UNIFORM SYSTEM
OF
FINANCIAL RECORDS
FOR
ARIZONA
SCHOOL DISTRICTS

DEPARTMENT OF EDUCATION

AUDITOR GENERAL

UNIFORM SYSTEM OF FINANCIAL RECORDS
FOR
ARIZONA SCHOOL DISTRICTS
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INTRODUCTION

The *Uniform System of Financial Records* (USFR) has been developed by the Office of the Auditor General and the Arizona Department of Education pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. These policies and procedures are in conformity with generally accepted practices and federal and state laws. However, districts may use alternative policies and procedures if they provide the same level of internal control over accounting, financial reporting, and compliance with state and federal laws.

The requirements of the USFR are based on the Arizona Constitution; Arizona Revised Statutes; Arizona Attorney General Opinions; the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board; *Financial Accounting for Local and State School Systems 1990*, issued by the United States Department of Education, Office of Educational Research and Improvement; relevant sections of the *Code of Federal Regulations*; and other federal requirements.

Sections within the USFR are revised periodically for changes in laws, regulations, and accounting pronouncements that cover school district accounting, financial reporting, and compliance with state and federal laws. However, when districts need to be informed quickly of revisions, clarifications, or additional requirements such as those concerning budgeting or annual financial reporting, the Office of the Auditor General and the Arizona Department of Education jointly issue USFR Memorandums and Forms to district administrators and county school superintendents. Therefore, **USFR Memorandums and Forms** should be considered amendments to the USFR. As the USFR is revised, information contained in the memorandums is incorporated therein.

Arizona school district accounting, financial reporting, and compliance with state and federal laws is affected by the State Legislature, the State Board of Education, the Arizona Department of Education, school district governing boards, county school superintendents, the Office of the Auditor General, county treasurers, the federal government, and the Governmental Accounting Standards Board, both directly and often indirectly due to complex interrelationships.

A brief description of the duties and responsibilities of these organizations that are pertinent to the USFR follows:

The State Legislature mandates the USFR. In addition, the Legislature prescribes the legal means by which state monies are distributed to districts and establishes budgetary and other financial and accounting legal requirements.

The State Board of Education is the governing and policy-making body of the Arizona Department of Education. The Board is responsible for generally supervising and regulating the conduct of the public school system. Its major duties and responsibilities pertaining to district accounting and finance include the following.

- Withhold state funds from districts that are determined after a hearing to be in noncompliance with the USFR
- Delegate to the Superintendent of Public Instruction the execution of Board policies
- Recommend to the State Legislature changes to statutes pertaining to school districts
- Adopt rules prescribing procurement practices

INTRODUCTION

The Arizona Department of Education is administered by the Superintendent of Public Instruction. The Department's major duties and responsibilities pertaining to district accounting and finance include the following.

- Prescribe, in conjunction with the Auditor General's Office, a uniform system of financial records
- Superintend Arizona public schools
- Execute policies adopted by the State Board of Education
- Apportion state equalization assistance to districts
- Report school district statistical and financial information to the Governor and State Legislature each year
- Prescribe, in conjunction with the Auditor General, the format of school district budget and annual financial report forms
- Request the Auditor General to investigate when necessary the accounting of school monies by any state, county, or district officer

School District Governing Boards are the primary governing body of the Arizona public school system. Major district accounting and finance related duties and responsibilities of these boards include the following.

- Maintain established schools as prescribed by law
- Adopt the annual budget
- Purchase, construct, manage, insure, rent, and sell school buildings, furniture, equipment, supplies, and other assets
- Employ personnel and establish their salaries
- Accept revenues and authorize expenditures
- Implement the policies and procedures prescribed by the USFR, including controls that comply with the requirements of the USFR

In addition to the above, governing boards of school districts authorized to assume "accounting responsibility" under A.R.S. §15-914.01 operate with full independence from the county school superintendent with respect to revenues and expenditures, including allocating revenues, monitoring vouchers, authorizing and issuing warrants, and maintaining and verifying staff records for certification and payroll purposes.

INTRODUCTION

County School Superintendents are elected officials required and permitted by statute to perform a variety of tasks for school districts. Their major duties and responsibilities pertaining to district accounting and finance include the following.

- Distribute all laws, reports, circulars, instructions, and forms, including Attorney General Opinions, received for district use
- Recompute equalization assistance and certify in writing to the board of supervisors this amount and the amount needed for each district from the primary property tax
- Reconcile the records of district cash balances to balances maintained by the county treasurer
- Apportion certain revenues to the appropriate district funds
- Maintain or have access to accounting records that provide for a determination to be made of whether adequate budget capacities exist for levy funds and adequate cash balances exist for cash-controlled funds for each district prior to processing warrants
- Issue warrants based on district governing board vouchers and maintain a warrant register thereof
- Approve district Maintenance and Operation and Food Service Funds revolving accounts
- Encumber amounts for district liabilities payable at June 30
- Report to the Superintendent of Public Instruction the amount of money received from state school funds, district taxes, and other sources; total expenditures for district purposes; and the cash balance of each district at the close of the school year
- Provide special education and related services for handicapped students, if those services are not being provided by the governing board of each district
- Establish service programs, including special small district service programs, for the benefit of districts
- Administer accommodation schools
- Maintain, transmit, or distribute various reports prepared by or for districts

The Office of the Auditor General is required by Arizona Revised Statutes to perform numerous duties pertaining to districts. Such major duties and responsibilities include the following.

- Prescribe, in conjunction with the Arizona Department of Education, a uniform system of financial records
- Determine whether districts have maintained an acceptable degree of compliance with the requirements of the USFR and inform in writing those districts that have not satisfactorily complied with such requirements, giving them 90 days to correct cited deficiencies
- Report to the Arizona Department of Education districts that fail to satisfactorily comply with the requirements of the USFR within 90 days after they receive notice from the Auditor General
- Provide consulting assistance to districts to help them correct deficiencies cited in the 90-day letter from the Auditor General
- Report to the Joint Legislative Audit Committee and to the Attorney General the refusal or neglect of any district officer to conform to rules and regulations of his or her Office
- Prescribe, in conjunction with the Arizona Department of Education, the format of district budget and annual financial report forms
- Approve procurement rules proposed by the State Board of Education

- Investigate, as requested by the Superintendent of Public Instruction, the accounting of school monies by any state, county, or district officer
- Approve audit contracts of districts required to comply with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance); review the completed audits to determine whether the prescribed auditing standards and other requirements of the Uniform Guidance have been met; and perform procedural reviews of districts not required to comply with the Uniform Guidance

County Treasurers are elected officials who perform treasurer duties for various governmental entities, including school districts. These duties include receiving, recording, safeguarding, investing, and disbursing cash of such entities.

The Federal Government provides funding for various programs in the form of grants received directly by the district, grants passed through the Arizona Department of Education, and reimbursements.

The Governmental Accounting Standards Board (GASB) is the highest source of authoritative accounting and financial reporting guidance for state and local governments, including school districts. GASB pronouncements are accepted by the American Institute of Certified Public Accountants in its *Code of Professional Conduct* as authoritative support for generally accepted accounting principles for the preparation of financial statements of state and local governments.

Districts must maintain an acceptable degree of compliance with the requirements of the USFR. The Auditor General determines a district's degree of compliance by reviewing the single audit reports and USFR compliance questionnaire prepared by the district's auditors or by performing a procedural review. Districts found to be in noncompliance with the requirements of the USFR are notified in writing by the Auditor General to correct the cited deficiencies within 90 days. Districts failing to comply after the 90-day statutory period are reported to the State Board of Education, which may withhold state funding after adequate due process procedures are followed as prescribed by law.

If requested, the Auditor General or the Arizona Department of Education will provide consulting assistance to help districts correct deficiencies. Assistance may be provided on site, as a written response to a written request, or by telephone.

Districts having questions concerning the requirements of the USFR should contact the Accounting Services Division of the Office of the Auditor General or the School Finance Operations Unit of the Arizona Department of Education.

CALENDAR OF EVENTS

This calendar of events includes information on many of the annual and periodic requirements for school districts. However, the list primarily focuses on finance-related requirements unique to districts and is therefore not an all-inclusive list of general reporting requirements. The source of each requirement, such as Arizona Revised Statutes (A.R.S.), the Arizona Administrative Code (A.A.C.), or the Code of Federal Regulations (CFR) has been provided along with any applicable reference to further USFR guidance. To help ensure that the required dates are met for each item and for internal planning and control purposes, districts should specify additional, interim dates leading up to the final due dates for these items.

ANNUAL REQUIREMENTS

Date	Activity	Authority	USFR Guidance
By July 1	Districts that decide to **establish a high school** must estimate and certify to the county school superintendent the amount of the annual tax levy.	A.R.S. §15-993	
Not later than July 5, or the date of publication of notice of the public hearing and governing board meeting	An electronic copy of the **proposed expenditure budget** must be prepared and furnished to the Superintendent of Public Instruction and the county school superintendent, unless waived by the county school superintendent. Districts that maintain a website must provide a link on their website to the proposed budget summary on ADE's website.	A.R.S. §15-905(A)	§IV, Budgeting; and **Expenditure Budget**
Not later than July 5, but at least 10 days prior to the governing board meeting to adopt the proposed expenditure budget	A copy of the **proposed expenditure budget** or **budget summary**, and a notice of the public hearing and governing board meeting must be published in a newspaper of general circulation within the district, posted on the Arizona Department of Education's (ADE) website, or mailed to each household in the district.	A.R.S. §15-905(C)	§IV, Budgeting; and **Expenditure Budget**
At least 10 days, but not more than 20 days before a Truth in Taxation Hearing	Districts that plan to budget an amount higher than their **Truth in Taxation** base limit or plan to levy any amount for adjacent ways projects or liabilities in excess of the school district budget must meet the related publication requirements. Districts should also review the related hearing and reporting requirements to ensure they will be met.	A.R.S. §15-905.01	**Expenditure Budget**
By July 15	The **compensatory instruction budget** request must be submitted to ADE.	A.R.S. §15-756.11	
By July 15	The **proposed expenditure budget** must be presented at a public hearing immediately followed by a governing board meeting to adopt the budget.	A.R.S. §15-905(B), (D), and (E)	§IV, Budgeting; and **Expenditure Budget**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By July 15	The **Vehicle Inventory Report (TRAN 03-01)** must be submitted to the Superintendent of Public Instruction.		§X-D, Student Attendance Reporting
By July 18	Districts with levy fund liabilities payable at June 30 must file an **Advice of Encumbrance** with the county school superintendent. Accounting responsibility program districts are not required to file an Advice with the county school superintendent but should perform duties as described in A.R.S. §15-304.	A.R.S. §15-906(B) and (E)	§VI-G, Expenditures; and **Advice of Encumbrance**
By July 18	The **adopted expenditure budget** must be submitted to the county school superintendent and the Superintendent of Public Instruction and posted on ADE's website. Districts that maintain a website must provide a link on their website to the adopted budget on ADE's website.	A.R.S. §15-905(E)	§IV, Budgeting; and **Expenditure Budget**
Within 30 days after the date of publication of the proposed expenditure budget or summary	Evidence of publication of the **proposed expenditure budget or summary** must be submitted to ADE. Refer to the submission and publication requirements included with the expenditure budget for specific instructions.	A.R.S. §15-905(C)	§IV, Budgeting; and **Expenditure Budget**
By the third Monday in August	The amount to be raised from **primary and secondary property taxes** must be fixed, levied, and assessed by the county.	A.R.S. §§15-992 and 42-17151(A)	
By September 1	An estimate of **ESEA Title VIII Impact Aid monies** to be received during the current year must be filed with the county school superintendent.	A.R.S. §15-991(E)	
Between September 1 and October 31	Districts that have **unspent bond proceeds** must hold a public meeting to discuss and provide an update on the progress of its capital improvements financed through bonding. And Districts that have a **Maintenance and Operation (M&O) or Capital Outlay Override** must provide an update on previous year expenditures, current year budgeted expenditures, and the progress of any related capital improvements.	A.R.S. §15-491(K) A.R.S. §15-481(Y)	
By September 15	Districts that qualify to submit a **English language learner budget request** to ADE must do so.	A.R.S. §15-756.03 (C)	

