            | -  | 895                        |
| <b>Total Restricted</b>                     | <b>\$ 9,623</b>           | <b>\$ -</b>                 | <b>\$ 9,623</b>                       | <b>\$ 53,760</b> | <b>\$ 57,885</b> | <b>\$ 83</b>                      | <b>(583)</b>     | <b>\$ -</b>  | <b>\$ 4,998</b>            |
| <b>Total General &amp; Restricted Funds</b> | <b>\$ 20,268</b>          | <b>\$ -</b>                 | <b>\$ 20,268</b>                      | <b>\$ 67,472</b> | <b>\$ 68,538</b> | <b>\$ 583</b>                     | <b>(583)</b>     | <b>\$ (80)</b>                                     | <b>\$ 19,122</b>           |

The notes to the financial statements are an integral part of this statement.

**Typical School System  
 Central Elementary School - Internal School Funds  
 Balance Sheet - Regulatory Basis  
 June 30, 20x2**

|                              | ASSETS          |                   |                  |           |                 |                 | LIABILITIES AND FUND BALANCES  |                      |               |          |            |   |                        |
|------------------------------|-----------------|-------------------|------------------|-----------|-----------------|-----------------|--------------------------------|----------------------|---------------|----------|------------|---|------------------------|
|                              | Cash on<br>Hand | Cash in           |                  | Inventory | Other<br>Assets | Total<br>Assets | Liabilities                    |                      | Fund Balances |          |            | Total Liabilities<br>and Fund<br>Balances |                        |
|                              |                 | Bank-<br>Checking | Bank-<br>Savings |           |                 |                 | Due to/<br>Accounts<br>Payable | Total<br>Liabilities | Restricted    | Assigned | Unassigned |   | Total Fund<br>Balances |
| General Fund                 | \$ 35           | \$ 350            | \$ 2,637         | \$ -      | \$ -            | \$ 3,022        | \$ 22                          | \$ 22                | \$ -          | \$ 2,000 | \$ 1,000   | \$ 3,000                                  | \$ 3,022               |
| Restricted Fund:             |                 |                   |                  |           |                 |                 |                                |                      |               |          |            |   |                        |
| Athletic Accounts:           |                 |                   |                  |           |                 |                 |                                |                      |               |          |            |   |                        |
| Athletic                     | \$ -            | \$ 350            | \$ 1,363         | \$ -      | \$ -            | \$ 1,713        | \$ -                           | \$ -                 | \$ -          | \$ 1,713 | \$ -       | \$ 1,713                                  | \$ 1,713               |
| Other Accounts:              |                 |                   |                  |           |                 |                 |                                |                      |               |          |            |   |                        |
| BEP Funds                    | -               | -                 | -                | -         | -               | -               | -                              | -                    | -             | -        | -          | -   | -                      |
| Grant - Arts Commission      | -               | -                 | -                | -         | -               | -               | -                              | -                    | -             | -        | -          | -   | -                      |
| Total Restricted Fund        | \$ -            | \$ 350            | \$ 1,363         | \$ -      | \$ -            | \$ 1,713        | \$ -                           | \$ -                 | \$ -          | \$ 1,713 | \$ -       | \$ 1,713                                  | \$ 1,713               |
| Total General and Restricted | \$ 35           | \$ 700            | \$ 4,000         | \$ -      | \$ -            | \$ 4,735        | \$ 22                          | \$ 22                | \$ -          | \$ 3,713 | \$ 1,000   | \$ 4,713                                  | \$ 4,735               |

The notes to the financial statements are an integral part of this statement.

**Typical School System**  
**Central Elementary School - Internal School Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Regulatory Basis**  
**For the Year Ended June 30, 20x2**

|   | Fund Balances<br>7/1/20X1 | Prior Period<br>Adjustments | Adjusted<br>Fund Balances<br>7/1/20X1 | Revenues         | Expenditures     | Other Financing<br>Sources (Uses) |                  | Change<br>{Increase<br>(Decrease)}<br>in Inventory | Fund Balances<br>6/30/20X2 |
|---|---------------------------|-----------------------------|---------------------------------------|------------------|------------------|-----------------------------------|------------------|--|----------------------------|
|   |                           |                             |                                       |                  |                  | Transfers<br>In                   | Transfers<br>Out |  |                            |
|   |                           |                             |                                       |                  |                  | General Fund:                     |                  |  |                            |
| Board of Education Allocation               |                           |                             |                                       | \$ 13,287        | \$ -             |                                   |                  |  |                            |
| Fund Drives                                 |                           |                             |                                       | 10,430           | 6,377            |                                   |                  |  |                            |
| Sale of Supplies                            |                           |                             |                                       | 8,500            | 8,200            |                                   |                  |  |                            |
| T-shirts                                    |                           |                             |                                       | 4,000            | 2,000            |                                   |                  |  |                            |
| Fines, Fees & Dues                          |                           |                             |                                       | 1,648            | -                |                                   |                  |  |                            |
| Fall Festival                               |                           |                             |                                       | 5,495            | -                |                                   |                  |  |                            |
| Administration                              |                           |                             |                                       | -                | 7,500            |                                   |                  |  |                            |
| Instruction                                 |                           |                             |                                       | -                | 10,000           |                                   |                  |  |                            |
| Maintenance                                 |                           |                             |                                       | -                | 2,900            |                                   |                  |  |                            |
| Books                                       |                           |                             |                                       | -                | 600              |                                   |                  |  |                            |
| Field Trips                                 |                           |                             |                                       | -                | 5,016            |                                   |                  |  |                            |
| <b>Total General Fund</b>                   | <b>\$ 2,000</b>           | <b>\$ 233</b>               | <b>\$ 2,233</b>                       | <b>\$ 43,360</b> | <b>\$ 42,593</b> | <b>\$ -</b>                       | <b>\$ -</b>      | <b>\$ -</b>  | <b>\$ 3,000</b>            |
| Restricted Fund:                            |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Athletic Accounts:                          |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| Athletic                                    |                           |                             |                                       | \$ 5,013         | \$ 3,300         |                                   |                  |  | \$ 1,713                   |
| Other Accounts:                             |                           |                             |                                       |                  |                  |                                   |                  |  |                            |
| BEP funds                                   |                           |                             |                                       | 700              | 700              |                                   |                  |  | -                          |
| Grant - Arts Commission                     |                           |                             |                                       | 1,000            | 1,000            |                                   |                  |  | -                          |
| <b>Total Restricted Fund</b>                | <b>\$ -</b>               | <b>\$ -</b>                 | <b>\$ -</b>                           | <b>\$ 6,713</b>  | <b>\$ 5,000</b>  | <b>\$ -</b>                       | <b>\$ -</b>      | <b>\$ -</b>  | <b>\$ 1,713</b>            |
| <b>Total General &amp; Restricted Funds</b> | <b>\$ 2,000</b>           | <b>\$ 233</b>               | <b>\$ 2,233</b>                       | <b>\$ 50,073</b> | <b>\$ 47,593</b> | <b>\$ -</b>                       | <b>\$ -</b>      | <b>\$ -</b>  | <b>\$ 4,713</b>            |

The notes to the financial statements are an integral part of this statement.

**Typical School System**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Fiscal Year Ended June 30, 20x2**

| Federal Grantor/<br>Pass-Through Grantor | CFDA<br>Number | Contract<br>Number | Beginning<br>(Accrued)<br>Deferred | Cash<br>Receipts | Expenditures | Ending<br>(Accrued)<br>Deferred |
|--|----------------|--------------------|------------------------------------|------------------|--------------|---------------------------------|
| <u>State Awards:</u>                     |                |                    |                                    |                  |              |                                 |
| Tennessee Arts Commission                | N/A            | GRX204391          | \$ 188                             | \$ 1,537         | \$ 1,386     | \$ 339                          |
| Tennessee Arts Commission                | N/A            | GRX204401          | \$ 56                              | \$ 1,150         | \$ 1,013     | \$ 193                          |
| Tennessee Arts Commission                | N/A            | GRX207367          | \$ -                               | \$ 1,000         | \$ 1,000     | \$ -                            |
| Total State Awards                       |                |                    | \$ 244                             | \$ 3,687         | \$ 3,399     | \$ 532                          |
| <u>Federal Awards:</u>                   |                |                    |                                    |                  |              |                                 |
| N/A                                      |                |                    |                                    |                  |              |                                 |

Note 1: This schedule is prepared on the modified accrual basis of accounting.

Note 2: The above grants are earned when cash is received and not when expenditures are made. As a result, deferred revenue is not reflected in the financial statements. However, the grant resources are restricted for art expenditures by the grant contract. Any unspent funds are reflected as restricted fund balance in the accompanying financial statements.