Updated

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By October 1	If requested, an **annual report** must be made to the county school superintendent in the manner and form and on the blanks prescribed by the Superintendent of Public Instruction or the county school superintendent.	A.R.S. §15-341(A)(18)	
By October 1 (only in odd-numbered years for districts assigned a letter grade of A or B)	Districts must electronically submit their **K-3 Reading Expenditure Budget** for the budget year and **K-3 Reading Annual Financial Report** for the prior year to ADE.	A.R.S. §15-211	
By October 15	A copy of the **Annual Financial Report (AFR)** must be furnished to the county school superintendent and electronically submitted to the Superintendent of Public Instruction. Accounting responsibility program districts are not required to send a copy to the county school superintendent.	A.R.S. §15-904(A)	§VII, Financial Reporting; and **AFR**
After submission of the AFR	Districts should electronically submit their **summary accounting data file** to both ADE and the Office of the Auditor General, Division of School Audits.	USFR	**AFR**
By October 15	**Teacher experience** information must be submitted electronically to the Superintendent of Public Instruction for the current year. ADE captures this data through the School District Employee Report (SDER) application.	A.R.S. §15-941(C)	
By November 15	The **Classroom Site Fund Narrative Results Summary Report** must be submitted to the Superintendent of Public Instruction.	A.R.S. §15-977(J)	**AFR**
By November 15	The **AFR** or **AFR summary** must be published either in a newspaper of general circulation within the district, on ADE's website, or in the official county newspaper or mailed to each household in the district. If the AFR was electronically posted on ADE's website, refer to the submission and publication requirements included with the AFR for specific instructions.	A.R.S. §15-904(C)	§VII, Financial Reporting; and **AFR**
Within 30 days after publication of the AFR	Evidence of publication of the **AFR** must be submitted to ADE. Refer to the submission and publication requirements included with the AFR for specific instructions.	A.R.S. §15-904(C)	§VII, Financial Reporting; and **AFR**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Not later than December 5, but at least 10 days prior to the public hearing and governing board meeting By December 15 By December 18	If the Governing Board received notification from the Superintendent of Public Instruction that the **adopted expenditure budget is in excess** of the general budget limit or the unrestricted capital budget limit by 1 percent or more of the general budget limit: Publication and hearing of the **revised expenditure budget** must be done in accordance with the submission and publication instructions included with the expenditure budget.	A.R.S. §15-905(E)	§IV, Budgeting; and **Expenditure Budget**
Before January 1	Districts intending to apply for the **Accounting Responsibility Program** for the following fiscal year must apply for an evaluation by the Auditor General.	A.R.S. §15-914.01 (C)	
By January 15	Districts that elect to include their employees in the **state health and accident insurance coverage** for the next school year starting after June 30 must notify the Arizona Department of Administration of their intention.	A.R.S. §15-388(C)	
By January 31	Districts must furnish each employee a completed **Form W-2** and each independent contractor a completed **Form 1099** for the calendar year just ended.	IRS Circular E	§VI-H, Payroll
By February 1	Districts requesting **additional monies for teacher compensation** in the budget year that received such monies for the current year must submit evidence to the State Board of Education that the district continues to meet statutory requirements.	A.R.S. §15-952(A)	
By February 28	Districts that receive fees or cash contributions for the support of **extracurricular activities or character education programs** must report the monies received to the Arizona Department of Revenue in the manner prescribed by the Department.	A.R.S. §43-1089.01	
Before March 1	Districts intending to participate in the **Accounting Responsibility Program** for the following fiscal year and who have applied for an evaluation by the Auditor General must notify the county treasurer and county school superintendent of their intention.	A.R.S. §15-914.01 (E)	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Within 12 days after the first 100 or 200 days in session, as applicable	The **Transportation Route Report (TRAN 55-01)** must be filed electronically with the Superintendent of Public Instruction.	A.R.S. §15-922(A)	§X-D, Student Attendance Reporting
By April 1	Districts informed by the State Board of Education to reduce their expenditures of local revenues due to **expenditures in excess of the aggregate expenditure limitation** for all school districts must adopt a revised expenditure budget for the current year.	A.R.S. §15-911(E)	
By April 15 or within 5 working days after an override election	Districts must notify **certified administrators and certificated school psychologists** of the governing board's intention not to offer a new contract.	A.R.S. §15-503(D)	
By May 1	Districts requesting **additional monies for teacher compensation** in the budget year that did not receive such monies for the current year must submit evidence to the State Board of Education that the district meets the statutory requirements.	A.R.S. §15-952(A)(1)	
No later than the last day of school	Districts must distribute an **annual report card** to ADE and to parents of enrolled pupils. Districts must also hold a public meeting to present a summary of the report's contents, and notice must be provided at least 2 weeks prior to the meeting.	A.R.S. §15-746	
Before May 15	Most **expenditure budget revisions** must be made and the revised budget approved at a governing board meeting. Including: • Revisions for certain overestimated or underestimated **tuition revenues** • Revisions for overestimated or underestimated **joint career and technical education and vocational education center average daily membership** • Revisions for overestimated or underestimated allowable **budget balance carryforward** in the M&O Fund	 A.R.S. §15-905(I) and (J) A.R.S. §15-910.01 (C) A.R.S. §15-943.01 (B)	§IV, Budgeting; and **Expenditure Budget**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By May 15 Or By June 15, if an override election is called for the third Tuesday of May (only allowed for overrides not funded by a levy of property taxes)	Districts must offer contracts for the next school year to **certified administrators and certificated school psychologists** who are in the last year of their respective contracts, unless notified otherwise by April 15. Within 5 business days after the election, districts can give notice to **certified administrators and certificated school psychologists** of the governing board's intention not to offer a new contract. If notice is not provided, districts must offer contracts for the next school year to certified administrators and certificated school psychologists who are in the last year of their respective contracts by June 15.	A.R.S. §15-503(D)	
By June 1	A statement of the actual amount of **ESEA Title VIII Impact Aid monies** received during the current year must be filed with the county school superintendent and the Superintendent of Public Instruction.	A.R.S. §15-991(E)	
By June 15	Districts seeking final approval to receive **additional monies for teacher compensation** in the budget year that did not receive such monies for the current year must prepare and submit two proposed budgets to the State Board of Education.	A.R.S. §15-952(A)(1)	
By June 30	Districts must prepare a **list of levy fund liabilities** for goods received or services rendered on or before June 30 that will not be paid by June 30 of the current fiscal year.	A.R.S. §15-906(A)	§VI-G, Expenditures; and **Advice of Encumbrance**
By June 30	Monies in the **petty cash account** should be returned to the M&O Fund or M&O Fund revolving bank account, as applicable.	USFR	§VI-C, Cash
By June 30	Monies in the **Student Activities Fund revolving bank account** must be returned to the credit of the school district and the account reestablished.	A.R.S. §15-1124	§X-H, Student Activities Fund
By June 30	Monies in the **Auxiliary Operations Fund revolving bank accounts** must be returned to the Auxiliary Operations Fund and the accounts reestablished.	A.R.S. §15-1126(E)	§X-G, Auxiliary Operations Fund
At June 30	Replenish the **M&O Fund revolving bank account** to ensure expenditures are recorded in the proper fiscal year.	USFR	§VI-C, Cash

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
At June 30	**Interest earned during the year** on the following bank accounts must be remitted to the county treasurer for deposit in the district's M&O Fund. • State Income Tax Withholdings bank account • Employee Insurance Programs Withholdings bank account • Payroll Direct Deposit clearing bank account • Electronic Payments clearing bank account	A.R.S. §§15-1221, 15-1222, and 15-1223	§§VI-C, Cash and VI-H, Payroll
At June 30	Districts should prepare a **supplies inventory listing** for inventory held.	USFR	§VI-D, Supplies Inventory
Annually	Districts must submit an **annual ELL Report** to ADE.	A.R.S. §15-756.10	

PERIODIC REQUIREMENTS

The following periodic requirements are listed in order of the related USFR Section.

Date	Activity	Authority	USFR Guidance
Within 30 days of governing board authorization	Districts that approve the expenditure of **state grant monies** not included in the expenditure budget must notify ADE of the action.	A.R.S. §15-916	§IV, Budgeting
At least 35 days prior to an override election	Districts must mail or distribute the **informational pamphlet and sample ballot** provided by the county school superintendent.	A.R.S. §15-481(B)	§IV, Budgeting
On the first Tuesday after the first Monday in November	Districts may hold an election for authorization of an override that will be funded by the levy of property taxes. (See A.R.S. §16-204 for allowable election dates for overrides funded from other sources.)	A.R.S. §15-481(D)	§IV, Budgeting
On the first Tuesday after the first Monday in November	A **special election** may be held: • To decide whether the bonds of the district shall be issued and sold. • To change the list of capital projects or the purposes authorized by prior voter approval to issue bonds. • To extend from 6 to 10 years the time period to issue Class B bonds authorized in 2009 or earlier.	A.R.S. §§15-491, 15-2102, and 16-204	§IV, Budgeting

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Second Tuesday in March, third Tuesday in May, tenth Tuesday before the first Tuesday after the first Monday in November, or first Tuesday after the first Monday in November	A **special election** may be held: • To locate or change the location of school buildings. • To purchase or sell school sites or buildings, sell school sites, or build school buildings. • To lease for 15 or more years, as lessor or as lessee, school buildings or grounds.	A.R.S. §§15-342(9) and (10), 15-491, 15-2102, and 16-204 Unless otherwise exempted by A.R.S. §15-342(25)	§IV, Budgeting
At least once every 2 years	Districts must take a **physical inventory** of furniture, equipment, and vehicles purchased in whole or in part with federal monies, costing $5,000 or more and reconcile inventory results to the capital assets list.	2 CFR 200.313(d)(2)	§VI-E, Property Control
At least once every 3 years	Districts must take a **physical inventory** of furniture, equipment, and vehicles and reconcile inventory results to the capital assets and stewardship lists.	USFR	§VI-E, Property Control
At least monthly	Monies deposited in the **miscellaneous receipts clearing and Food Service Fund clearing bank accounts** must be remitted to the county treasurer.	A.R.S. §15-341(A)(20) and Attorney General Opinion I60-35	§§VI-F, Revenues and X-F, Food Service Fund
Within 10 working days after each payroll date	Employee contributions to a **deferred compensation plan** or federal retirement plan must be transferred to the fund manager.	A.R.S. §15-121(C)	§VI-H, Payroll
Within 14 calendar days after the end of each pay period	**State Retirement System contributions and withholdings** must be submitted to the State Retirement System Board.	A.A.C. R2-8-122	§VI-H, Payroll
Various Dates	Refer to guidance for **payroll related filing requirements** from: • Internal Revenue Service (IRS) • Arizona Department of Economic Security • Arizona Department of Revenue	 IRS Circular E A.A.C. R6-3-1704.B A.R.S. §§43-412 and 43-401(C)	§VI-H, Payroll
Within 90 calendar days after the grant year	**Federal project completion reports** must be submitted to ADE.	2 CFR 200.328(b)(1)	§VI-J, State and Federal Financial Assistance
1st through the 18th of each month	Districts should submit a **cash management report** to ADE for each federal project.	ADE policy	§VI-J, State and Federal Financial Assistance

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the audit period	Districts having a single audit or a financial statement audit must submit **audit reports and a uniform system of financial records compliance questionnaire** to the Auditor General, ADE, the Federal Audit Clearinghouse, and County School Superintendent, as applicable.	A.R.S. §15-914 and Uniform Guidance	§VIII, Audit Requirements
At least once every 20 days in session	Districts must report **student membership data** to ADE.	A.R.S. §15-1042	§X-D, Student Attendance Reporting
At least once every 60 days in session	Districts must report **student absence data** to ADE.	A.R.S. §15-901(A)	§X-D, Student Attendance Reporting
Before the beginning of the fiscal year	Districts must obtain approval from ADE if they elect to provide 200 days of instruction and increase their **base level** and **annual instructional hours**.	A.R.S. §15-902.04	§X-D, Student Attendance Reporting
Within 10 days after the end of each covered month	**Federal reimbursement claims** for meals served must be filed with ADE.	ADE policy	§X-F, Food Service Fund
At least once each calendar month	A report of cash receipts, disbursements, transfers, and cash balances of the **Student Activities Fund** must be submitted to the governing board.	A.R.S. §15-1123(A)	§X-H, Student Activities Fund
July 1, October 1, January 1, and April 1	Districts participating in an accommodation school agreement must remit **tuition payments** to the county school superintendent for accommodation school special education program costs.	A.R.S. §15-764(D)	
By May 1 September 30, December 31, and March 31 By June 30	Districts of attendance must provide districts of residence with the **final tuition charge** for the current year and with an estimate of the budget year's tuition charge. Districts of residence must pay at least one-fourth of the total amount of the **estimated tuition**. Districts of residence must pay the **remaining tuition** owed after any adjustments are made.	A.R.S. §15-824(E)(2)	

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This Chart of Accounts prescribed for school districts provides for the establishment of a complete fund accounting system, including the recording of assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/fund net position, revenues, other financing sources, expenditures and other financing uses.

The standardized account code structure for use by districts and county school superintendents has been developed to accomplish several key objectives:

- To ensure districts comply with U.S. generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) in its *Codification of Governmental Accounting and Financial Reporting Standards.*
- To establish a uniform, comprehensive, minimum chart of accounts state-wide to improve financial data collection, reporting, transmission, accuracy, and comparability among Arizona districts and nationally. The *Uniform System of Financial Records* (USFR) Chart of Accounts meets the requirements of the U.S. Department of Education's account classifications.
- To reduce the administrative burden on districts in preparing required financial reports.
- To create a logical framework that can be used to determine where monies for education originate and how they are used.
- To provide better information for administrators, parents, board members, legislators, and other interested parties.

ACCOUNT CODE STRUCTURE

The account code structure provides a basis for financial reporting and budgeting and consists of the following required elements:

1. **FUND**—A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are separated to carry on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. District accounting systems must be organized and operated on a fund basis. Individual funds are first classified by category and then by fund type within each category. See §V, Fund Accounting, for information on fund types for financial reporting purposes. There are three fund categories:

   Governmental Funds—Funds used to account for most of a district's financial resources based on the purposes for which these resources may or must be used.

   Fiduciary Funds—Funds used to account for assets a district holds in a trustee capacity or as an agent for individuals, private organizations, and other governmental entities.

   Proprietary Funds—Funds used to account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining with the primary source of revenues being user charges.

2. **BALANCE SHEET CLASSIFICATIONS**—Corresponds to items normally appearing on the balance sheet. The primary account classifications are Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balance/Fund Net Position.

3. **REVENUES AND OTHER FINANCING SOURCES CLASSIFICATIONS**—Separates revenues by source. The source classifications are Local, Intermediate (County), State, and Federal. Other Financing Sources and Other Items are also coded here.

4. **EXPENDITURES AND OTHER FINANCING USES CLASSIFICATIONS:**

Program—A plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. This element provides the framework for classifying expenditures by objective to determine cost. The primary program classifications are Regular Education; Special Education; Pupil Transportation; Programs Requiring Separate Budgets; Other Instructional; Adult/Continuing Education; Community College Education; and Community Services.

Function—Describes the activity for which a service or material is acquired. The function classifications are Instruction, Support Services, Operation of Noninstructional Services, Facilities Acquisition and Construction, Debt Service, and Other Financing Uses.

Object—Describes the service or material obtained as the result of a specific expenditure. The object classifications are Personal Services—Salaries, Personal Services—Employee Benefits, Purchased Professional and Technical Services, Purchased Property Services, Other Purchased Services, Supplies, Property, and Debt Service and Miscellaneous. Other Financing Uses and Other Items are also coded here.

Unit—Separates expenditures by instructional level, such as elementary, high school, and district-wide and individual schools. Districts with some of their schools operating on an alternative calendar must separately budget for such schools within the district.

Optional Elements—Each required element of the account code contains a specified number of digits in a specific configuration as illustrated on the next page. However, for internal management purposes, districts may assign additional, nonrequired elements, such as course or job classification. If such elements are used, they should be added after the unit code element in the account code.

Course—To accumulate costs of providing instruction in particular courses or subject groups, such as English, math, and science. As an alternative to using a separate optional element for course codes, districts may establish course codes under function **1000—Instruction**.

Job Classification—To further break down expenditures for salaries and benefits by purpose, bargaining unit, or otherwise, such as office/clerical, administrative, professional-education, technical, and laborer.

Besides Course and Job Classification, districts may choose to categorize transactions by time of year, bus route, construction project, or any other method useful to the district.

ACCOUNT CODE FORMAT

The table below illustrates the required account code format. Each required element must contain the specified number of digits and must be in the specified location in the account code structure. Balance sheet and revenues and other financing sources accounts consist of fund and object code elements only. Other elements are generally zero filled. However, a district may choose to use program, function, and unit codes to better track revenues. Expenditures and other financing uses accounts consist of fund, program, function, object, and unit code elements.

Required account code numbers are shown in the Chart of Accounts in bold type. Optional numbers are italicized and not bolded. Districts are required to record transactions to the most detailed bold level for all areas.

BALANCE SHEET:

Fund	Program	Function	Object	Unit	
XXX	000	0000	0XXX	000	

REVENUES AND OTHER FINANCING SOURCES:

Fund	Program	Function	Object	Unit	
XXX	000	0000	1XXX	000	Revenue from local sources
XXX	000	0000	2XXX	000	Revenue from intermediate sources
XXX	000	0000	3XXX	000	Revenue from state sources
XXX	000	0000	4XXX	000	Revenue from federal sources
XXX	000	0000	5XXX	000	Other financing sources and other items

EXPENDITURES AND OTHER FINANCING USES:

Fund	Program	Function	Object	Unit	
XXX	XXX	XXXX	6XXX	XXX	(place optional elements here)

COST ALLOCATION

Expenditures specifically assignable to two or more programs, functions, or units must be allocated among those programs, functions, or units. For example, the salary of a teacher who teaches both regular education and special education must be allocated between programs **100** and **200**, the salary of an individual who works in a district warehouse and also drives a school bus must be allocated between functions **2500** and **2700**; and the salary of a maintenance worker who works at two schools must be allocated between the applicable school unit codes.

Districts may use an allocation base to allocate specifically assignable expenditures for which actual cost apportionment is not easily determinable. Commonly used allocation bases include average daily membership, time spent, full-time equivalent teaching staff, number of transactions, floor space occupied, labor hours, meals served, miles driven, and driver hours. The allocation base used can greatly affect the accuracy of cost allocation; therefore, districts should choose an allocation base that will most closely approximate actual costs incurred. Costs requiring allocation that are not allocated when incurred must be allocated by journal entries before the accounting records are closed at fiscal year-end.

Indirect costs such as utilities and building rent are not allocated among the various programs or functions. However, solely for reporting in the district's annual report card in accordance with Arizona Revised Statutes (A.R.S.) §15-746, such costs coded to a districtwide unit code in the district's accounting records must be allocated to the schools at the unit code level by fiscal year-end.

INDIRECT COST REPORTING

The United States Department of Education (US DOE) allows the Arizona Department of Education (ADE) to establish the indirect cost rates for school districts receiving federal grants through an approved delegation agreement. The revised delegation agreement prepared in December 2014 updated the indirect cost calculation based on guidance received from US DOE. As a result, several changes were made to the Chart of Accounts to increase the required detail for expenditure classification at the function and object code level.

One area of increased reporting detail is for the costs of executive administration and functional area administration (heads of components). Descriptions of executive administration and heads of components adapted from the federal guidelines to more specifically relate to school districts have been included below. These descriptions should be used to determine how to classify the expenditures in the related function codes included throughout the Chart of Accounts. Expenditures associated with executive administration should be classified in function **2320**. Expenditures associated with employees that are considered heads of components, including their office support staff (e.g., administrative assistants, secretaries), should be classified in the required heads of components detailed function codes within the functional area they direct.

Executive Administration—The Superintendent and any administrators with key decision making authority over all or one or more parts of district operations. Costs associated with Executive Administration, including any office support staff (e.g., administrative assistants, secretaries) working directly for these administrators are classified in function **2320—Executive Administration**.

Heads of Components—Administrators that directly report to a member of the district's executive administration (see definition above). These administrators are generally shown on an organizational chart as one management level below the executive administration. Costs associated with heads of components, including any office support staff (e.g., administrative assistants, secretaries) working directly for these administrators are classified in the heads of components detailed functions provided throughout the chart.

For example, an administrator over business operations, such as a Chief Financial Officer or Associate Superintendent for Business Operations that has the authority to make key decisions for district business operations would be classified in **2320** as an executive administrator. An administrator that directs the business office staff and reports to that executive administrator, such as a business manager, would be classified in **2530** as a head of component rather than **2510—Fiscal Services** to allow for correct treatment of those costs in the indirect cost rate calculation.

Code	Description
001	**Maintenance and Operation—**Accounts for all of a district's financial resources except those required to be accounted for in another fund. For example, this fund cannot be used for transactions related to capital items as funds in the **600** range are generally used to account for capital transactions.
010	**Classroom Site (Total)** ***(Use detailed codes below)*** Classroom Site Funds 011, 012, and 013 account for the portion of state sales tax collections and permanent state school fund earnings districts receive as approved by the voters in 2000 as part of Proposition 301. Expenditures should be recorded directly in the individual funds. The monies in the three funds must be used to supplement, rather than supplant, existing monies and must not be used for administrative purposes.
011	**Classroom Site (Base Salary)—**Accounts for 20 percent of the Classroom Site Fund monies and any prior years' unused budget balance and interest earned for the fund. Monies are to be used for teacher base salary increases, employment-related expenses, and registered warrant expenses for the fund. A.R.S. §15-977
012	**Classroom Site (Performance Pay)—**Accounts for 40 percent of the Classroom Site Fund monies and any prior years' unused budget balance and interest earned for the fund. Monies are to be used for performance-based teacher compensation increases, employment-related expenses, and registered warrant expenses for the fund. A.R.S. §15-977
013	**Classroom Site (Other)—**Accounts for 40 percent of the Classroom Site Fund monies and any prior years' unused budget balance and interest earned for the fund. Monies are to be used for any of the following maintenance and operation purposes: class size reduction, assessment intervention programs, dropout prevention, teacher compensation increases, teacher development, teacher liability insurance premiums, and registered warrant expenses for the fund. Expenditures for class size reduction, assessment intervention, and dropout prevention programs must be appropriate expenditures under function **1000—Instruction**, excluding athletics. A.R.S. §15-977
020	**Instructional Improvement—**Accounts for monies received from gaming revenue. Up to 50 percent of the monies received may be used for teacher compensation increases and class size reduction as provided in A.R.S. §15-977. The expenditures for class size reduction, if any, must be appropriate expenditures under function **1000—Instruction**, excluding athletics. The remaining monies must be used for the following maintenance and operation purposes: dropout prevention programs and instructional improvement programs, including programs to develop minimum reading skills for students by the end of the third grade. The monies in the fund may not be used to supplant existing state and local monies. A.R.S. §15-979
050	**County, City, and Town Grants—**Accounts for monies received from county, city, and town grants.
071	**English Language Learner (ELL)—**Accounts for monies received to provide for the incremental cost of ELL instruction and must be used to supplement existing programs. In accordance with A.R.S. §15-756.03, monies must not be used to supplant federal, state, or local monies, including desegregation monies, previously used for ELLs, or used to pay for the normal costs of conducting programs for English-proficient students. As defined in A.R.S. §15-756.01, incremental costs are the costs that are associated with a structured English immersion program pursuant to A.R.S. §15-752 or an alternative English instruction program pursuant to A.R.S. §15-753 and that are in addition to the normal costs of conducting programs for English-proficient students. Incremental costs do not include costs that replace the same types of services provided to English-proficient students or compensatory instruction. A.R.S. §15-756.04

Code	Description
072	**Compensatory Instruction**—Accounts for monies received to be used for compensatory instruction for programs in addition to normal classroom instruction that may include individual or small group instruction, extended day classes, summer school, or intersession school. These programs are limited to improving the English proficiency of current ELLs and students who have been reclassified from ELL to English-proficient within the previous 2 years. Monies must not be used to supplant federal, state, or local monies, including desegregation monies, previously used for ELLs. A.R.S. §15-756.11
Federal Projects	A group of funds used to account for revenues and expenditures of federally funded projects. A separate fund should be established for each individual program. If a federal project is not specifically listed or included in a fund range below, an unassigned fund number in the 300-399 range should be assigned for that project.
100-130	**ESEA Title I—Helping Disadvantaged Children Meet High Standards**
140-150	**ESEA Title II—Professional Development and Technology**
160	**ESEA Title IV—21st Century Schools**
170-180	**ESEA Title V—Promote Informed Parent Choice**
190	**ESEA Title III—Limited English & Immigrant Students**
200	**ESEA Title VII—Indian Education**
210	**ESEA Title VI—Flexibility and Accountability**
220	**IDEA Part B**
230	**Johnson-O'Malley**
240	**Workforce Investment Act**
250	**AEA—Adult Education**
260-270	**Vocational Education—Basic Grants**
280	**ESEA Title X—Homeless Education**
290	**Medicaid Reimbursement**
349	**National Forest Fees**
353	**Taylor Grazing Fees**
374	**E-Rate (A.R.S. §15-1261)**
378	**Impact Aid [A.R.S. §15-905(R)]**
300-399	**Other Federal Projects**
State Projects	A group of funds used to account for revenues and expenditures of state-funded projects. If a state project is not specifically listed below, an unassigned fund number in the 465-499 range should be assigned for that project.
400	**Vocational Education**
410	**Early Childhood Block Grant**

326	**Elementary and Secondary School Emergency Relief (ESSER)**—Accounts for CARES Act monies received through ADE.
327	**Governor's Emergency Education Relief (GEER)**—Accounts for CARES Act monies received through the Governor's Office.
328	**Enrollment Stability Grant Program**—Accounts for CARES Act monies received through the Governor's Office.
Other COVID-19 federal relief funds received should be assigned an available fund number in the Other Federal Projects range.	