**Typical School System – Internal School Funds  
 Schedule of Interfund and Interaccount Transfers  
 (By School)  
 For The Year Ended June 30, 20x2**

**Central High School**

| <b><u>Transfer To</u></b> | <b><u>Transfer From</u></b> |                      |                 |                |
|---------------------------|-----------------------------|----------------------|-----------------|----------------|
|                           | <u>Student Council</u>      | <u>Class of 20X2</u> | <u>Pep Club</u> | <u>Total</u>   |
| General                   | \$1,488                     | \$1,185              | \$ -            | \$2,673        |
| Athletic                  | _____ -                     | _____ -              | _____ 636       | _____ 636      |
| Total                     | <u>\$1,488</u>              | <u>\$1,185</u>       | <u>\$636</u>    | <u>\$3,309</u> |

**Central Middle School**

| <b><u>Transfer To</u></b> | <b><u>Transfer From</u></b> |                 |              |
|---------------------------|-----------------------------|-----------------|--------------|
|                           | <u>Student Council</u>      | <u>Pep Club</u> | <u>Total</u> |
| General                   | \$500                       | \$ -            | \$500        |
| Athletic                  | _____ -                     | _____ 83        | _____ 83     |
| Total                     | <u>\$500</u>                | <u>\$83</u>     | <u>\$583</u> |



**Typical School System – Internal School Funds  
 Schedule of Salary Supplements  
 (By School)  
 For The Year Ended June 30, 20x2**

| <u>School</u>                | <u>Amount</u>  | <u>Source of<br/>Funds</u> | <u>Board<br/>Approved</u> | <u>Proper<br/>Withholding</u> |
|------------------------------|----------------|----------------------------|---------------------------|-------------------------------|
| <u>Central High School</u>   |                |                            |                           |                               |
| D. Moody                     | \$ 50          | Athletic                   | Yes                       | Yes                           |
| J. Hyde                      | 340            | Athletic                   | Yes                       | Yes                           |
| J. Wesley                    | 210            | Athletic                   | Yes                       | Yes                           |
| G. Whitfield                 | 85             | Athletic                   | Yes                       | Yes                           |
| H. Taylor                    | 55             | Athletic                   | Yes                       | Yes                           |
| G. Mueller                   | 80             | Athletic                   | Yes                       | Yes                           |
| S. Morris                    | 80             | Athletic                   | Yes                       | Yes                           |
| C. Finney                    | <u>100</u>     | Athletic                   | Yes                       | Yes                           |
| Total                        | <u>\$1,000</u> |                            |                           |                               |
| <u>Central Middle School</u> |                |                            |                           |                               |
| J. Edwards                   | \$ 70          | Athletic                   | Yes                       | Yes                           |
| C. Spurgeon                  | 120            | Athletic                   | Yes                       | Yes                           |
| A. Carmichael                | 200            | Athletic                   | Yes                       | Yes                           |
| J. Calvin                    | 150            | Athletic                   | Yes                       | Yes                           |
| E. Elliott                   | 35             | Athletic                   | Yes                       | Yes                           |
| W. Gurnall                   | 55             | Athletic                   | Yes                       | Yes                           |
| J. Ryle                      | 110            | Athletic                   | Yes                       | Yes                           |
| A. Murray                    | 40             | Athletic                   | Yes                       | Yes                           |
| L. Ravenhill                 | <u>40</u>      | Athletic                   | Yes                       | Yes                           |
| Total                        | <u>\$ 820</u>  |                            |                           |                               |
| <u>Central Elementary</u>    |                |                            |                           |                               |
| None                         |                |                            |                           |                               |

NOTE:

If no salary supplements were paid from internal school funds, that fact should be disclosed.

**Typical School System  
Internal School Funds  
Schedule of Fidelity Bond Coverage  
June 30, 20x2**

|                    |  |
|--------------------|--|
| Company:           | Tennessee School Boards Liability Trust                            |
| Type of Coverage:  | Employee Fidelity Bond   |
| Amount:            | \$150,000 each and every loss<br>\$500 deductible, each occurrence |
| Period Covered:    | 07/01/X1 - 07/01/X2  |
| Positions Covered: | All Employees  |

Section **8**

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**Local Education  
Agency School  
Nutrition Funds**

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL

## **Section 8: Local Education Agency School Nutrition Funds**

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### **Title 1, General Rules and Regulations**

#### **Centralized and Noncentralized Systems**

##### **Centralized Systems**

Centralized cafeteria systems account for the operations of school nutrition funds in a central location (at the board of education) and not at the individual schools. Accordingly, centralized systems are not defined as internal school funds and do not fall within the scope of this Manual.

A fully centralized school nutrition program is one in which the central office staff has day-to-day control over the following areas:

1. Fiscal Management (Reporting and Recordkeeping)
2. Procurement of Goods and Services
3. Personnel
4. Menu Planning
5. Monitoring
6. Income Verification
7. Food Safety
8. Sanitation

When the school nutrition funds are centralized, policies and procedures are the responsibility of the centralized school nutrition program staff.

##### **Noncentralized Systems**

Noncentralized cafeteria systems receive and account for money related to the school nutrition fund operations at the individual schools. As defined in Section 4 of this Manual, internal school funds consist of any and all money received and accounted for at individual schools. Accordingly, noncentralized systems are considered to be internal school funds and fall within the scope of this Manual.

##### **Application**

All procedures in this Manual apply to the operation of noncentralized Local Education Agency (LEA) school nutrition funds except where this Section may conflict with other procedures in the Manual.

### **Petty Cash and Change Accounts**

A predetermined amount of cash may be set aside as a “change account” for the purpose of making change in the cash collecting operation only. A petty cash account is not allowed in the school nutrition fund. The change account shall be reconciled each day. Only the exact predetermined amount of change shall be withheld from each day’s deposit. (NOTE: The change account cannot be used to balance overages and shortages in collections.)

### **Student Prepaid Accounts**

Each school should develop a policy for student prepaid meal balances. The policy should address procedures for refunding amounts not used by students.

### **Fund Balance**

A deficit balance in a cafeteria fund is not allowable.

### **Utilization of School Nutrition Fund Money**

Income accruing to the school nutrition fund in any school, including interest earned on school nutrition accounts, shall be used only for school nutrition fund purposes. Such income shall **not** be used to purchase land, to acquire or construct buildings.

### **Vending Machines – Fundraising**

Vending machines operated by the school nutrition program and fundraising for the benefit of the school nutrition program will follow rules established by federal, state, and local rules and regulations.

### **Banquets and Special Functions**

A formal contract document should be developed for use by the director of schools and/or board of education in authorizing banquets and special functions. School nutrition money and commodities from the U.S. Department of Agriculture (USDA) must not be used to subsidize these activities. The contract must include the amount to be paid by the requesting organization to cover all costs of the function. The itemized costs on the contract should include food, nonfood supplies, food inventory used, nonfood supplies inventory used, labor, fringe benefits, utilities, and any other itemized expenses incurred. Regulations require that a school system have documentation that the funds received by the school nutrition fund for the banquets and special function cover all costs.

The school nutrition fund must have complete documentation. The cost of nonfood supplies and foods in inventory (other than USDA commodities) could be determined with an issue record. These issue records, along with invoices, time sheets, allocation

summaries for utilities, and documentation for other costs should be filed with each record of payment and contract. Other charges for facilities, use of facilities and equipment, damage deposit, etc., may or may not be included. If the cost for the special function includes a profit, the local board should decide its disposition. The school nutrition fund must be reimbursed for all costs.

When the school nutrition fund is centralized, the scheduling and all accountability procedures required for banquets and special functions are the responsibility of the centralized LEA school nutrition program staff.

In a noncentralized school nutrition fund, all accountability procedures required for banquets and special functions are the responsibility of the cafeteria manager and the principal. Payments for services to cafeteria employees who cater such affairs must be channeled through the individual's payroll records and are subject to all necessary withholdings. Authorization of the function by the director of schools and/or the board of education constitutes authorization for such payments.

### **Separate Accounting Required**

Separate accounting records must be maintained for all school nutrition funds and should include the same accounting records as described in Section 7 of this Manual. Many of the activities of a cafeteria are similar to or would require similar documentation as addressed in previous sections of this Manual. These include ticket sales, cash register use, overall controls, teacher/other collections, collection logs, expenditures, etc.

### **Indirect Costs**

Indirect costs may be included for each program in a Claim for Reimbursement only through the application of an indirect cost rate. The school nutrition fund's indirect cost rate is established by the Tennessee Department of Education. Local education agencies can recover indirect costs only from the reserve fund that exceeds three (3) months operating expenses.

### **Charges**

If charges are allowed, the local education agency must have a board approved charge policy. Uncollected charges must be recouped from other than school nutrition program funds. Uncollected charges should be the responsibility of the board of education through direct payment, board of education allocation funds, or other such funds. Student activity funds should not be used.

### **Meals for Cafeteria Employees**

Cafeteria employees are allowed to receive their meals free. Other employees of the school who are not paid from cafeteria funds may eat free only if there is approval on file from the State Director of the School Nutrition Program of the Tennessee Department of Education.

### **State Matching Funds**

State matching funds must be used solely in the school nutrition program. Ten percent of the state matching funds shall be applied to the costs of one or more of the following:

1. employment of a certified school food service supervisor;
2. employment of cafeteria managers or assistant managers certified by the School Nutrition Association or working toward such certification; and/or
3. Professional training programs for non-accredited personnel.

### **Retention of Records**

School nutrition records must be retained for a period of three years after submission of the final claim for reimbursement for the fiscal year. If audit findings have not been resolved, the records shall be retained beyond the three-year period as long as required for the resolution of the issues raised by the audit.

### **Commodities – Accounting and Financial Reporting**

Commodities inventory can be accounted for using either the purchases method or the consumption method.

Purchases Method: Inventories are reported as an expenditure when purchased (or when received if donated) rather than capitalized as an asset. Significant amounts of inventory should be reported as an asset on the school system's financial statements.

Consumption Method: Inventories are reported as an asset when purchased (or when received if donated). The expenditure for inventories is recognized when the inventories are actually consumed.