New

Code	Description
420	**Ext. School Yr.—Pupils with Disabilities (A.R.S. §15-881)**
425	**Adult Basic Education (A.R.S. §15-234)**
430	**Chemical Abuse Prevention Programs (A.R.S. §15-712)**
435	**Academic Contests (A.R.S. §15-1241)**
450	**Gifted (A.R.S. §15-779.03)**
456	**College Credit Exam Incentives (A.R.S. §15-249.06)**
457	**Results-based Funding (A.R.S. §15-249.08)**
460	**Environmental Special Plate (A.R.S. §37-1015)**
484	**Failing Schools Tutoring Grant (A.R.S. §15-241)**
465-499	**Other State Projects**
500	**School Plant**—Accounts for monies received from the sale, lease, or condemnation of school property and used as specified in A.R.S. §15-1102. However, monies received from the sale of land originally purchased with School Facilities Board monies must be returned to the State in accordance with A.R.S. §15-2041(F). *501-504* Districts may establish subfunds in this range, that roll up to 500 for reporting purposes, to account for monies received that are restricted for different purposes by A.R.S. §15-1102.
510	**Food Service**—Accounts for the financial operations of school activities that have as their purpose the preparation and serving of regular and incidental meals and snacks in connection with school functions. A.R.S. §15-1154 New **511-514** Districts that receive Fresh Fruits and Vegetables Program and/or NSLP Equipment grant monies must establish subfunds in this range to separately account for each grant. These funds should roll up to Fund 510 for reporting purposes.
515	**Civic Center**— The district's governing board may permit the use of school facilities under its direction for civic activities as defined in A.R.S. §15-1105, such as parent-teacher association meetings, public forums, lectures, and clubs. Monies received for use of school facilities and the related expenditures must be accounted for in this fund. In accordance with A.R.S. §15-342(29), if program needs are met, excess monies may be used for maintenance and operation or unrestricted capital outlay purposes. Upon termination of the civic center school program, any unused monies must be transferred to the School Plant Fund (500).
520	**Community School**—Accounts for revenues and expenditures for purposes of academic and skill development for all citizens in accordance with A.R.S. §15-1141 et seq. In accordance with A.R.S. §15-342(30), if program needs are met, excess monies may be used for maintenance and operation or unrestricted capital outlay purposes. Upon termination of a community school program, any unused monies must be transferred to the Maintenance and Operation Fund (**001**). A.R.S. §15-1143

Code	Description
525	**Auxiliary Operations**—Accounts for revenues and expenditures arising from bookstore operations, athletic operations, and miscellaneous district-related operations. Revenues may include the sale or rental of books, supplies and materials; course fees; fees for optional, noncredit, educational, or recreational activities; deposits for the use of district supplies; athletic gate receipts and concession sales; and other miscellaneous receipts. This fund may also be used to account for revenues and expenditures of monies collected in support of extracurricular activities to be taken as a tax credit by the taxpayer in accordance with A.R.S. §43-1089.01 and spent on the activities for which they are collected. Districts must maintain detailed records to ensure that tax credit monies are used only for allowable expenditures and in support of both the school and purpose designated by the taxpayer.
526	**Extracurricular Activities Fees Tax Credit**—Accounts for revenues and expenditures of monies collected in support of extracurricular activities to be taken as a tax credit by the taxpayer in accordance with A.R.S. §43-1089.01. Amounts in this fund should be spent on the activities for which they are collected and districts must maintain detailed records to ensure that tax credit monies are used only for allowable expenditures and in support of both the school and purpose designated by the taxpayer. Districts may choose to account for these monies in the Auxiliary Operations Fund rather than this fund.
530	**Gifts and Donations**—Accounts for the revenues and expenditures of gifts, donations, bequests, and private grants made to a district. Any balance remaining in this fund after expenditures for the intended purpose have been made, must be used to reduce taxes if not inconsistent with the terms of the gifts, grants, and devises given. A.R.S. §15-341(A)(14)
535	**Career and Technical Education and Vocational Education Projects**—Accounts for revenues and expenditures relating to the production and subsequent sale of items produced in an instructional program by career and technical education and vocational education pupils. Monies in the fund in excess of $100,000 at fiscal year-end must be transferred to the School Plant Fund (**500**). A.R.S. §15-1231
540	**Fingerprint**—Accounts for revenues and expenditures related to fingerprinting employees. A.R.S. §15-512
545	**School Opening**—Accounts for monies transferred in from the Maintenance and Operation Fund (**001**) ending cash balance to be used for maintenance and operation purposes incurred in the first year of operation of a new school within a district. At the end of 5 years without any activity in the fund, any remaining monies must be transferred to the Maintenance and Operation Fund. A.R.S. §15-943.01
550	**Insurance Proceeds**—Accounts for the monies received from insurance claims. Insurance proceeds are not considered revenues under GAAP, but should be recorded as other financing sources in object code **5300** or as special or extraordinary items in object codes **5700** or **5800**, as applicable. Districts may use such proceeds to pay outstanding bonded indebtedness or to construct, acquire, improve, repair, or furnish school property after notice, or if applied to a project costing more than $250,000 after notice and a hearing. A.R.S. §15-1103
555	**Textbooks**—Accounts for monies received from students to replace or repair lost or damaged textbooks, subject matter materials, supplementary books, or instructional computer software in accordance with A.R.S. §15-729. Additionally, monies received from students to replace or repair lost or damaged library books may be accounted for here or in the Unrestricted Capital Outlay Fund (**610**). Monies received from the sale of books and other printed materials should be accounted for in the Auxiliary Operations Fund (**525**).

Code	Description
565	**Litigation Recovery**—Accounts for monies received for and derived from the settlement of legal controversies or from the recovery of costs, attorney fees, or damages in litigation by or against a district in accordance with A.R.S. §15-1107. Expenditures from the fund may be made to procure legal services or for the costs of litigation. However, if monies are received specifically for the purpose of replacing or repairing school buildings or other school property, the monies may only be used to: 1. Reimburse the School Facilities Board's Building Renewal Grant or Emergency Deficiencies Corrections funds. 2. Pay any outstanding bonded indebtedness of a district that is payable from the levy of taxes on property within a district. 3. Construct, acquire, improve, repair, or furnish school buildings after notice, or if applied to a project costing more than $250,000 after notice and a hearing. 4. Replace or repair school property other than school buildings.
570	**Indirect Costs**—Accounts for monies transferred in to this fund (object code **5200**) from federal project funds or the Food Service Fund (**510**). These transfers are for indirect costs related to federal grants based on an Arizona Department of Education approved indirect cost rate and interest earned on federal grant monies that is not required to be reverted. Federal guidance restricts the use of interest retained by districts to administrative expenditures. Districts that choose to transfer allowable federal program interest to this fund should separately track the use of those monies to document compliance with the federal guidance.
575	**Unemployment Insurance**—Used by districts using the reimbursement method of accounting for unemployment insurance contributions. Deposits to this fund consist of contributions from other funds. Expenditures consist of reimbursement payments to the Department of Economic Security. When the governing board determines that monies accumulated are in excess of insurance needs, the excess must be used to reduce district taxes for the budget year. A.R.S. §15-1104
580	**Teacherage**—Accounts for the operations of district housing facilities provided for district employees that the governing board determined necessary for district operation. Revenues consist of lease and rental receipts. Disbursements consist of payments for maintenance, operation, and debt service related to teacherages. Also, districts located on Indian and federal lands may purchase houses, including mobile and modular housing, to be used exclusively as teacherages. Monies in this fund may be used to reduce local taxes if accumulation in the fund warrants such use. A.R.S. §§15-342(6) and 15-1106
585	**Insurance Refund**—Accounts for insurance premium payments that are refunded to a district at the end of a fiscal year. The monies may be used for insurance premium payments; placed into a trust to be used for payments of uninsured losses, claims, defense costs, and other related expenses as provided in A.R.S. §15-382; or used for reduction of district taxes in the budget year. A.R.S. §15-386
590	**Grants and Gifts to Teachers**—Accounts for grants and gifts under $1,500 received from private sources that are designated for use by a teacher for instructional purposes. A.R.S §15-1224
595	**Advertisement**—Accounts for monies received from the sale of advertising that may be used for any district purpose. A.R.S. §15-342(27)(c)
596	**Career Technical Education**—Accounts for monies received by member districts from Career Technical Education Districts for vocational education programs. A.R.S. §15-393

Code	Description
New **597**	**Arizona Industry Credentials Incentive—**Accounts for incentive monies received based on high school graduates who obtain a certification, credential, or license that is accepted by a vocation or industry through a career technical education course or program. Monies received should be used in accordance with A.R.S. §15-249.15.
610	**Unrestricted Capital Outlay—**Accounts for transactions relating to the acquisition of items by purchase, lease-purchase, or lease as prescribed by A.R.S. §15-903(C). Revenues include equalization assistance, tuition, property taxes, and interest on investments. Expenditures include: 1. Land, buildings, and improvements to land and buildings, including labor and related employee benefits costs and material costs if the work is performed by district employees 2. Furniture, furnishings, athletic equipment, and other equipment, including computer software 3. Pupil and nonpupil transportation vehicles and equipment, including all capital expenditures within a contract if a district contracts for pupil transportation 4. Textbooks and related printed subject matter materials adopted by the governing board 5. Instructional aids 6. Library books 7. Payment of principal and interest on bonds 8. District administration emergency needs that are directly related to pupils
620	**Adjacent Ways—**Accounts for transactions relating to special assessments to finance the improvement of public ways adjacent to school property, in accordance with A.R.S. §15-995.
630	**Bond Building—**Accounts for proceeds from district bond issues that are used for acquiring or leasing school sites; constructing or renovating school buildings; supplying school buildings with furniture, equipment, and technology; improving school grounds; purchasing pupil transportation vehicles; or paying existing bonded indebtedness in accordance with A.R.S. §15-491(A)(3). Bond proceeds are recorded as other financing sources in object code 5110 or 5120, as applicable. Interest earned on investments must be used to reduce outstanding bonded indebtedness, unless a district requests the monies be deposited in the Bond Building Fund if federal laws or rules require the interest to be used for capital expenditures, or the voters authorized the interest to be credited to the Bond Building Fund in a separate question in a bond election. If there is no outstanding bonded indebtedness, any balance remaining in this fund, after acquisition and construction is completed, on written request of the governing board, should be used to reduce taxes. A.R.S. §15-1024
639	**Impact Aid Revenue Bond Building—**Accounts for proceeds from impact aid revenue bond issuances that are used for capital projects authorized in accordance with A.R.S. §15-491. The proceeds may also be used for bond-related expenses and other costs as allowed by A.R.S. §15-2102. Bond proceeds are recorded as other financing sources in object code 5110 or 5120. Interest earned on investment of these monies must be credited to the Impact Aid Revenue Bond Debt Service Fund. After the acquisition or construction of facilities for which the bonds were issued is completed, and after the payment of other related costs, the remaining balance must be transferred to the Impact Aid Fund (**378**). A.R.S. §§15-905(R), 15-2104, 15-2107, and 15-2108
650	**Gifts and Donations—Capital—**Accounts for gifts and donations to be used for capital acquisitions. A.R.S. Any balance remaining in this fund after expenditures for the intended purpose have been made, must be used to reduce taxes if not inconsistent with the terms of the gifts, grants, and devises given. A.R.S. §15-341(A)(14)

Code	Description
660	**Condemnation—**Used for the following purposes. After 10 years, any unused monies must be transferred to the School Plant Fund (**500**). A.R.S. §15-1102(E) and (F) 1. Proceeds from sales by condemnation or threat of condemnation may be accounted for in this fund. If accounted for in this fund, these proceeds must be used either: 2. For the payment of a district's outstanding bonded indebtedness that is payable from the levy of taxes upon the property within the district, or 3. To construct, acquire, improve, repair, or furnish school facilities or sites after notice and a hearing. 4. Proceeds from a right-of-way settlement must be accounted for in this fund. These proceeds must be used to construct, acquire, improve, repair, or furnish school facilities or sites after notice and a hearing.
665	**Energy and Water Savings (EWS)—**Accounts for capital investment monies, energy-related rebate or grant monies, and monies from other funding sources, including clean renewable energy bonds, to fund energy or water saving projects in school facilities in accordance with A.R.S. §15-910.02. This fund also accounts for payment amounts transferred to the EWS Fund from the Maintenance and Operation Fund (**001**). Any monies associated with an energy or water savings project remaining in the fund after capital investment monies are repaid in full may also be transferred to the Maintenance and Operation Fund.
686	**Emergency Deficiencies Correction—**Accounts for monies received from the School Facilities Board to correct emergency deficiencies. A.R.S. §15-2022
691	**Building Renewal Grant—**Accounts for building renewal grant monies that districts may request from the School Facilities Board. These monies may be used for major renovations and repairs to buildings used for student instruction or other academic purposes, upgrading systems and areas that will maintain or extend buildings' useful lives, and infrastructure costs. These monies may not be used for new construction; remodeling interior space for aesthetic or preferential reasons; exterior beautification; demolition; routine preventive maintenance; or any project in a building, or part of a building, that is being leased to another entity. A.R.S. §15-2032
695	**New School Facilities—**Accounts for monies received from the School Facilities Board to be used for constructing new school facilities and purchasing land for new school sites as prescribed by A.R.S. §15-2041. Any surplus monies received from the School Facilities Board may be used only for capital purposes for the project up to 1 year after completion of the project. Any surplus monies remaining after 1 year must be returned to the School Facilities Board.
699	**Federal Impact Aid (Construction)—**Accounts for impact aid monies that are received specifically for construction.
700	**DEBT SERVICE FUNDS—**Account for the accumulation of resources and the payment of principal and interest on bonds. A.R.S. §15-1022 If there is no outstanding bonded indebtedness, any balance remaining in or accruing to this fund, on written request of the governing board, must be used to reduce taxes. A.R.S. §15-1028
720	**Impact Aid Revenue Bond Debt Service—**Accounts for impact aid monies received and interest earned that is used for the payment of impact aid revenue bond principal and interest payments. Any surplus monies remaining in the fund must be transferred to the Impact Aid Fund (**378**). A.R.S. §§15-905(R), 15-2104, 15-2107, 15-2108, and 15-2109
750	**PERMANENT FUNDS—**Accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support district programs.

Code	Description
FIDUCIARY FUNDS	
800-849	**Trust and Custodial Funds***
	Pension (and Other Employee Benefit) Trust Funds—Accounts for resources that are held in a trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other benefit plans. Typically, these funds are used to account for local pension and other employee benefit trusts that are provided by a district in lieu of or in addition to any state retirement system. Monies to fund other postemployment benefits (OPEB) that are deposited in a trust account in accordance with A.R.S. §15-1225 should be included as a Pension Trust Fund (OPEB Trust Fund). The OPEB Trust Fund accounts for monies accumulated to pay for postemployment benefits offered to district employees or their spouses and dependents. This fund may be used for administrative and management costs and payment of benefits. Postemployment benefits do not include benefits provided by the Arizona State Retirement System. If monies to fund other postemployment benefits are not deposited in a trust account, they should be accounted for in an **Internal Service Fund**.
	Investment Trust Funds—Accounts for the external portion (i.e., the portion that does not belong to a district) of investment pools operated by a district that are held in a trust.
	Private-Purpose Trust Funds—Accounts for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.
	Custodial Funds—Accounts for fiduciary activities not held in a trust.

OTHER FUNDS*	
850-899	
850	**Student Activities—**Accounts for all monies raised with the approval of the governing board by the effort of students in pursuance of or in connection with all activities of student organizations, clubs, school plays, or other student entertainment other than Auxiliary Operations Fund monies. A.R.S. §15-1121
855	**Employee Insurance Program Withholdings—**Accounts for monies received from employees, monies contributed by a district, and monies received from former employees, current and former board members, and board members' surviving spouses and dependents, to be used for the payment of insurance premiums. Disbursements may only be made to insurance carriers or to make refunds of insurance premiums to individuals. The governing board must transfer any interest at fiscal year-end to the Maintenance and Operation Fund. A.R.S. §15-1223
865	**State Income Tax Withholdings—**Accounts for monies withheld from employees for state income tax until remitted to the Arizona Department of Revenue. Disbursements may be made only to the Department of Revenue. The governing board must transfer any interest at fiscal year-end to the Maintenance and Operation Fund. A.R.S. §15-1222

* Governmental Accounting Standards Board Statement No. 84 revised the definition of fiduciary funds initially required for FY 2020 financial statements but delayed to FY 2021. As a result, Funds 850-899 are no longer fiduciary funds and should be reported in the District's financial statements with the governmental funds. The Other Funds section above was added to separate these non-fiduciary funds. Districts may continue using funds 850-899 for activity related to the statutorily established bank accounts but should work with their auditors to ensure correct financial statement presentation.

Code	Description
PROPRIETARY FUNDS	
900-949	**Enterprise Funds—**Accounts for activities that provide goods or services to external users for a fee. Enterprise funds are required to be used to account for any activity whose principal revenue sources meet any of the following criteria: (1) debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of a district); (2) legal requirement to recover costs through fees and charges; (3) policy decision of the governing board or management to recover the costs of providing services through fees or charges.
950-989	**Internal Service Funds**—Accounts for activities that provide goods or services to other funds, departments, component units, or other governmental entities on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which a district is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Examples of internal service funds are activities such as central data processing, central printing and duplicating, and self-insurance. District Services Funds established in accordance with A.R.S. §15-1108 should be accounted for as Internal Service Funds. Monies to fund other postemployment benefits (OPEB) that are not deposited in a trust account in accordance with A.R.S. §15-1225 should be accounted for as an Internal Service Fund (OPEB Fund). The OPEB Fund accounts for monies accumulated to pay for postemployment benefits offered to district employees or their spouses and dependents. This fund may be used for administrative and management costs and payment of benefits. At the end of 5 years of no activity in the fund, any remaining monies must be transferred to the Maintenance and Operation Fund. Postemployment benefits do not include benefits provided by the Arizona State Retirement System. A.R.S. §15-1225
955	**Intergovernmental Agreements—**Used by a fiscal agent to account for monies of an intergovernmental agreement (IGA). Revenues include amounts received from participants. Expenditures include salaries, supplies, etc. (Depending on specific provisions of the agreement, IGAs may also be accounted for in a Trust or Agency Fund.) A.R.S. §15-342(13)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Object code	Description
0100	CASH ***(Use detailed codes below)***
0101	**Cash on Hand**—Currency, coins, checks, warrants, postal and express money orders, and bank drafts on hand physically located at a district or in the possession of its representative, such as cash from sales of student lunches that has not been deposited in the bank.
0102	**Cash in Bank**—All funds on deposit in a financial institution, including time certificates of deposit. Revolving fund monies should be recorded here.
0103	**Cash on Deposit with County Treasurer**—All funds on deposit with the county treasurer who, by statute, is the designated custodian of district cash and bank deposits.
0105	**Cash with Fiscal Agent**—Deposits with fiscal agents, such as commercial banks, for paying matured bonds and interest.
0110	**INVESTMENTS**—U.S. government securities and other investments held for the earning of income in the form of interest or dividends. Investments should be presented at fair value as of the reporting date. Gains and losses from changes in the fair value of investments should be coded to revenue object code **1530**.
0111	**Unamortized Premiums**—Used only with short-term money market investments and participating interest-earning investment contracts.
0112	**Unamortized Discounts (Credit)**—Used only with short-term money market investments and participating interest-earning investment contracts.
0120	TAXES RECEIVABLE ***(Use detailed codes below)***
0121	**Personal Property Taxes Receivable—Current Year**—The uncollected portion of the tax levy for personal property that has become due, including interest or penalties that may be accrued.
0122	**Personal Property Taxes Receivable—Back (prior years)**—The uncollected portion of the tax levy for personal property that was due, including interest or penalties that may be accrued.
0123	**Real Property Taxes Receivable—Current Year**—The uncollected portion of the tax levy for real property that has become due, including interest or penalties that may be accrued.
0124	**Real Property Taxes Receivable—Back (prior years)**—The uncollected portion of the tax levy for real property that was due, including interest or penalties that may be accrued.
0130	OTHER RECEIVABLES ***(Use detailed codes below)***
0131	**Revenue in Lieu of Taxes Receivable**—For example, payments from Salt River Project.
0132	**Accounts Receivable**—Amounts due on open account from individuals or other entities.
0134	**Interest Receivable**—Amount of interest receivable on investments.
0135	**Refundable Deposits Receivable**—District monies held by business entities or individuals as security or as a prerequisite to receiving goods or services.
0136	**Notes Receivable**—Amounts due from a note or mortgage received from the sale of district buildings or property.

Object code	Description
0140	DUE FROM OTHER FUNDS AND GOVERNMENTAL ENTITIES ***(Use detailed codes below)*** **These amounts may represent grants-in-aid, shared taxes, taxes collected for a district by another governmental unit, charges for goods or services rendered, and monies held by other governmental units as security.**
0141	**Due from Other Funds**
0142	**Due from Other Districts**
0143	**Due from County**
0144	**Due from State**
0145	**Due from Federal**
0150	**PREPAID ITEMS—**Cash outlays for benefits that have not been received.
0151	*Insurance*—Amounts paid for insurance coverage not yet received, such as fire insurance and property insurance paid in advance.
0160	**INVENTORY OF SUPPLIES FOR CONSUMPTION—**Supplies on hand, valued at cost, that will be used for district operations.
0161	*Supplies*—General supplies used in district operations.
0162	*Fuel and Oil*—Supplies used for transportation activities.
0170	**INVENTORY OF SUPPLIES FOR SALE OR RENTAL—**Inventory on hand, valued at cost or market, that will be sold or rented.
0171	*Bookstore*—Inventory sold or rented by the bookstore.
0172	*Food and Milk*—Food service inventory, including USDA commodities.
0180	OTHER CURRENT ASSETS ***(Use detailed codes below)***
0182	**Premium and Discount on Issuance of Bonds—**Represents amounts to be amortized as debt premium/discount in connection with the issuance of bonds.
0185	**DEFERRED OUTFLOW OF RESOURCES—**Represents the consumption of net assets by the district that is applicable to a future reporting period. Only the following items should be included in this code: 1. The difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt when the reacquisition price exceeds the net carrying amount of the defeased debt. 2. Employer's share of pension contributions to the Arizona State Retirement System and other deferred outflows related to pensions. **This code should be used in proprietary funds only.**

Object code	Description
0190	CAPITAL ASSETS ***(Use detailed codes below)*** **For discussion of capital assets, see Property Control—§VI-E. These codes should be used in fiduciary and proprietary funds only.**
0191	**Land and Land Improvements—**Land owned by a district, including legal fees, razing, filling, excavation, and other associated costs that are incurred to put the land in condition for its intended use. Further, permanent improvements to land, such as grading and fill, should be accounted for in this account. Land and land improvements are considered nonexhaustible assets owing to their significantly long expected useful life and should not be depreciated. Therefore, these assets will not result in a depreciation expense.
0192	**Site Improvements—**Account that reflects the value of nonpermanent improvements to building sites, other than buildings, that add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels, and bridges. Because these improvements decrease in their value/usefulness over time, it is appropriate to depreciate these assets. Therefore, all capitalized site improvements should be depreciated over their expected useful life.
0193	**Accumulated Depreciation on Site Improvements—**Accumulated amounts for the depreciation of site improvements.
0194	**Buildings and Building Improvements—**Account that reflects the acquisition value of permanent and relocatable structures used to house persons and property owned by a district. This account includes the value of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. This account includes all building improvements, including upgrades made to building wiring for technology.
0195	**Accumulated Depreciation on Buildings and Building Improvements—**Accumulated amounts for the depreciation of buildings and building improvements.
0196	**Equipment—**Account that reflects the value of machinery, vehicles, computers, software, furniture, and other equipment, including specialized electronic and athletic equipment.
0197	**Accumulated Depreciation on Equipment—**Accumulated amounts for the depreciation of equipment.
0198	**Construction in Progress—**Account that reflects the value of construction undertaken but not yet completed. When completed, the cost must be transferred to the appropriate asset account.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Object code	Description
0200	NONPAYROLL PAYABLES ***(Use detailed codes below)***
0201	**Accounts Payable—**Amounts owed on open accounts for goods or services received, such as maintenance agreements, professional services, rentals, and operating leases.
0202	**Refundable Deposits—**Liability for amounts received as a prerequisite to providing goods or services, such as deposits made by students on textbooks and lab deposits.