The fair value of donated commodities should be recognized as revenue in the period when all eligibility requirements are met (typically, the period when the commodities are received). The corresponding expenditure will be recognized based upon whether the purchases method or the consumption method is used.

Guidance from the Tennessee Department of Agriculture regarding a single inventory system for food inventory can be found on the Division of Municipal Audit, Comptroller of the Treasury's website under the subject "Commodities" in the Topical Index section.

### **Financial Statements and Schedules**

The LEA financial statements for school nutrition funds are prepared in accordance with the reporting standards established by the Governmental Accounting Standards Board (GASB).

School systems should present individual fund financial statements. Government-wide financial statements are not required. In order to demonstrate accountability at the individual school level, this Manual requires noncentralized cafeteria systems to report their financial activity in separate special revenue funds by individual school. Each special revenue fund should be presented separately in the financial statements for school nutrition funds.

The exhibits on the following pages are organized as they should be in the annual audit report. It is recognized that accounting systems are diverse and the resulting financial records may require modification to develop external financial statements. While the basic format should be adhered to, modifications which present all required information will generally be considered to meet the requirements of this Manual. School officials should contact the Comptroller of the Treasury, Division of Municipal Audit, if there are questions or concerns regarding such modifications.

The preparation of the financial statements and related schedules is the responsibility of school personnel and **not** the independent public accountant who contracts for the annual audit. All accounting records should be organized, closing entries posted, and financial statements and schedules prepared as soon after the fiscal year end as possible. The audit report must be submitted by December 31 following the fiscal year end. The school system is responsible for getting a copy of the report to the Department of Education. To meet this deadline, records must be organized and financial statements and schedules must be prepared on a timely basis. Any applicable GASB reporting requirements not addressed in this Manual continue to apply. Any changes in GAAP subsequent to the issuance of this Manual should be implemented by the school system.



**Typical School System  
Local Education Agency - School Nutrition Funds  
Annual Financial Report**

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## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

As management of the Typical County School System we offer readers of the *Local Education Agency (LEA) - School Nutrition Funds* financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 20X2.

### **1. Overview of the Basic Financial Statements**

The basic financial statements for the school nutrition funds of the Typical County School System consist of *fund financial statements*. The financial statements do not include complete financial information of the Typical County School System, a discretely presented component unit of Typical County.

#### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The Typical County School Nutrition Funds present all *governmental funds*.

#### **Governmental Funds**

*Governmental fund* financial statements focus on the near-term (current) inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Capital assets and long-term debt are not reflected in the governmental fund financial statements. That information is reported in separately issued financial statements of the Typical County. The Typical County School System does not issue separate financial statements from those of the County. Therefore, the basic financial statements of the school system are included in the County’s report.

#### **Individual Funds**

The school nutrition funds of the Typical School System maintain three individual governmental funds. Separate special revenue funds are used to account for each school’s cafeteria system in accordance with the *Tennessee Internal School Uniform Accounting Policy Manual*. Information is presented by individual school in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

## **2. Financial Analysis of Balances and Transactions of Individual Funds**

The focus of the governmental funds is to provide information on how money flows into and out of those funds and the resources available for spending at the end of the year. *Fund balance* is classified based upon the extent that constraints have been placed upon the spending of available funds.

As of the end of the current fiscal year, the governmental funds of the Typical County School Nutrition Funds reported combined ending fund balances of \$92,194, a decrease of \$31,085 in comparison with the prior year. The entirety of this balance has been classified as *restricted fund balance* in order to reflect external restrictions placed upon those resources. In accordance with federal regulations, all revenue generated by the school food service must be used to operate and improve its food services.

Central Middle School reflected a significant decrease in their fund balance for the fiscal year ended June 30, 202X. The key factor in this decrease was the purchase of cafeteria equipment that amounted to \$18,704.

Central Elementary School reflected a significant decrease in their fund balance for the fiscal year ended June 30, 202X. The key factor in this decrease was the purchase of cafeteria equipment that amounted to \$6,324.

## **3. Capital Assets and Debt Administration**

Significant capital asset activity during the current fiscal year included the following:

The Central High School, Central Middle School, and Central Elementary School made equipment purchases of \$9,859, \$18,704, and \$6,324, respectively. Central High school purchased new freezer and refrigeration equipment, Central Middle School purchased a new cash register system, and Central Elementary School purchased new holding bins and an ice cream machine.

Because fund financial statements are reported on the current financial resources measurement focus and the modified accrual basis of accounting and are designed to reflect spendable resources, capital assets and long-term debt are not reflected in the accompanying financial statements. This financial activity is reported in separately issued financial statements of the Typical County.

## **4. Economic Factors**

The schools rely upon federal reimbursements for a significant portion of the cost of school meals as well as federal commodities to supplement the school nutrition program.

**Typical School System  
 Local Education Agency – School Nutrition Funds  
 Balance Sheet - Governmental Funds  
 June 30, 20x2**

|  | <b>Central<br/>High<br/>School</b> | <b>Central<br/>Middle<br/>School</b> | <b>Central<br/>Elementary</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|------------------------------------|--------------------------------------|-------------------------------|---|
| <b>ASSETS</b>                              |                                    |                                      |                               |   |
| Cash on Hand                               | \$ 28                              | \$ 50                                | \$ -                          | \$ 78                                   |
| Cash in Bank – Checking                    | 17,601                             | 12,514                               | 10,902                        | 41,017                                  |
| Cash in Bank – Savings                     | 10,000                             | 15,000                               | 5,000                         | 30,000                                  |
| USDA Receivable                            | 6,600                              | 6,263                                | 2,285                         | 15,148                                  |
| Inventory                                  | 1,803                              | 2,284                                | 1,856                         | 5,943                                   |
| Other Assets                               | 353                                | -                                    | -                             | 353                                     |
| <b>Total Assets</b>                        | <b>\$36,385</b>                    | <b>\$36,111</b>                      | <b>\$20,043</b>               | <b>\$92,539</b>                         |
| <b>LIABILITIES AND FUND BALANCE</b>        |                                    |                                      |                               |   |
| Liabilities:                               |                                    |                                      |                               |   |
| Accounts Payable                           | \$ -                               | \$ 115                               | \$ -                          | \$ 115                                  |
| Other Liabilities                          | 230                                | -                                    | -                             | 230                                     |
| <b>Total Liabilities</b>                   | <b>\$ 230</b>                      | <b>\$ 115</b>                        | <b>\$ -</b>                   | <b>\$ 345</b>                           |
| Fund Balances:                             |                                    |                                      |                               |   |
| Restricted                                 | \$36,155                           | \$35,996                             | \$20,043                      | \$92,194                                |
| <b>Total Fund Balances</b>                 | <b>\$36,155</b>                    | <b>\$35,996</b>                      | <b>\$20,043</b>               | <b>\$92,194</b>                         |
| <b>Total Liabilities and Fund Balances</b> | <b>\$36,385</b>                    | <b>\$36,111</b>                      | <b>\$20,043</b>               | <b>\$92,539</b>                         |

The notes to the financial statements are an integral part of this statement.

**Typical School System**  
**Local Education Agency – School Nutrition Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Governmental Funds**  
**For the Year Ended June 30, 20x2**

|  | <b>Central<br/>High<br/>School</b> | <b>Central<br/>Middle<br/>School</b> | <b>Central<br/>Elementary<br/>School</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|------------------------------------|--------------------------------------|--|---|
| Fund Balance, July 1, 20X1                           | \$ 39,353                          | \$ 56,035                            | \$ 27,355                                | \$122,743                               |
| Prior Period Adjustment (See Note G)                 | 536                                | -                                    | -  | 536                                     |
| Adjusted Fund Balance, July 1, 20X1                  | <u>\$ 39,889</u>                   | <u>\$ 56,035</u>                     | <u>\$ 27,355</u>                         | <u>\$123,279</u>                        |
| <b>Revenues:</b>                                     |                                    |                                      |  |   |
| Lunch Payments – Students                            | \$ 28,657                          | \$ 18,051                            | \$ 20,083                                | \$ 66,791                               |
| Lunch Payments – Adults                              | 5,125                              | 2,979                                | 2,982                                    | 11,086                                  |
| Breakfast Payments – Students                        | 1,420                              | 1,418                                | 2,516                                    | 5,354                                   |
| Breakfast Payments – Adults                          | 208                                | 5                                    | 297                                      | 510                                     |
| USDA Reimbursements                                  | 90,877                             | 88,132                               | 41,479                                   | 220,488                                 |
| USDA Commodities                                     | 9,131                              | 7,332                                | 4,557                                    | 21,020                                  |
| Fresh Fruit and Vegetable Program                    | 7,222                              | 8,485                                | 9,002                                    | 24,709                                  |
| Special Milk   | 3,211                              | -                                    | -  | 3,211                                   |
| Supplemental Income                                  | 2,909                              | 2,678                                | 26,370                                   | 31,957                                  |
| Interest Income                                      | 545                                | 608                                  | 410                                      | 1,563                                   |
| All Other Income                                     | 400                                | 25                                   | 1,334                                    | 1,759                                   |
| <b>Total Revenues</b>                                | <u><b>\$149,705</b></u>            | <u><b>\$129,713</b></u>              | <u><b>\$109,030</b></u>                  | <u><b>\$388,448</b></u>                 |
| <b>Expenditures:</b>                                 |                                    |                                      |  |   |
| Food   | \$ 63,196                          | \$ 57,012                            | \$ 49,120                                | \$169,328                               |
| Labor  | 60,795                             | 56,028                               | 48,506                                   | 162,329                                 |
| USDA Commodities                                     | 9,131                              | 7,332                                | 4,557                                    | 21,020                                  |
| Operations and Maintenance                           | 2,388                              | 4,144                                | 3,802                                    | 10,334                                  |
| Equipment  | 9,859                              | 18,704                               | 6,324                                    | 37,887                                  |
| Nonfood supplies                                     | 7,919                              | 7,411                                | 4,338                                    | 19,668                                  |
| <b>Total Expenditures</b>                            | <u><b>\$153,288</b></u>            | <u><b>\$150,631</b></u>              | <u><b>\$116,647</b></u>                  | <u><b>\$420,566</b></u>                 |
| Excess (Deficiency) of Revenues<br>over Expenditures | \$ (3,583)                         | \$ (20,918)                          | \$ (7,617)                               | \$(32,118)                              |
| Change in Reserve for Inventory                      | (151)                              | 879                                  | 305                                      | 1,033                                   |
| <b>Fund Balance, June 30, 20X2</b>                   | <u><u><b>\$ 36,155</b></u></u>     | <u><u><b>\$ 35,996</b></u></u>       | <u><u><b>\$ 20,043</b></u></u>           | <u><u><b>\$ 92,194</b></u></u>          |

The notes to the financial statements are an integral part of this statement.

**Typical School System**  
**Local Education Agency – School Nutrition Funds**  
**Notes to the Financial Statements**  
**June 30, 20x2**

**Note A - Summary of Significant Accounting Policies**

**1. Reporting Entity**

This report includes only the noncentralized school nutrition funds of Typical School System.

**2. Financial Statement Presentation**

The accounting and financial reporting requirements for school nutrition funds are illustrated in the *Tennessee Internal School Uniform Accounting Policy Manual (TISUAPM)*, issued by the Tennessee Department of Education. The financial statements for the school nutrition funds are prepared in accordance with the reporting standards established by the Governmental Accounting Standards Board. The financial statements presented are fund financial statements for governmental funds.

**3. Fund Structure**

The school nutrition fund of each individual school is considered to be a separate fiscal and accounting entity. The operations of each fund are accounted for by providing a separate self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein. The *TISUAPM* requires that each school cafeteria be accounted for and reported in a separate special revenue fund. Accordingly, each individual school presented in a separate column in the financial statements represents the Local Education Agency's separate individual funds for the school nutrition program.

**4. Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The school nutrition funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Management policies define available as collectible within 60 days (***change this reference as needed to reflect the school system's policy***) after the fiscal year end. Expenditures are generally recognized when the related fund liability is incurred, if measurable.

**Typical School System**  
**Local Education Agency – School Nutrition Funds**  
**Notes to the Financial Statements**  
**June 30, 20x2**

**5. Fund Balances**

Fund balances are reported as restricted due to externally imposed restrictions placed upon the resources accounted in the funds. In accordance with federal regulations, all revenue generated by the school food service must be used to operate and improve its food services.

When both restricted and unrestricted resources are available for use, it is the school system's policy to use restricted resources first, then unrestricted resources as they are needed. The school system did not report any unrestricted resources for the period.

**6. Inventory**

As authorized by the USDA, the school system maintains a single inventory for purchased and donated food supplies. All inventories are valued at lower of cost or market using the first-in/first-out (FIFO) method. The purchases method is used to account for inventories. Under the purchases method, inventories are reported as an expenditure when purchased (or when received for donated commodities) rather than being capitalized as an asset. However, significant amounts of inventory, if any, on hand at year-end are reported as an asset in the financial statements.

In accordance with generally accepted accounting principles, the fair value of donated commodities has been recognized as revenues and expenditures in the accompanying financial statements.

**Note B – Stewardship, Compliance, and Accountability**

**Budgetary Information**

Legally appropriated budgets have not been adopted for the noncentralized school nutrition funds.

**Typical School System**  
**Local Education Agency – School Nutrition Funds**  
**Notes to the Financial Statements**  
**June 30, 20x2**

**Note C - Deposits**

**Legal Provisions**

All deposits with financial institutions in excess of FDIC limits are required to be secured by one of two methods. Excess funds can be deposited with financial institutions that participate in the State of Tennessee Bank Collateral Pool administered by the state treasurer. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

**Cash Deposits**

Cash in bank represents funds on deposit in various depositories.

**Custodial Credit Risk**

*Custodial credit risk* is the risk that in the event of a bank failure, the school's deposits may not be returned to it. None of the school's deposits were exposed to custodial credit risk because all balances were entirely insured by the FDIC or through the Bank Collateral Pool with the State of Tennessee.

**Note D - Commitments and Contingencies**

**Long-Term Noncancelable Leases**

Typical School System has entered into certain noncancelable leases, which have been approved by the local legislative body, for the school nutrition program. These leases are reported as a part of the primary government's long-term debt. However, the various school nutrition funds are obligated to make the monthly payments on these leases.

Central Elementary School entered into a lease agreement with Apex Corporation for the purchase of an ice cream machine. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$2,360.

**Minimum lease payments:**

|      |         |
|------|---------|
| 20X3 | \$2,360 |
|------|---------|



**Typical School System**  
**Local Education Agency – School Nutrition Funds**  
**Notes to the Financial Statements**  
**June 30, 20x2**

Central High School entered into a lease agreement with Apex Corporation for the purchase of a freezer bin. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$3,200.

**Minimum lease payments:**

|      |         |
|------|---------|
| 20X3 | \$3,200 |
|------|---------|

**Note E – Capital Assets and Long-Term Debt**

Because fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting, capital assets and long-term debt are not reflected in the accompanying financial statements. This financial activity is reported in separately issued financial statements of the Typical County.

**Note F - Retirement Plan and Other Postemployment Benefits**

Certain employees of the local school nutrition program have elected to participate in the Tennessee Consolidated Retirement System (TCRS) via a plan administered through Typical County, Tennessee. Information related to this plan as well as any other postemployment benefits can be found in the audit report of Typical County, Tennessee.

**Note G - Prior Period Adjustment**

Central High School's beginning fund balance was adjusted by \$536 in order to properly reflect fund balance at July 1, 20X1. Prior year accounts payable were overstated resulting in expenses being overstated and fund balance being understated.

**Note H – Risk Management**

Typical School System school nutrition funds are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which Typical County, Tennessee, carries commercial insurance. Settlements have not exceeded coverage for each of the past three fiscal years.

**Typical School System  
 Local Education Agency – School Nutrition Funds  
 Schedule of Salary Supplements  
 (By School)  
 For The Year Ended June 30, 20x2**

| <u>School</u>                | <u>Amount</u> | <u>Source of Funds<sup>1</sup></u> | <u>Board Approval</u> | <u>Proper Withholding</u> |
|------------------------------|---------------|------------------------------------|-----------------------|---------------------------|
| <u>CENTRAL HIGH SCHOOL</u>   |               |                                    |                       |                           |
| J. Dawson                    | \$ 50         | Cafeteria                          | Yes                   | Yes                       |
| N. DeMoss                    | 340           | Cafeteria                          | Yes                   | Yes                       |
| S. Wesley                    | 210           | Cafeteria                          | Yes                   | Yes                       |
| S. Watson                    | 85            | Cafeteria                          | Yes                   | Yes                       |
| R. Howells                   | 190           | Cafeteria                          | Yes                   | Yes                       |
| C. Finney                    | 100           | Cafeteria                          | Yes                   | Yes                       |
| Total                        | \$975         |                                    |                       |                           |
| <u>CENTRAL MIDDLE SCHOOL</u> |               |                                    |                       |                           |
| F. Crosby                    | \$ 70         | Cafeteria                          | Yes                   | Yes                       |
| D. Campbell                  | 120           | Cafeteria                          | Yes                   | Yes                       |
| E. Elliott                   | 35            | Cafeteria                          | Yes                   | Yes                       |
| C. TenBoom                   | 55            | Cafeteria                          | Yes                   | Yes                       |
| L. Prince                    | 110           | Cafeteria                          | Yes                   | Yes                       |
| Total                        | \$390         |                                    |                       |                           |
| <u>CENTRAL ELEMENTARY</u>    |               |                                    |                       |                           |
| L. Ant                       | \$110         | Cafeteria                          | Yes                   | Yes                       |
| R. Plant                     | 80            | Cafeteria                          | Yes                   | Yes                       |
| H. Hopes                     | 200           | Cafeteria                          | Yes                   | Yes                       |
| Total                        | \$390         |                                    |                       |                           |

**NOTE:**

If no salary supplements were paid from school nutrition funds, that fact should be disclosed.

<sup>1</sup>Although the salary supplements were paid through the school nutrition fund, sufficient money was paid to the fund from the appropriate restricted fund account(s) to pay for these supplements.