Object code	Description
0203	**Bank Revolving Line of Credit Payable—**Liability for monies borrowed through a revolving line of credit as authorized by A.R.S. §11-604.01.
0205	**Tax Anticipation Notes (TANs) Payable—**Amounts owed on tax anticipation notes issued by a district pursuant to A.R.S. §35-465.01.
0210	DUE TO OTHER FUNDS, GOVERNMENTAL ENTITIES, STUDENT GROUPS, AND OTHERS ***(Use detailed codes below)***
0211	**Due to Other Funds**
0212	**Due to Other Districts**
0213	**Due to County**
0214	**Due to State**
0215	**Due to Federal**
0216	**Due to Student Groups**
0217	**Due to Others**
0220	ACCRUED PAYROLL AND RELATED BENEFITS ***(Use detailed codes below)*** **Salary and fringe benefit costs incurred but not yet paid during the current accounting period.**
0221	**Salaries and Wages—**Gross amount of salaries and wages earned by employees but not due until a later date.
0222	**Social Security—OASDI (Employer's Portion)—**Amount of matching social security taxes incurred as a result of salaries and wages earned by employees.
0223	**Medicare—Hospital Insurance (Employer's Portion)—**Amount of matching Medicare taxes incurred as a result of salaries and wages earned by employees.
0224	**State Retirement System Contributions (Employer's Portion)—**Amount of matching state retirement contributions incurred as a result of salaries and wages earned by employees. Include both state retirement and related long-term disability contributions.
0225	**Employee Insurance—**Amount incurred for premiums on insurance for employees (health and accident, medical, life, etc.) provided by a district.
0226	**Unemployment Insurance—**Amount incurred for unemployment insurance taxes.
0227	**Workers' Compensation—**Amount incurred for workers' compensation premiums.
0228	**Self-Insurance Employee Claims Payable—**Amount owed to employees for insurance claims from the Self-Insurance Fund.
0229	**Compensated Absences—**Liability for accrued vacation and sick leave benefits.
0230	OTHER ACCRUED ITEMS ***(Use detailed codes below)***
0231	**Interest Payable (Other than Bond Interest)—**Interest costs incurred but not yet paid during the current accounting period, including interest on tax anticipation notes.

Object code	Description
0232	**Bond Interest Payable**—The current portion of the liability for interest on bonds issued. Includes interest expense incurred but not yet paid.
0233	**Self-Insurance Claims Payable**—Amounts owed from an Internal Service Fund (Self-Insurance) for claims and judgments payable to other than employees.
0240	PAYROLL DEDUCTIONS AND WITHHOLDINGS (EMPLOYEES) ***(Use detailed codes below)*** **Amounts deducted from employees' salaries that have not yet been paid to the respective agencies.**
0241	**Federal Income Taxes**
0242	**State Income Taxes**
0243	**Social Security—OASDI**
0244	**Medicare—Hospital Insurance**
0245	**State Retirement Contributions**—Amounts deducted from employees' salaries for state retirement contributions. The portion representing long-term disability contributions should be recorded under balance sheet object code 0246.
0246	**Long-Term Disability**—Amounts deducted from employees' salaries for long-term disability benefits for employees who participate in the Arizona State Retirement System.
0247	**Voluntary Deductions**—Amounts deducted from employees' salaries for voluntary deductions, such as annuities and dependent health insurance premiums.
0248	**Court-Ordered Assignments**—Amounts garnished from the salaries or wages of employees for child support or spousal maintenance pursuant to a court-ordered assignment of earnings. A.R.S. §§25-504 and 25-505.01
0250	**UNEARNED REVENUES**—Revenues collected before they are earned, such as grants.
0260	CONTRACTS PAYABLE ***(Use detailed codes below)***
0261	**Capital Leases**—Amounts due on capital lease agreements.
0262	**Construction**—Amounts due on construction contracts.
0270	BONDS PAYABLE ***(Use detailed codes below)***
0271	**Current**—Liabilities for redemption of bonds that are payable within 1 year.
0272	**Long-Term**—Liabilities for redemption of bonds that are not payable within 1 year.
0280	**ARBITRAGE REBATE**—Liabilities arising from arbitrage rebates to the Internal Revenue Service from bond financing.
0290	DEFERRED INFLOWS OF RESOURCES ***(Use detailed codes below)***
0291	**UNAVAILABLE REVENUES**—Revenues that are measurable but not available, such as property taxes. **This code should be used in governmental funds only.**

Object code	Description
0292	**DEFERRED REVENUE ON REFUNDING—**Represents the difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt when the reacquisition price is less than the net carrying amount of the defeased debt. **This code should be used in proprietary funds only.**
0293	**PENSION RELATED DEFERRED INFLOWS OF RESOURCES**— Represents the acquisition of pension related net assets that is applicable to a future reporting period. **This code should be used in proprietary funds only.**

FUND BALANCE/FUND NET POSITION

Object code	Description
0300	**GOVERNMENTAL FUND BALANCE**
0310	*NONSPENDABLE FUND BALANCE*—Amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of notes receivable and the principal of a permanent fund.
0311	*Prepaid Items*—An amount equal to the balance in the Prepaid Items asset account (**0150**).
0312	*Inventory of Supplies for Consumption*—An amount equal to the balance in the Inventory of Supplies for Consumption asset account (**0160**).
0313	*Inventory of Supplies for Sale or Rental*—An amount equal to the balance in the Inventory of Supplies for Sale or Rental asset account (**0170**).
0314	*Other Nonspendable Fund Balance*
0320	*RESTRICTED FUND BALANCE*—Amounts that are restricted to specific purposes. Fund balance should be reported as restricted when constraints placed on the use of resources are either: a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislation.
0330	*COMMITTED FUND BALANCE*—Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the governing board. These amounts cannot be used for any other purpose unless the governing board removes or changes the specific purpose by taking the same kind of formal action previously used to commit these amounts. Adoption of the annual budget does not constitute a commitment as appropriations lapse at year-end without governing board action. This code should also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Object code	Description
0340	*ASSIGNED FUND BALANCE*—Amounts that are constrained by a district's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by the governing board or a body (i.e., budget or finance committee) or official to which the governing board has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance in governmental funds, other than the general fund, includes all spendable amounts that are not restricted or committed, if that amount is positive. See discussion of the General Fund on page **V-B-1**.
0350	*UNASSIGNED FUND BALANCE*—For the general fund, spendable amounts that are not restricted, committed, or assigned. The general fund is the only fund that may report a positive unassigned fund balance amount. For governmental funds other than the general fund, negative fund balances are reported here if restricted, committed, or assigned amounts exceed total spendable fund balance. See discussion of the General Fund on page **V-B-1**.
0400	**PROPRIETARY FUND NET POSITION**
0410	*NET INVESTMENT IN CAPITAL ASSETS*—Capital assets less accumulated depreciation and debt directly related to capital assets.
0420	*RESTRICTED NET POSITION*—Restricted assets and deferred outflows of resources less liabilities and deferred inflows of resources related to those assets. Net position should be reported as restricted when constraints placed on the use of net position are either: a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislation.
0430	*UNRESTRICTED NET POSITION*—The net amount of assets and deferred outflows of resources and liabilities and deferred inflows of resources not coded to 0410 or 0420.
0500	**TRUST FUND NET POSITION**—The net position of trust funds that are "held in trust" for the appropriate party.

Object code	Description
1000	REVENUE FROM LOCAL SOURCES ***(Use detailed codes below)***
1100	Taxes Levied/Assessed on Behalf of a District ***(Use detailed codes below)***
1110	**Property Taxes**—Taxes levied by the county on the assessed value of real and personal property located within a district. Separate accounts may be maintained for real property and for personal property. Penalties and interest on property taxes should be included in revenue object code 1140.
1111	*Personal*
1115	*Real*
1140	**Penalties and Interest on Taxes**—Revenue from penalties for the payment of taxes after the due date, and the interest charged on delinquent taxes from the due date to actual payment. A separate account for penalties and interest on each type of tax may be maintained.
1200	**Revenue from Local Governmental Units Other Than Districts**—Revenue from the appropriations of another local governmental unit not properly coded in object 1280.
1280	**Revenue in Lieu of Taxes**—Payments made out of general revenues by a local governmental unit to a district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation on the same basis as privately owned property. Such revenue would include payments made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the local governmental unit. Payments received from the Salt River Project are an example of revenue in lieu of taxes.
1300	Tuition ***(Use detailed codes below)*** **The portion of tuition representing transportation fees should be coded in the 1400 revenue object code range**.
1310	Tuition from Individuals ***(Use detailed codes below)***
1311	**Tuition from Individuals Excluding Summer School**
1312	**Tuition from Individuals for Summer School**
1320	**Tuition from Other Arizona Districts**
1330	**Tuition from Out-of-State Districts**
1340	**Tuition from Other Private Sources (Other than Individuals)**
1350	**Tuition from Other Government Sources Within Arizona** (such as the Arizona State Schools for the Deaf and the Blind)
1360	**Tuition from Other Government Sources Outside Arizona**
1400	Transportation Fees ***(Use detailed codes below)***
1410	**Transportation Fees from Individuals**
1420	**Transportation Fees from Other Arizona Districts**
1430	**Transportation Fees from Out-of-State Districts**
1440	**Transportation Fees from Other Private Sources (Other than Individuals)**

Object code	Description
1450	**Transportation Fees from Other Government Sources Within Arizona**
1460	**Transportation Fees from Other Government Sources Outside Arizona**
1500	**Investment Income—**Revenue from short-term and long-term investments.
1510	*Interest on Investments*—Interest revenue on temporary or permanent investments in United States treasury and agency obligations, commercial paper, savings accounts, time certificates of deposit, or other interest-bearing investments.
1530	*Net Increase/(Decrease) in the Fair Value of Investments*— Gains/losses recognized from the sale of investments or changes in the fair value of investments.
1540	*Investment Income from Real Property*—Revenue for rental and use charges on real property held for investment purposes.
1600	**Food Service—**Revenue from sales of food to students and adults.
1610	*Daily Sales—Reimbursable Programs*—Revenue from students for the sale of breakfasts, lunches, and milk that are considered reimbursable by the United States Department of Agriculture. Federal reimbursements should be coded to revenue object code **4500**.
1611	*Daily Sales—School Lunch Program*—Revenue from students for the sale of reimbursable lunches as part of the National School Lunch Program.
1612	*Daily Sales—School Breakfast Program*—Revenue from students for the sale of reimbursable breakfasts as part of the School Breakfast Program.
1613	*Daily Sales—Special Milk Program*—Revenue from students for the sale of reimbursable milk as part of the Special Milk Program.
1614	*Daily Sales—After School Care Snack (ASCS) Program*—Revenue from students for the sale of reimbursable snacks as part of the ASCS program.
1620	*Daily Sales—Nonreimbursable Programs*—Revenue from sales to adults, a la carte sales, and sales to students for nonreimbursable breakfasts, lunches, and milk.
1630	*Special Functions*—Revenue from students, adults, or organizations for the sale of food products and services at special functions. Some examples would include potlucks, PTA/PTO-sponsored functions, and athletic banquets.
1640	*Daily Sales—Summer Food Program*—Revenue from students for the sale of reimbursable items as part of summer programs.
1700	District Activities ***(Use detailed codes below)***
1750	**Revenue from Enterprise and Student Activities—**Revenue from school-sponsored and student activities including athletics, bookstore sales, and concerts, and vending machines and concessions not related to the regular food service program. Also include athletic and miscellaneous fees not properly coded to object 1790.
1790	**Extracurricular Activities Fees Tax Credit—**Revenue (donations and fees) collected in support of extracurricular activities or character education to be taken as a tax credit by the taxpayer in accordance with A.R.S. §43-1089.01.

Updated

Object code	Description
1800	**Revenue from Community Services Activities—**Revenue from community services activities operated by a district. For example, revenue received from operation of a swimming pool or civic center as a community service would be recorded here. Revenues from the long-term rental of district property, typically involving a formal lease agreement, should be coded to revenue object code 1910. Multiple accounts may be established within the 1800 range to differentiate various activities.
1900	Other Revenue from Local Sources ***(Use detailed codes below)***
1910	**Rentals—**Revenue from the rental of either real or personal property owned by a district. Revenues from the short-term rental of district property, such as daily use fees, should be coded to revenue object code 1800. Rental of property held for investment purposes should be coded to revenue object code **1540**.
1920	**Contributions and Donations from Private Sources—**Revenue associated with contributions and donations made by private organizations. These organizations include, but are not limited to, educational foundations, PTA/PTO organizations, campus booster clubs, and private individuals. Revenue received as donations in support of extracurricular activities to be taken as a tax credit by the donor in accordance with A.R.S. §43-1089.01 should be coded to revenue object code **1790**.
1930	**Gain or Loss on Sale of Capital Assets—**Amount received from the sale of capital assets in excess of the assets' book value. **This code should be used with proprietary and fiduciary funds only.** For governmental funds, other financing sources object code **5300** should be used.
1940	**Government Property Lease Excise Tax (GPLET)—**Revenue received from annual excise taxes levied by cities, towns, counties, and county improvement districts on lessees of government property in accordance with A.R.S. §42-6201 et seq. These revenues must be recorded in the Maintenance and Operation Fund.
1950	**Miscellaneous Revenues from Other Districts—**Revenue from services provided to other districts other than for tuition and transportation services. These services could include data processing, purchasing, maintenance, cleaning, and consulting. Revenues received by member districts from Career Technical Education Districts should also be recorded here.
1960	**Miscellaneous Revenues from Other Local Governmental Units—**Revenue from services provided to other local governmental units. These services could include data processing, purchasing, maintenance, cleaning, cash management, and consulting.
1970	**Revenues from Other Departments in a District—**Revenues from services provided to other funds such as printing, data processing, or contributions made by a district or district employees for self-insurance. **This code should be used in proprietary funds only.** Revenue from private individuals, businesses, and associations for services provided should be coded to revenue object code 1990.
1980	**Refund of Prior Year's Expenditures—**Expenditures that occurred last year that are refunded this year, including voided stale-dated warrants where another warrant is not issued. If both expenditure and refund occurred in current year, reduce this year's expenditures, as prescribed by GAAP.
1990	**Miscellaneous—**Revenue from local sources not provided for elsewhere. Do not code other financing sources, such as transfers, here. See page III-27 for those codes. Fingerprinting Fees—Fees collected from paid employees for fingerprinting costs. Unemployment Insurance Fund Receipts—Payments from payroll source funds to the Unemployment Insurance Fund. Advertising Fees—Fees collected from the sale of advertising.