**Typical School System  
Local Education Agency - School Nutrition Funds  
Schedule of Fidelity Bond Coverage  
June 30, 20x2**

|                    |  |
|--------------------|--|
| Company:           | Tennessee School Boards Liability Trust                            |
| Type of Coverage:  | Employee Fidelity Bond   |
| Amount:            | \$150,000 each and every loss<br>\$500 deductible, each occurrence |
| Period Covered:    | 07/01/X1 - 07/01/X2  |
| Positions Covered: | All Employees  |

**Typical School System  
 Local Education Agency — School Nutrition Funds  
 Schedule of Expenditures of Federal Awards and State Financial Assistance  
 For the Year Ended June 30, 20x2**

| Federal Grantor/<br>Pass-Through Grantor  | CFDA<br>Number | Contract<br>Number | Beginning<br>(Accrued)<br>Deferred | Cash<br>Receipts | Expenditures     | Ending<br>(Accrued)<br>Deferred |
|---|----------------|--------------------|------------------------------------|------------------|------------------|---------------------------------|
| US Department of Agriculture / TN Department of Education / (National School Lunch Program)     | 10.555         | N/A                | \$(35,192)                         | \$195,026        | \$171,617        | \$(11,783)                      |
| US Department of Agriculture / TN Department of Education / (National School Breakfast Program) | 10.553         | N/A                | (10,334)                           | 55,840           | 48,871           | (3,365)                         |
| US Department of Agriculture / TN Department of Education / (Special Milk Program)              | 10.556         | N/A                | 232                                | 2,979            | 3,211            | -0-                             |
| US Department of Agriculture / TN Department of Education / (Fresh Fruit and Vegetable Program) | 10.582         | N/A                | -0-                                | 24,709           | 24,709           | -0-                             |
| US Department of Agriculture / TN Department of Agriculture (Commodity Assistance)              | 10.555         | GRx207367          | -0-                                | 21,020           | 21,020           | -0-                             |
| <b>TOTAL FEDERAL AWARDS</b>   |                |                    | <b>\$(45,294)</b>                  | <b>\$299,574</b> | <b>\$269,428</b> | <b>\$(15,148)</b>               |

Section 9

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# Chart of Accounts

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL

## **Section 9: Chart of Accounts**

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### **Title 1, Account Codes**

The account codes in this section are presented to illustrate account numbers that could be used in an individual school for internal school funds. While the account titles and descriptions should be used uniformly in all schools, the account numbers below are suggestions only. Each school must determine which account codes work best for its manual or computerized accounting system.

| <b>Account No.</b> | <b>Accounts</b>       | <b>Fund</b>    |                   |                         |
|--------------------|-----------------------|----------------|-------------------|-------------------------|
|                    |                       | <b>General</b> | <b>Restricted</b> | <b>School Nutrition</b> |
| 1-99               | Balance Sheet         | <b>X</b>       | <b>X</b>          | <b>X</b>                |
| 101-199            | Revenue               |                |                   | <b>X</b>                |
| 201-299            | Expenditure           |                |                   | <b>X</b>                |
| 301-399            | Revenue               | <b>X</b>       |                   |                         |
| 401-499            | Expenditure           | <b>X</b>       |                   |                         |
| 601-699            | Revenue & Expenditure |                | <b>X</b>          |                         |

Section 9: Chart of Accounts  
**Title 2, General or Restricted Funds**

**Balance Sheet Accounts**

**Assets**

| <b>Account Number</b> | <b>Account</b>           |
|-----------------------|--------------------------|
| 11                    | Cash on hand             |
| 12                    | Cash in banks - checking |
| 13                    | Cash in banks - savings  |
| 21                    | Other investments        |
| 31                    | Accounts receivable      |
| 41                    | Inventory                |

**Liabilities and Fund Balance**

| <b>Account Number</b> | <b>Account</b>            |
|-----------------------|---------------------------|
| 61                    | Due to board of education |
| 71                    | Accounts payable          |
| 81                    | Accrued expenses payable  |
| 91                    | General fund balance      |
| 92                    | Restricted fund balance   |

**NOTE:** Any account may be expanded to create a sub-level of reporting.

**Section 9: Chart of Accounts**  
**Title 3, General Fund**

**Revenue Classification (by Source and Subsource)**

| <b>Account Number</b> | <b>Account</b>                              |
|-----------------------|---|
| <b>302</b>            | <b>Gate receipts – entertainment</b>        |
| 302.1                 | Movies                                      |
| 302.2                 | Plays                                       |
| 302.3                 | Assemblies                                  |
| 302.4                 | Carnivals                                   |
| 302.5-9               | Other entertainment gate receipts (specify) |
|                       |   |
| <b>303</b>            | <b>Gate receipts – miscellaneous</b>        |
| 303.1                 | Lectures                                    |
| 303.2                 | Rallies                                     |
| 303.3-9               | Other miscellaneous gate receipts (specify) |
|                       |   |
| <b>304</b>            | <b>Resale items</b>                         |
| 304.1                 | Bookstore supplies                          |
| 304.2                 | Pictures                                    |
| 304.3                 | Vending                                     |
| 304.5-9               | Other resale items (specify)                |
|                       |   |
| <b>305</b>            | <b>Sale of school publications</b>          |
| 305.1                 | School newspapers                           |
| 305.3                 | School yearbooks                            |
| 305.4-9               | Other school publications (specify)         |
|                       |   |
| <b>306</b>            | <b>Fundraising</b>                          |
| 306.4-9               | Other fund drives (specify)                 |
|                       |   |



|                |  |
|----------------|--|
| <b>307</b>     | <b>Unrestricted gifts, bequests, and donations</b> |
| 307.1          | Gifts  |
| 307.2          | Bequests   |
| 307.3          | Donations  |
| 307.4-9        | Other gifts, bequests or donations (specify)       |
|                |  |
| <b>309</b>     | <b>Board of education allocation</b>               |
| 309.1          | For supplies                                       |
| 309.2          | For books  |
| 309.3          | For equipment                                      |
| 309.4          | For services                                       |
| 309.5-9        | Other board allocations (specify)                  |
|                |  |
| <b>310</b>     | <b>Fines, fees, and dues</b>                       |
| 310.1          | Library fines                                      |
| 310.2          | Breakage fees                                      |
| 310.3          | Class dues   |
| 310.4          | Club dues  |
| 310.5-9        | Other fines, fees, or dues (specify)               |
|                |  |
| <b>311</b>     | <b>Interest income</b>                             |
|                |  |
| <b>312</b>     | <b>Rent</b>  |
| 312.1          | For school facilities                              |
| 312.2-9        | For other facilities (specify)                     |
|                |  |
| <b>313-399</b> | <b>Other revenue (designate)</b>                   |

**Expenditure Classification (by Function, Subfunction and Object)**

| <b>Account Number</b> | <b>Account</b>   |
|-----------------------|--|
| <b>401</b>            | <b>Administration</b>  |
| 401.01                | Salaries (paid to board of education)  |
| 401.02                | Contracted services  |
| 401.03                | Supplies and materials   |
| 401.05                | Fixed charges  |
| 401.07                | Equipment  |
| 401.09                | Other  |
|                       |  |
| <b>402</b>            | <b>Instruction</b>   |
| 402.02                | Contracted services  |
| 402.03                | Supplies and materials   |
| 402.07                | Equipment  |
| 402.09                | Other  |
|                       |  |
| <b>403</b>            | <b>Expenditures from board of education allocation<br/>(Refer to the explanation below when using this account.)</b> |
| 403.02                | Contracted services  |
| 403.03                | Supplies and materials   |
| 403.07                | Equipment  |
| 403.09                | Other  |
|                       |  |
| <b>404</b>            | <b>Operation and maintenance</b>   |
| 404.02                | Contracted services  |
| 404.03                | Supplies and materials   |
| 404.07                | Equipment  |
| 404.09                | Other  |
|                       |  |
| <b>406</b>            | <b>Entertainment</b>   |
| 406.1                 | School group performances  |
| 406.12                | Contracted services  |
| 406.13                | Supplies and materials   |
| 406.17                | Equipment  |

| <b>Account Number</b> | <b>Account</b>             |
|-----------------------|----------------------------|
| 406.19                | Other                      |
| 406.2                 | Movies                     |
| 406.22                | Contracted services        |
| 406.23                | Supplies and materials     |
| 406.27                | Equipment                  |
| 406.29                | Other                      |
| 406.3                 | Contracted performers      |
| 406.32                | Contracted services        |
| 406.33                | Supplies and materials     |
| 406.39                | Other                      |
| 406.9                 | Other (must report object) |
| 406.92                | Contracted services        |
| 406.93                | Supplies and materials     |
| 406.97                | Equipment                  |
| 406.99                | Other                      |
|                       |                            |
| <b>407</b>            | <b>School publications</b> |
| 407.1                 | School yearbook            |
| 407.12                | Contracted services        |
| 407.13                | Supplies and materials     |
| 407.17                | Equipment                  |
| 407.19                | Other                      |
| 407.2                 | School newspaper           |
| 407.22                | Contracted services        |
| 407.23                | Supplies and materials     |
| 407.27                | Equipment                  |
| 407.29                | Other                      |
| 407.9                 | Other                      |
| 407.92                | Contracted services        |
| 407.93                | Supplies and materials     |
| 407.97                | Equipment                  |
| 407.99                | Other                      |

| <b>Account Number</b> | <b>Account</b>                                 |
|-----------------------|--|
| <b>408</b>            | <b>Field trips and other off-campus events</b> |
| 408.02                | Contracted services                            |
| 408.03                | Supplies and materials                         |
| 408.07                | Equipment                                      |
| 408.09                | Other  |
|                       |  |
| <b>409</b>            | <b>Items for resale</b>                        |
| 409.03                | Supplies and materials                         |
| 409.07                | Equipment                                      |
| 409.09                | Other  |
|                       |  |
| <b>411</b>            | <b>Fundraising</b>                             |
| 411.11                | Carnivals                                      |
| 411.12                | Car washes                                     |
| 411.13                | Candy sales                                    |
| 411.14                | Other  |
|                       |  |
| <b>412</b>            | <b>Other (list function)</b>                   |

**Explanation of Expenditure by Function**

- 401**    Administration - Those expenditures that are generally for the offices of the principal, assistant principals, bookkeeper, and other administrative staff.
  
- 402**    Instruction - Those expenditures which benefit the instructional program of the school.
  
- 403**    Expenditures from local board allocations - The local board allocations normally will be accounted for separately and often limited to specific items. When this account is used, the subfunction and/or object classification must also be reported in the financial statements. For example, the following classifications are acceptable:
  - Board Allocation – Supplies (by object)
  - Board Allocation – Instructional Supplies (by subfunction and object)

- 404**    Operation and maintenance - All expenditures for the operation and maintenance of the buildings and grounds.
  
- 406**    Entertainment - All expenditures for school entertainment.
  
- 407**    School publications - All expenditures for school publications, such as yearbooks and newspapers.
  
- 408**    Field trips and other off-campus events - Those expenditures incurred in preparation for off-campus events and all expenditures incurred during the events.
  
- 409**    Items for resale - The cost of items purchased that will be resold. This account will include such items as bookstore and concession supplies and materials.
  
- 411**    Fundraising - All costs related to fundraising activities.
  
- 412 – 499**    Other - Use these accounts to provide a detailed explanation of expenditures that cannot properly be charged to one of the functions above.

Section 9: Chart of Accounts  
**Title 4, Restricted Fund**

**Revenue/Expenditure Accounts**

**601-999 All Restricted Accounts**

| <b>Account Number</b> | <b>Account</b>   |
|-----------------------|--|
| <b>601-699</b>        | <b>Athletics</b>   |
| 601                   | All athletics - (general ledger account or not used)               |
| 602                   | Basketball - (subsidiary ledger account or general ledger account) |
| 603                   | Baseball - (subsidiary ledger account or general ledger account)   |
| 604                   | Football - (subsidiary ledger account or general ledger account)   |
| 605                   | Golf - (subsidiary ledger account or general ledger account)       |
| 606                   | Tennis - (subsidiary ledger account or general ledger account)     |
| 607                   | Track - (subsidiary ledger account or general ledger account)      |
| 608                   | Swimming - (subsidiary ledger account or general ledger account)   |
| 609-699               | Other - (name)   |
| <b>701-799</b>        | <b>Class accounts</b>  |
| 701                   | Class of 20X3  |
| 702                   | Class of 20X4  |
| 703                   | Class of 20X5  |
| 704                   | Class of 20X6  |
| <b>801-899</b>        | <b>Club accounts</b>   |
| 801                   | Beta club  |
| 802                   | FFA club   |
| 803                   | Forensic club  |
| 804                   | Journalism club  |
| 805                   | Science club   |
| 807                   | FHA club   |
| 809                   | Yearbook club  |
| <b>901-999</b>        | <b>Other activities (name)</b>                                     |
| 901                   | Band   |
| 902                   | Jane Smith Scholarship   |
| 903                   | Teacher materials and supplies (BEP) account                       |
| 904                   | Wellness Grant   |

**Section 9: Chart of Accounts**

**Title 5, School Nutrition Fund**

**Balance Sheet Accounts**

**Assets**

| <b>Account Number</b> | <b>Account</b>          |
|-----------------------|-------------------------|
| 11                    | Cash on hand            |
| 12                    | Cash in bank            |
| 13                    | Cash in savings account |
| 21                    | Other investments       |
| 31                    | Accounts receivable     |
| 41                    | Inventory               |

**Liabilities and Fund Balance**

| <b>Account Number</b> | <b>Account</b>                  |
|-----------------------|---------------------------------|
| 61                    | Income tax withheld             |
| 62                    | Social security tax payable     |
| 63                    | Retirement withheld and payable |
| 65                    | Insurance withheld and payable  |
| 66                    | Other payroll deductions        |
| 71                    | Accounts payable                |
| 81                    | Accrued payroll                 |
| 94                    | School nutrition fund balance   |

**NOTE:** Any account may be expanded to create a sub-level of reporting.

**Revenue Accounts**

**Lunch**

| <b>Account Number</b> | <b>Account</b> |
|-----------------------|----------------|
| 111                   | Students       |
| 112                   | Adults         |
| 113                   | Other          |
| 114                   | USDA           |

**Breakfast**

| <b>Account Number</b> | <b>Account</b> |
|-----------------------|----------------|
| 121                   | Students       |
| 122                   | Adults         |
| 123                   | Other          |
| 124                   | USDA           |

**Milk**

| <b>Account Number</b> | <b>Account</b>      |
|-----------------------|---------------------|
| 131                   | Students            |
| 132                   | Adults              |
| 133                   | Other               |
| 134                   | USDA (Special Milk) |

**Other Programs**

| <b>Account Number</b> | <b>Account</b>                    |
|-----------------------|-----------------------------------|
| 141                   | Students                          |
| 142                   | Adults                            |
| 143                   | Other                             |
| 144                   | Interest income                   |
| 145                   | USDA Commodities (in-kind)        |
| 146                   | Fresh Fruit and Vegetable Program |

**Expenditure Accounts**

| <b>Account Number</b> | <b>Account</b>             |
|-----------------------|----------------------------|
| 210                   | Labor                      |
| 220                   | Food                       |
| 240                   | Supplies                   |
| 250                   | Utilities                  |
| 260                   | Contracted services        |
| 270                   | Equipment                  |
| 280                   | USDA Commodities (in-kind) |
| 290                   | Other                      |



Appendix **A**

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**Applicable Laws  
and Exhibits**

Tennessee Internal  
School Uniform  
Accounting Policy  
**M**ANUAL

## **Appendix A: State Laws Affecting Internal School Funds**

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Schools must comply with federal, state, local laws and regulations, grant requirements, and contract requirements. Laws and regulations may have a material direct or indirect impact on the financial statements, both qualitatively and quantitatively. The following list of *Tennessee Code Annotated* references should not be considered a comprehensive list.

### **Selected *Tennessee Code Annotated* References**

|                                       |  |
|---------------------------------------|--|
| Section 5-8-207<br>& Section 6-56-111 | Three day deposit law; Requirement that all funds be disbursed by prenumbered check. |
| Section 9-2-103–104                   | Consecutively prenumbered receipts required  |
| Section 12-4-101                      | Conflict of interest statute   |
| Section 49-2-110                      | Student activity funds - authority and responsibility                                |
| Section 49-2-112                      | School audits  |
| Section 49-2-601 et seq               | School Support Organizations (PTO’s, booster clubs, etc.)                            |
| Section 49-3-359(a)                   | Basic Education Program (BEP)  |
| Section 49-6-2003                     | Teacher conflicts of interest  |
| Section 49-6-2007                     | Disposition or transfer of property  |
| Section 49-6-3001                     | Tennessee public schools referred to as being “free”                                 |
| Section 66-29-101                     | Unclaimed funds  |
| Section 67-6-102                      | State sales tax on resale items  |

**Exhibit 1**

**PROPOSED FUNDRAISING ACTIVITIES**

Fund/account name \_\_\_\_\_

Proposed fundraising activities: \_\_\_\_\_

\_\_\_\_\_

Purposed Uses of funds raised

\_\_\_\_\_

\_\_\_\_\_

Expected student involvement (school-wide or specific school organization) \_\_\_\_\_

\_\_\_\_\_

Method by which school will receive profit \_\_\_\_\_

\_\_\_\_\_

Requested by \_\_\_\_\_ Date \_\_\_\_\_  
Name/Title

Approved by \_\_\_\_\_ Date \_\_\_\_\_  
Principal

Approved by \_\_\_\_\_ Date \_\_\_\_\_  
Director of Schools\*

\* The Director of Schools must approve all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort.

**FUNDRAISER COLLECTIONS ANALYSIS REPORT**

**SECTION 1 (To be completed by sponsor)**

Fundraising activity \_\_\_\_\_  
 Fund/club/class \_\_\_\_\_  
 Sponsor \_\_\_\_\_  
 Approval date \_\_\_\_\_ Beginning date \_\_\_\_\_ Ending date \_\_\_\_\_

**EXPECTED COLLECTIONS**

| Date               | Check # | Item Purchased | Quantity | X | Selling Price | = | Expected Collections |
|--------------------|---------|----------------|----------|---|---------------|---|----------------------|
|                    |         |                |          |   |               |   |                      |
|                    |         |                |          |   |               |   |                      |
|                    |         |                |          |   |               |   |                      |
| Subtotal           |         |                |          |   |               |   | \$                   |
| Total from page 2  |         |                |          |   |               |   | \$                   |
| <b>GRAND TOTAL</b> |         |                |          |   |               |   | <b>\$</b>            |

**ACTUAL COLLECTIONS**

| Date               | Cash Receipt Number | Amount    |
|--------------------|---------------------|-----------|
|                    |                     |           |
|                    |                     |           |
|                    |                     |           |
| Subtotal           |                     | \$        |
| Total from page 3  |                     | \$        |
| <b>GRAND TOTAL</b> |                     | <b>\$</b> |

**ENDING INVENTORY**

Number of items on hand X selling price = ending inventory value

\_\_\_\_\_ X \$ \_\_\_\_\_ = \$ \_\_\_\_\_

**ANALYSIS**

|                          |    |       |
|--------------------------|----|-------|
| Expected collections     | \$ | _____ |
| Less: actual collections | \$ | _____ |
| Less: ending inventory   | \$ | _____ |
| Overage/shortage*        | \$ | _____ |

\*Attach detailed documentation or explanation for this amount.