Object code	Description
2000	REVENUE FROM COUNTY SOURCES ***(Use detailed codes below)***
2100	**Unrestricted—**Revenue from the county that can be used for any legal purpose without restriction.
2110	**County School Fund—**Revenue received that represents apportionments from the County School Fund, such as Taylor Grazing. A.R.S. §15-1000
2120	**County Equalization Assistance—**Revenue received from the county under the provisions of A.R.S. §15-971(C).
2200	**Restricted—**Revenue from the county that must be used for a categorical or specific purpose.
2210	**Special County School Reserve Fund—**Revenue received from the Special County School Reserve Fund that must be spent in accordance with A.R.S. §15-1002.
2900	**Revenue for/on Behalf of a District—**Commitments or payments made by the county for the benefit of a district, or contributions of equipment or supplies. Separate accounts may be maintained to identify the specific nature of the revenue item.
3000	REVENUE FROM STATE SOURCES ***(Use detailed codes below)***
3100	**Unrestricted—**Revenue from state funds that can be used for any legal purpose without restriction.
3110	**State Equalization Assistance—**Revenue received from the State under the provisions of A.R.S. §15-971(D).
3120	**Additional State Aid—**Revenue received from the State under the provisions of A.R.S. §15-972.
3130	**Certificates of Educational Convenience—**Revenue received from the State pursuant to certificates of educational convenience for pupils who are precluded by distance or lack of adequate transportation facilities from attending a school in the district or county of the pupil's residence, or pupils who reside in unorganized territories; state rehabilitation or corrective institutions; foster homes, child care agencies, or institutions licensed and supervised by the Department of Economic Security or the Department of Health Services; residential facilities operated or supported by the Department of Economic Security or the Department of Health Services; or residences supervised by the Department of Juvenile Corrections pursuant to the Interstate Compact on Juveniles. A.R.S. §§15-825, 15-825.01, and 15-825.02
3140	**Institutional Vouchers—**Revenue received from the State pursuant to institutional vouchers for special education students who reside in the Arizona State School for the Deaf and the Blind; Arizona Training Program Facilities, as provided in A.R.S. §36-551; or the Arizona State Hospital. A.R.S. §15-1204
3150	**State Impact Assistance—**Revenue received from the State for pupils whose parents or legal guardians are employed by and live at the State Hospital, the Arizona State School for the Deaf and the Blind, Intellectual Disability Centers, Port of Entry Inspection Stations, and institutions and facilities maintained by the Department of Corrections. A.R.S. §15-976
3200	**Restricted—**Revenue from state funds that must be used for a categorical or specific purpose, such as Classroom Site, Instructional Improvement, and School Facilities Board monies.
3900	**Revenue for/on Behalf of a District—**Commitments or payments made by the State for the benefit of a district, or contributions of equipment or supplies. Separate accounts may be maintained to identify the specific nature of the revenue item.

Object code	Description
4000	REVENUE FROM FEDERAL SOURCES ***(Use detailed codes below)***
4100	**Unrestricted Revenue Received Directly from the Federal Government—** Revenues received directly from the federal government that can be used for any legal purpose without restriction.
4200	**Unrestricted Revenue Received from the Federal Government through the State—**Revenues received from the federal government through the State that can be used for any legal purpose without restriction, such as Medicaid Reimbursement.
4300	**Restricted Revenue Received Directly from the Federal Government—** Revenue received directly from the federal government that must be used for a categorical or specific purpose. If such money is not completely used, it usually is returned to the governmental unit, such as ESEA Title VII—Indian Education, Federal Impact Aid (Construction).
4500	**Restricted Revenue Received from the Federal Government through the State—**Revenues received from the federal government through the State that must be used for a categorical or specific purpose, including federal food service reimbursements.
4700	**Revenue Received from the Federal Government through Other Intermediate Agencies—** Revenues received from the federal government through other intermediate agencies, such as counties with National Forest Fees or Indian tribes with Johnson-O'Malley assistance.
4800	**Revenue in Lieu of Taxes—**Commitments or payments made out of general revenues by the federal government in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by a district on the same basis as privately owned property or other tax base. Such revenue would include payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property due to action by the federal government, such as impact aid.
4900	**Revenue for/on Behalf of a District—**Commitments or payments made by the federal government for the benefit of a district, or contributions of equipment or supplies. Such revenues include E-rate monies paid directly to vendors by the Schools and Libraries Division of the Universal Service Administrative Company (USAC) and food donated by the federal government. Separate accounts may be maintained to identify the specific nature of the revenue item.

For codes related to bond proceeds, transfers-in, other capital or debt proceeds, and special or extraordinary items, see page III-27.

Object Code	Description
5000	OTHER FINANCING SOURCES AND OTHER ITEMS ***(Use detailed codes below)***
5100	Issuance of Bonds ***(Use detailed codes below)***
5110	**Bond Principal—**Face amount of bonds sold. (Bond Issuance costs are not netted here, but should be coded to expenditure object code **6300**.)
5120	**Premium or Discount on the Issuance of Bonds—**Portion of the sale price of bonds in excess of or below their par value.
5200	**Fund Transfers-In—**Used to classify operating transfers from other funds of a district. Multiple accounts may be established within the 5200 range to identify transfers from specific funds. Other Financing Uses object code **6910—Indirect Cost Transfers-Out** or **6930—Fund Transfers-Out** should be used to record the corresponding transfer-out as applicable. See list of **authorized transfers**.
5300	**Proceeds From the Disposal of Real or Personal Property—**Proceeds from the disposal of district property or compensation for the loss of real or personal property. The disposal of an asset that is either unusual in nature or infrequent in occurrence should be coded to object code 5700. Any gain or loss on the disposal of property for proprietary or fiduciary funds should be coded to revenue object code **1930**.
5400	**Capital Contributions—**Capital assets acquired as the result of a donation or bequest of an individual, estate, other government, a corporation, or an affiliate organization.
5500	**Capital Lease Proceeds—**The amount of the capital lease financed.
5600	**Other Long-Term Debt Proceeds—**Proceeds from other long-term debt instruments not captured in the preceding codes.
5700	**Special Items—**Transactions or events within a district administration's control that are either unusual in nature or infrequent in occurrence. For some districts, these include the sale of certain general governmental capital assets, sale or lease of mineral rights, or significant forgiveness of debt by a financial institution.
5800	**Extraordinary Items—**Transactions or events that are outside a district administration's control and are **both** unusual in nature and infrequent in occurrence. For some districts, these include insurance proceeds to cover significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; insurance proceeds to cover costs related to an environmental disaster; or a large bequest to a small district by a private citizen.

Code	Description
100	**REGULAR EDUCATION**—Activities that provide students in kindergarten through grade 12 with learning experiences to prepare them for further education or training and for responsibilities as citizens, family members, and workers. Regular programs should be distinguished from special education programs that focus on adapting curriculum or instruction to accommodate a specific disability, from vocational/technical programs that focus on career skills, and from alternative education programs that focus on the educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors. Expenditures not specifically assignable to other programs should be coded here, such as district office and food service expenditures.
200	**SPECIAL EDUCATION**—Special Programs include activities for elementary and secondary students (prekindergarten through grade 12) receiving services outside the realm of "regular programs" in accordance with disability classifications defined in A.R.S. §15-761, and for gifted, remedial, English immersion, vocational and technical, career education and CTED programs. CTED program expenditures should be coded in the appropriate code in the program 300 range. Prekindergarten programs not serving those with disability classifications should be coded to program code 900. ***(See additional bold codes below)***
201	*Autism*
202	*Emotional Disability*
203	*Hearing Impairment*
204	*Other Health Impairments*
205	*Specific Learning Disability*
206	*Mild, Moderate, or Severe Intellectual Disability*
207	*Multiple Disabilities*
208	*Multiple Disabilities with Severe Sensory Impairment*
209	*Orthopedic Impairment*
210	*Developmental Delay*
211	*Preschool Severe Delay*
213	*Speech/Language Impairment*
214	*Traumatic Brain Injury*
215	*Visual Impairment*
240	**Gifted Education**
250	**Remedial Education**
260	**English Language Learners Incremental Costs (A.R.S. §15-756 et seq)**
265	**English Language Learners Compensatory Instruction (A.R.S. §15-756 et seq)**
270	**Vocational and Technical Education (Do not include CTED costs here.)**
280	**Career Education**
300	**CAREER TECHNICAL EDUCATION (CTED)** ***(See additional bold codes below)***
301	**Accounting** — CIP # **52.0300.00**
302	**Agribusiness Systems** — CIP # **01.0100.90**
303	**Air Transportation** — CIP # **49.0100.00**
304	**Aircraft Mechanics** — CIP # **47.0600.50**
305	**Animal Systems** — CIP # **01.0100.40**
306	**Animation** — CIP # **10.0200.60**
307	**Architectural Drafting** — CIP # **15.1300.20**
309	**Automation and Robotics** — CIP # **48.0500.20**

Bolded programs 240, 250, and 280

Updated

Program 300 should be used to code expenditures made for multiple CTED programs that are not directly assignable to Programs 301-399.

Use detailed Programs 300-399 in all funds, not just Fund 596.

Code	Description	
310	**Automotive Collision Repair**	CIP # **47.0600.30**
311	**Automotive Technologies**	CIP # **47.0600.20**
312	**Bioscience**	CIP # **41.0100.00**
313	**Business Management**	CIP # **52.0200.00**
314	**Business Operations**	CIP # **52.0400.00**
315	**Cabinetmaking**	CIP # **46.0400.40**
316	**Carpentry**	CIP # **46.0400.30**
317	**Computer Maintenance**	CIP # **15.1200.20**
318	**Construction Technologies**	CIP # **46.0400.20**
319	**Cosmetology and Related Services**	CIP # **12.0400.00**
320	**Culinary Arts**	CIP # **12.0500.00**
321	**Dental Assisting**	CIP # **51.0600.00**
322	**Diesel Engine Repair**	CIP # **47.0600.40**
323	**Digital Photography**	CIP # **10.0200.50**
324	**Digital Printing**	CIP # **10.0200.20**
325	**Early Childhood Education**	CIP # **13.1210.00**
326	**Education Professions**	CIP # **13.1200.00**
327	**Electronic Technologies**	CIP # **15.0300.00**
328	**Electronics Drafting**	CIP # **15.1300.30**
329	**Emergency Medical Services**	CIP # **51.0900.30**
330	**Engineering**	CIP # **15.0000.00**
332	**Unassigned - do not use**	
333	**Fashion Design and Merchandising**	CIP # **52.1900.20**
334	**Film and TV Production**	CIP # **10.0200.90**
335	**Finance**	CIP # **52.0800.00**
336	**Fire Service**	CIP # **43.0200.00**
337	**Graphic Design**	CIP # **10.0200.30**
338	**Medical Records Technologies**	CIP # **51.0707.00**
339	**Heating, Ventilation and Air Conditioning**	CIP # **47.0200.00**
340	**Heavy Equipment Operations**	CIP # **49.0200.00**
341	**Unassigned - do not use**	
342	**Hospitality Management**	CIP # **52.0900.00**
343	**Industrial Electrician**	CIP # **46.0300.30**
344	**Interior Design and Merchandising**	CIP # **52.1900.30**
345	**Digital Communication**	CIP # **10.0200.40**
346	**Laboratory Assisting**	CIP # **51.0800.30**
347	**Law and Public Safety**	CIP # **43.0100.00**
348	**Mechanical Drafting**	CIP # **15.1300.40**
349	**Medical Assisting Services**	CIP # **51.0800.60**
350	**Unassigned - do not use**	

Use detailed Programs 300-399 in all funds, not just Fund 596.