**ADVERTISING SALES FOR YEARBOOK COLLECTIONS ANALYSIS REPORT**

| EXPECTED COLLECTIONS |                                   |   |                   |                      |
|----------------------|-----------------------------------|---|-------------------|----------------------|
| Size of Ad           | No. of Ads Printed in Publication | X | Selling Price     | Expected Collections |
|                      |                                   |   |                   |                      |
|                      |                                   |   |                   |                      |
|                      |                                   |   |                   |                      |
|                      |                                   |   | Subtotal          | \$                   |
|                      |                                   |   | Total from page 2 | \$                   |
|                      |                                   |   | GRAND TOTAL       | \$                   |

| ACTUAL COLLECTIONS |                     |                   |    |
|--------------------|---------------------|-------------------|----|
| Date               | Cash Receipt Number | Amount            |    |
|                    |                     |                   |    |
|                    |                     |                   |    |
|                    |                     |                   |    |
|                    |                     | Subtotal          | \$ |
|                    |                     | Total from page 3 | \$ |
|                    |                     | GRAND TOTAL       | \$ |

| ANALYSIS   |          |
|--|----------|
| Expected collections                                 | \$ _____ |
| Less: actual collections                             | \$ _____ |
| Overage/shortage*                                    | \$ _____ |
| *Sponsor should provide explanation for any variance |          |







**YEARBOOK COLLECTIONS ANALYSIS REPORT**

| EXPECTED COLLECTIONS  |                |       |
|---|----------------|-------|
| Number of yearbooks received from the printer                   | Ordered        | _____ |
|   | Free           | _____ |
|   | Total Received | _____ |
| Total yearbooks received X selling price = expected collections |                |       |
| _____ X _____ = \$ _____  |                |       |

| ACTUAL COLLECTIONS |                     |                    |
|--------------------|---------------------|--------------------|
| Date               | Cash Receipt Number | Amount             |
|                    |                     |                    |
|                    |                     |                    |
|                    |                     | Subtotal           |
|                    |                     | \$ _____           |
|                    |                     | Total from page 2  |
|                    |                     | \$ _____           |
|                    |                     | <b>GRAND TOTAL</b> |
|                    |                     | <b>\$ _____</b>    |

| VALUE OF INVENTORY ON HAND                                    |
|---|
| Number of yearbooks on hand X selling price = inventory value |
| _____ X \$ _____ = \$ _____                                   |

| ANALYSIS   |          |
|--|----------|
| Expected collections   | \$ _____ |
| Less: actual collections (from page 2)   | \$ _____ |
| Less: inventory of hand  |          |
| Less: yearbooks given away*  |          |
| Overage/shortage*  | \$ _____ |
| *Attach a detailed list of recipients of free yearbooks and an explanation therefor. Also, attach detailed documentation or explanation for any overage or shortage. |          |



**VENDING COLLECTIONS ANALYSIS REPORT**

| EXPECTED COLLECTIONS |         |                |          |   |               |   |                      |
|----------------------|---------|----------------|----------|---|---------------|---|----------------------|
| Date                 | Check # | Item Purchased | Quantity | X | Selling Price | = | Expected Collections |
|                      |         |                |          |   |               |   |                      |
|                      |         |                |          |   |               |   |                      |
| Subtotal             |         |                |          |   |               |   | \$                   |
| Total from page 2    |         |                |          |   |               |   | \$                   |
| GRAND TOTAL          |         |                |          |   |               |   | \$                   |

| ACTUAL COLLECTIONS |                     |        |
|--------------------|---------------------|--------|
| Date               | Cash Receipt Number | Amount |
|                    |                     |        |
|                    |                     |        |
| Subtotal           |                     | \$     |
| Total from page 3  |                     | \$     |
| GRAND TOTAL        |                     | \$     |

**ENDING INVENTORY**

Number of items on hand X selling price = ending inventory value

\_\_\_\_\_ X \$ \_\_\_\_\_ = \$ \_\_\_\_\_

**ANALYSIS**

|                          |    |       |
|--------------------------|----|-------|
| Expected collections     | \$ | _____ |
| Less: actual collections | \$ | _____ |
| Less: ending inventory   | \$ | _____ |
| Overage/shortage*        | \$ | _____ |

\*Attach detailed documentation or explanation for this amount.











**DONATION/ALLOCATION SUMMARY REPORT**  
(Page 1 of 2)

Source of Donation/Allocation \_\_\_\_\_

Purpose of Donation/Allocation \_\_\_\_\_

Fund/Account Name Donated/Allocated To \_\_\_\_\_

Date Received \_\_\_\_\_

Amount of Donation/Allocation \$ \_\_\_\_\_

Total Purchases with Donation/Allocation (from page 2) \$ \_\_\_\_\_

\*Difference \$ \_\_\_\_\_

\*If the amount spent is less than the donation/allocation, please provide explanation and intended disposition of balance.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Completed by \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by \_\_\_\_\_ Date \_\_\_\_\_

Any change in authorized purpose must be accompanied by a written authorization from the donor.



**Exhibit 5**

**PRENUMBERED RECEIPT- CASHIER**

|  |   |  |
|--|---|--|
| <b>RECEIPT</b>   | Central High School<br>Main Boulevard<br>Anytown, TN 00000                                | No. 0001                                 |
| Received from  | <u>Coach John Smith</u>   |  |
| Amount   | <input style="width: 80px;" type="text" value="\$100.00"/> One hundred and no/100 dollars |  |
| Purpose  | Concessions \$60<br>Football Jackets \$40   | Account Name Football<br>Account No. 604 |
| Cash <input type="checkbox"/> Check <input type="checkbox"/> | By <u>Ima Cashier</u>   |  |
| \$20                  \$80                                   |   |  |

**PRENUMBERED RECEIPT-TEACHER/OTHER**

|  |  |                         |
|--|--|-------------------------|
| <b>RECEIPT</b>   | Central High School<br>Main Boulevard<br>Anytown, TN 00000                       | No. 0002                |
| Received from  | <u>Ima Student</u>   |                         |
| Amount   | <input style="width: 80px;" type="text" value="\$10.00"/> Ten and no/100 dollars |                         |
| Purpose  | <u>English I</u>   | Account Name Class fees |
| Cash <input type="checkbox"/> Check <input type="checkbox"/> | By <u>Ima Teacher</u>  |                         |
| \$10   |  |                         |



**Exhibit 7**

**TICKET RECONCILIATION**

Date \_\_\_\_\_ vs. \_\_\_\_\_

Type of event \_\_\_\_\_

STUDENT TICKETS Ticket color \_\_\_\_\_ Sale price \$ \_\_\_\_\_  
Roll Ending No. \_\_\_\_\_ Roll Beginning No. \_\_\_\_\_  
 After sales \_\_\_\_\_  
 Before sales \_\_\_\_\_  
 Difference \_\_\_\_\_ X \$ \_\_\_\_\_ = \$ \_\_\_\_\_ sales

ADULT TICKETS Ticket color \_\_\_\_\_ Sale price \$ \_\_\_\_\_  
Roll Ending No. \_\_\_\_\_ Roll Beginning No. \_\_\_\_\_  
 After sales \_\_\_\_\_  
 Before sales \_\_\_\_\_  
 Difference \_\_\_\_\_ X \$ \_\_\_\_\_ = \$ \_\_\_\_\_ sales

RESERVE/SPECIAL TICKETS Ticket color \_\_\_\_\_ Sale price \$ \_\_\_\_\_  
Roll Ending No. \_\_\_\_\_ Roll Beginning No. \_\_\_\_\_  
 After sales \_\_\_\_\_  
 Before sales \_\_\_\_\_  
 Difference \_\_\_\_\_ X \$ \_\_\_\_\_ = \$ \_\_\_\_\_ sales

BEGINNING CHANGE FUND

|         |       |                          |          |
|---------|-------|--------------------------|----------|
| \$20s   | _____ | Total                    | \$ _____ |
| \$10s   | _____ | Total                    | \$ _____ |
| \$5s    | _____ | Total                    | \$ _____ |
| \$1s    | _____ | Total                    | \$ _____ |
| \$0.25s | _____ | Total                    | \$ _____ |
|         |       | <b>Total change fund</b> | \$ _____ |

I certify that I checked the ticket color, beginning number, ending number, and the change fund of this ticket seller box and found it to be correct as listed above.

|  |                                     |
|--|-------------------------------------|
| _____<br>Signature of Designee                         | _____<br>Signature of Ticket Seller |
| Beginning change fund                                  | \$ _____                            |
| Add: Total ticket sales                                | \$ _____                            |
| Add: Athletic fund donations received by ticket seller | \$ _____                            |
| Total due in ticket sales box                          | \$ _____ (Expected)                 |
| Cash collections                                       | \$ _____                            |
| Add: Check Collections                                 | \$ _____                            |
| Total in ticket sales box                              | \$ _____ (Actual)                   |
| <b>BOX OVER or (SHORT)</b>                             | \$ _____                            |

I certify that I checked the AFTER SALES beginning and ending number of remaining tickets and collections from this ticket box and found it to be correct as listed above.

\_\_\_\_\_  
Signature of Designee

\_\_\_\_\_  
Signature of Ticket Seller

**COUNT OF COLLECTIONS**

Activity \_\_\_\_\_

Fund/Account Name \_\_\_\_\_

Sponsor \_\_\_\_\_

Date of Activity \_\_\_\_\_

Authorized Purpose \_\_\_\_\_

Beginning Change \$ \_\_\_\_\_

Amount Collected:

Cash \$ \_\_\_\_\_

Checks \$ \_\_\_\_\_

Total to be Turned Over to Cashier \$ \_\_\_\_\_

I have counted the money collected and beginning change for this activity, and the amount shown above is the amount I counted.

Counted by: \_\_\_\_\_

Date \_\_\_\_\_

Counted by: \_\_\_\_\_

Date \_\_\_\_\_

**Exhibit 9**

**DAILY COLLECTION REPORT**

Central High School

Date \_\_\_\_\_

| Fund/Account Name              | Fund/Account No. | Receipt Nos.     | Amount     |
|--------------------------------|------------------|------------------|------------|
|                                |                  |                  |            |
| <b>General:</b>                |                  |                  |            |
|                                |                  |                  |            |
| Board of Education Allocations | 309.2            | 1011             | \$1,000.00 |
| Fines, Fees, and Dues          | 310.1            | 1010, 1013, 1014 | 225.00     |
|                                |                  |                  |            |
| <b>Restricted:</b>             |                  |                  |            |
|                                |                  |                  |            |
| Class of 20X4                  | 704              | 1012             | 200.00     |
| Beta Club                      | 801              | 1015             | 75.00      |
|                                |                  |                  |            |
| Total Amount Received          |                  |                  | \$1,500.00 |
|                                |                  |                  |            |
| Amount Deposited               |                  |                  | 1,500.00   |
|                                |                  |                  |            |
| Overage/Shortage               |                  |                  | \$ 0.00    |









**Journal Entries for Returned Checks**

**Returned Checks**

Because activity funds and school nutrition funds report on the modified accrual basis of accounting, the focus is on inflows and outflows of expendable resources. As such, returned checks (i.e., uncollectible amounts) represent a reduction in the inflow of financial resources rather than an outflow. That is, in substance, there never was an inflow of financial resources. Normally, revenues are reported net of estimated uncollectible amounts under the modified-accrual basis of accounting. Because amounts represented by unrecovered returned checks are normally not material, a direct reduction to applicable revenue accounts should be reported in student activity and other internal school funds at the end of the year. Additionally, because school nutrition funds are not allowed to report bad debts, instead of a direct reduction to a revenue account, a receivable from the Board of Education should be recorded and the Board should reimburse the cafeteria for unrecovered returned checks at year end.

**Entries for Returned Checks for School Activity and Internal School Funds other than School Nutrition Funds:**

1. A check written to the school is returned by the bank for insufficient funds. A journal entry to record a receivable for the returned check amount and to reduce cash should be made:

|                                   | <b>Debit</b>   | <b>Credit</b>  |
|-----------------------------------|----------------|----------------|
| <i>Returned Checks Receivable</i> | <i>\$30.00</i> |                |
| <i>Cash</i>                       |                | <i>\$30.00</i> |

2. The bank charges a service fee for the returned check (insufficient funds):

|  | <b>Debit</b>   | <b>Credit</b>  |
|--|----------------|----------------|
| <i>Expenditures - Bank Fee for Returned Checks</i> | <i>\$20.00</i> |                |
| <i>Cash</i>  |                | <i>\$20.00</i> |

3. The check is resubmitted to the bank at the request of the check signor and it clears the bank or another check is written:

|                                  | <b>Debit</b>   | <b>Credit</b>  |
|----------------------------------|----------------|----------------|
| <i>Cash</i>                      | <i>\$30.00</i> |                |
| <i>Returned Check Receivable</i> |                | <i>\$30.00</i> |

4. The school charges a fee to recover the bank fee and to assess their own service charge:

|  | <b>Debit</b> | <b>Credit</b> |
|--|--------------|---------------|
| <i>Cash</i>  | \$30.00      |               |
| <i>Revenues – Returned Checks Service Charge</i>   |              | \$10.00       |
| <i>Expenditures – Bank Fee for Returned Checks</i> |              | \$20.00       |

5. The school never receives payment to cover the returned check:

|   | <b>Debit</b> | <b>Credit</b> |
|---|--------------|---------------|
| <i>Revenues – Revenue Account Originally Recorded or a Receivable from the Board of Education</i> (1) | \$30.00      |               |
| <i>Returned Checks Receivable</i>   |              | \$30.00       |

(1) If the returned check is related to a fee that the Board of Education will reimburse for, a receivable from the Board of Education should be recorded.

6. When Payment is subsequently received from the Board of Education:

|   | <b>Debit</b> | <b>Credit</b> |
|---|--------------|---------------|
| <i>Cash</i>                               | \$30.00      |               |
| <i>Receivable from Board of Education</i> |              | \$30.00       |

7. The school receives payment on the returned check in the next school year after the above entries have been made.

|   | <b>Debit</b> | <b>Credit</b> |
|---|--------------|---------------|
| <i>Cash</i>   | \$30.00      |               |
| <i>Revenue Account Originally Recorded or a Due to the Board of Education</i> (1) |              | \$30.00       |

(1) A due to the Board of Education should be recorded if the Board requires a refund. If the Board allows the school to keep such funds for school use, a revenue account such as Revenue from Board of Education should be credited.

**Entries for Returned Checks for School Nutrition Funds:**

*Example entries 1 – 4 above are the same for all internal schools funds, including school nutrition funds.*

8. The cafeteria never receives payment to cover the returned check:

|   | <b>Debit</b>   | <b>Credit</b>  |
|---|----------------|----------------|
| <i>Receivable from Board of Education</i> (1) | <i>\$30.00</i> |                |
| <i>Returned Checks Receivable</i>             |                | <i>\$30.00</i> |

(1) Because cafeterias are not allowed to have bad debts, all amounts for returned checks not recovered at the end of the year should be recorded as a Receivable from the Board of Education or other support group such as PTO. Please note that student activity funds should not be used to cover cafeteria bad debts.

9. Payment is received from the Board of Education:

|   | <b>Debit</b>   | <b>Credit</b>  |
|---|----------------|----------------|
| <i>Cash</i>                               | <i>\$30.00</i> |                |
| <i>Receivable from Board of Education</i> |                | <i>\$30.00</i> |

10. The cafeteria receives payment on the returned check in the next school year after the above entries have been made.

|  | <b>Debit</b>   | <b>Credit</b>  |
|--|----------------|----------------|
| <i>Cash</i>                              | <i>\$30.00</i> |                |
| <i>Due to the Board of Education</i> (1) |                | <i>\$30.00</i> |

(1) A due to the Board of Education should be recorded if the Board requires a refund. If the Board allows the cafeteria to keep such funds for school use, a revenue account such as Revenue from Board of Education or a miscellaneous revenue account should be credited.

**Journal Entries for Change Funds**

1. A check is written and made payable to the individual responsible for the change:

|                     | <b>Debit</b>    | <b>Credit</b>   |
|---------------------|-----------------|-----------------|
| <i>Cash on Hand</i> | <i>\$100.00</i> |                 |
| <i>Cash</i>         |                 | <i>\$100.00</i> |

2. The change funds are returned to the bookkeeper to be redeposited into the bank:

|                     | <b>Debit</b>   | <b>Credit</b>  |
|---------------------|----------------|----------------|
| <i>Cash</i>         | <i>\$20.00</i> |                |
| <i>Cash on Hand</i> |                | <i>\$20.00</i> |

(The deposit slip should be marked “Redeposit.”)

Note 1

Entries surrounding change funds should not impact the school’s revenue and expenditure accounts.

Note 2

Another asset account for the change can be established in place of *Cash on Hand*, for instance, *Change Funds Outstanding*.

**Journal Entries for Reimbursements**

1. A student paid a book fee and it is subsequently determined that the book fee should have been waived for this student. The student is reimbursed the book fee amount:

|                             | <b>Debit</b>   | <b>Credit</b>  |
|-----------------------------|----------------|----------------|
| <i>Revenues – Book Fees</i> | <i>\$17.00</i> |                |
| <i>Cash</i>                 |                | <i>\$17.00</i> |

2. The general fund made an overpayment to their vendor for annuals. The vendor sends the school a reimbursement:

|                              | <b>Debit</b>   | <b>Credit</b>  |
|------------------------------|----------------|----------------|
| <i>Cash</i>                  | <i>\$50.00</i> |                |
| <i>Expenditures – Annual</i> |                | <i>\$50.00</i> |

3. The general fund purchased ticket rolls from a vendor for an upcoming school-wide event and also purchased tickets for the athletic account. The athletic account reimburses the general fund for their share of the cost of ticket rolls:

Entry in General Fund:

|                                | <b>Debit</b>   | <b>Credit</b>  |
|--------------------------------|----------------|----------------|
| <i>Cash</i>                    | <i>\$15.00</i> |                |
| <i>Expenditures – Supplies</i> |                | <i>\$15.00</i> |

Entry in Athletic Account:

|                     | <b>Debit</b>   | <b>Credit</b>  |
|---------------------|----------------|----------------|
| <i>Expenditures</i> | <i>\$15.00</i> |                |
| <i>Cash</i>         |                | <i>\$15.00</i> |

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