Code	Description	
351	**Mental and Social Health Technician**	CIP # **51.1500.00**
352	**Music and Audio Production**	CIP # **10.0200.00**
353	**Network Security**	CIP # **15.1200.30**
354	**Nursing Services**	CIP # **51.3900.00**
355	**Pharmacy Support Services**	CIP # **51.0800.20**
356	**Plant Systems**	CIP # **01.0100.30**
357	**Precision Machining**	CIP # **48.0500.30**
358	**Marketing**	CIP # **52.1800.20**
359	**Electrical and Power Transmission Installation**	CIP # **46.0300.20**
360	**Unassigned - do not use**	
361	**Software and App Design**	CIP # **15.1200.40**
362	**Sports Medicine and Rehabilitation**	CIP # **51.0800.50**
363	**Unassigned - do not use**	
364	**Stagecraft**	CIP # **50.0500.20**
365	**Therapeutic Massage**	CIP # **51.3500.00**
366	**Veterinary Assisting**	CIP # **51.0808.00**
367	**Unassigned - do not use**	
368	**Welding Technologies**	CIP # **48.0508.00**
369	**Unassigned - do not use**	
370	**Unassigned - do not use**	
371	**Unassigned - do not use**	
372	**Unassigned - do not use**	
373	**Home Health Aide**	CIP # **51.2602.00**
374	**Power, Structural and Technical Systems**	CIP # **01.0100.60**
375	**Unassigned - do not use**	
376	**AgriScience**	CIP # **01.0000.00**
380-399	**Local Occupational Need Programs**—Activities related to ADE approved CTED programs not included in the statewide approved programs (program codes 301-379). Each CTED should assign a specific program code in this range for each approved local CTED program to identify costs by CIP #. The same program number should be used by the CTED and its members.	
400	**PUPIL TRANSPORTATION**—Expenditures for transporting students to and from school and school activities (e.g., field trips, competitions, conferences, athletics, etc.). ***(See additional bold codes below)***	
410	*Pupil Transportation Regular Education*	
420	*Pupil Transportation Special Education*	
430	**English Language Learners Incremental Costs**	
435	**English Language Learners Compensatory**	
450	**CTED Central**	
460	**CTED Satellite**	
470	**Vocational and Technical Education (Do not include CTED costs here.)**	

Code	Description
500	PROGRAMS REQUIRING SEPARATE BUDGETS ***(Use detailed codes below)***
510	Desegregation ***(Use detailed codes below)*** **Expenditures incurred solely as a result of compliance with a court order of desegregation or administrative agreement with the U.S. Department of Education Office for Civil Rights as provided in A.R.S. §15-910.**
511	**Desegregation Regular Education**
512	**Desegregation Special Education**
513	**Desegregation Pupil Transportation**
514	**Desegregation English Language Learners Incremental Costs**
515	**Desegregation English Language Learners Compensatory Instruction**
530	**Dropout Prevention Programs—**Accounts for expenditures for dropout prevention programs approved by the State Board of Education.
540	**Joint Career and Technical Education and Vocational Education Center—**Accounts for vocational expenditures that are specifically exempt in whole or in part from the revenue control limit for a period of not more than 3 years, beginning the first year that the career and technical education and vocational education center is operating and serving students as provided in A.R.S. §15-910.01.
550	**K-3 Reading Program—**Accounts for expenditures from the amount generated by the K-3 Reading support level weight to be used only on instructional purposes intended to improve reading proficiency for pupils in kindergarten and grades one, two, and three with particular emphasis on pupils in kindergarten and grades one and two. A.R.S. §15-211
600	OTHER INSTRUCTIONAL PROGRAMS ***(Use detailed codes below)***
610	**School-Sponsored Cocurricular Activities—**School-sponsored activities, under the guidance and supervision of district staff, designed to provide students such experiences as motivation, enjoyment, and improvement of skills. Cocurricular activities normally supplement the regular instructional program and include such activities as band, chorus, choir, speech, and debate. Athletics should be coded to program 620.
620	**School-Sponsored Athletics—**School-sponsored activities, under the guidance and supervision of district staff, that provide opportunities for students to pursue various aspects of physical education. Athletics normally involve competition between schools and frequently involve offsetting gate receipts or fees.
630	**Other—**Activities that provide students with learning experiences not included in the other program 600 codes.
700	**ADULT/CONTINUING EDUCATION PROGRAMS—**Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning, prepare students for a postsecondary career, prepare students for postsecondary education programs, upgrade occupational competence, prepare students for a new or different career, develop skills and appreciation for special interests, or enrich the aesthetic qualities of life. Adult basic education programs are included in this category.
800	**COMMUNITY COLLEGE EDUCATION PROGRAMS—**Activities for students attending an institution of higher education that usually offers the first 2 years of college instruction. If a district has the responsibility of providing this program, all costs of the program should be coded here.
900	**COMMUNITY SERVICES PROGRAMS**—Activities that are not directly related to the provision of educational services in a district. These include services such as community recreation programs, civic activities, public libraries, programs of custody and care of children, prekindergarten programs that are not appropriately coded to program code 200, and community welfare activities provided by a district for the community as a whole or some segment of the community.

Function code	Description	Program guidance
1000	**INSTRUCTION—**Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities and school-sponsored athletics. It may also be provided through some other approved medium, such as television, radio, computer, Internet, multimedia, telephone, and correspondence, that is delivered inside or outside the classroom or in other teacher-student settings. Include salaries and benefits of certified teachers and technology used by students in the classroom or that has a student instruction focus. As an alternative to using a separate optional element in the account string for course codes, districts may establish course codes under this function. ***(See additional bold code below)***	
1900	**Other Instructional Staff—**Include salaries and benefits of noncertified, instructional personnel (e.g., aides, noncertified athletic coaches, tutors, etc.).	
2000	SUPPORT SERVICES ***(Use detailed codes below)***	
2100	**Support Services—Students—**Activities designed to assess and improve the students' well-being and to supplement the teaching process. ***(See additional bold code 2170 below)***	
2110	*Attendance and Social Work Services*—Activities designed to improve student attendance at school and that attempt to prevent or solve student problems involving the home, school, and community. This function includes attendance services, social work services, student accounting services, and student attendance software. Registration activities for adult education programs are also included here.	
2120	*Guidance Services*—Activities involving counseling with students and parents, consulting with other staff members on learning problems, evaluating the abilities of students, assisting students as they make their own educational and career plans and choices, assisting students in personal and social development, providing referral assistance, and working with other staff members in planning and conducting guidance programs for students. This function also includes supervision, appraisal, record maintenance, and placement services.	
2130	*Health Services*—Health services that are not direct instruction. Included are activities that provide students with appropriate medical, dental, and nursing services.	
2140	*Psychological Services*—Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the students' special needs as indicated by psychological tests and behavioral evaluation; and planning and managing a program of psychological services, including psychological counseling for students, staff, and parents. This function also includes the supervision of psychological services and psychotherapy services.	
2150	*Speech Pathology and Audiology Services*—Activities that identify, assess, and treat children with speech, hearing, and language impairments.	Usually **200**

Function code	Description	Program guidance
2160	*Occupational/Physical Therapy—Related Services*—Activities that assess, diagnose, or treat students for all conditions requiring the services of an occupational or physical therapist.	Usually **200**
2170	**Heads of Components Support Services—Students—**Activities associated with the overall administration of Student Support Services below the executive level. See description of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
2190	*Other Support Services*—Students—Other support services to students not coded elsewhere in the function 2100 range. Students' food and hotel costs associated with student travel should be coded here.	
2200	**Support Services—Instruction**—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students. This function also includes curriculum directors, special education directors, or others who supervise staff performing these functions. ***(See additional bold codes below)***	
2210	**Improvement of Instruction**—Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, developing instruction techniques, child development and understanding, and staff training.	
2212	*Instruction and Curriculum Development*—Activities that aid teachers in developing the curriculum, preparing and using special curriculum materials, and understanding and appreciating the various techniques that stimulate and motivate students.	
2213	*Instructional Staff Training*—Activities associated with the professional development and training of instructional personnel. These include such activities as in-service training (including mentor teachers), workshops, conferences, demonstrations, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of instructional personnel. Technology training for instructional staff should also be coded here. The incremental costs associated with providing substitute teachers in the classroom (while regular teachers attend training) should be captured in this function code. All costs should be coded here regardless of whether training services are provided internally or purchased from vendors.	
2220	**Library/Media Services**—Activities concerned with directing, managing, and supervising educational media services, as well as activities such as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning for the use of the library by students, teachers, and other members of the instructional staff; and guiding individuals in their use of library books, reference guides and materials, catalog materials, special collections, and other materials, whether maintained separately or as a part of an instructional materials center. These activities include developing and acquiring library materials and operating library facilities. Textbooks should be coded to function **1000**.	

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Function code	Description	Program guidance
2230	*Instruction—Related Technology*—Encompasses all technology activities and services for the purpose of supporting instruction. These activities include expenditures for internal technology support as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related costs such as virus and filtration software that relate to the support of instructional activities. Activities concerned with supporting and maintaining computer centers (outside the classroom) that are established to support the instructional environment should also be coded here. These centers may be located in the library or in other locations, but are not primarily dedicated to student-teacher learning. (Computer centers that are primarily dedicated to instruction and technology used by students in the classroom or that have a student instruction focus should be coded to function **1000**.) Professional development costs for instruction-focused technology personnel should also be coded here. (Technology training for instructional staff should be coded to function **2213**.)	
2240	**Heads of Components Support Services—Instruction—**Activities associated with the overall administration of Instructional Support Services below the executive level. See description of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
2260	*Academic Student Assessment*—Services rendered for the academic assessment of the student.	
2290	*Other Support Services—Instruction*—Other support to the instructional staff not coded elsewhere in the function 2200 range.	
2300	**Support Services—General Administration—**Activities associated with establishing and administering policy for operation of a district. ***(See additional bold codes below)***	
2310	*Governing Board*—Activities of the elected body that has been created according to state law and vested with responsibilities for educational activities in a given administrative unit. This function includes board secretary/clerk services, board treasurer services, staff relations and negotiations services, legal services, and external audit services. Election services should be coded to function **2340**.	
2320	**Executive Administration**—Activities associated with overall general administration or executive responsibility for the school district. This function includes the office of the superintendent and related office support staff (e.g., administrative assistant, secretary), community relations, and state and federal relations services. Activities of administrators with key decision making authority and their related office support staff are also included here regardless of the specific job title used. Such administrators are often referred to as associate, assistant, or deputy superintendents, but may not be limited to such designations. Activities of directing operations below the level of such administrators may be coded to another support services function if they fit within that function. **Used in the indirect cost calculation.**	

Function code	Description	Program guidance
2330	**Lobbying—**Activities related to the attempt to influence the passage or defeat of any legislation by communicating with any member or employee of the Legislature.	
2340	**Election Services—**Activities related to district elections including elections of governing board members and bond and override elections. **Used in the indirect cost calculation.**	
2350	**Retiree Health**—Payments made to provide retiree health benefits. If a retired employee returns to district employment only classify health related costs in the detailed function below if the costs result from an agreement made when the employee retired. Classify health related costs for employees in the same function as their other compensation and benefits. **Used in the indirect cost calculation.**	
2351	**Executive Administration and Heads of Components—**Retiree health payments for retired executive administrators or heads of components. See description of executive administration and heads of components on page **III-5**. **Used in the indirect cost calculation.**	
2400	**Support Services—School Administration—**Activities concerned with overall administrative responsibility for a school. ***(See additional bold code below)***	
2410	**Office of the Principal**—Activities concerned with directing and managing the operation of a school. This function includes the activities performed by the principal, assistant principals, and other assistants while supervising all school operations, evaluating staff members, assigning duties to staff members, maintaining the school records, and coordinating school instructional activities with those of a district. This function should be used to report all heads of components within Support Services—School Administration for the indirect cost calculation. See description of heads of components on page **III-5**.	
2490	*Other Support Services—School Administration*—Other school administration services. This function includes graduation expenses and department chairs.	
2500	**Central Services**—Activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology. ***(See additional bold codes below)***	
2510	*Fiscal Services*—Activities concerned with the fiscal operations of a district. This function includes budgeting, receiving and disbursing monies, financial and property accounting, payroll, inventory control, internal auditing, and investments and funds management, as well as supervision of fiscal services.	
2520	*Purchasing, Warehousing, and Distributing Services*—Activities concerned with purchasing, receiving, storing, and distributing supplies, furniture, equipment, and materials used in schools or school system operations.	
2530	**Heads of Components Support Services—Central—**Activities associated with the overall administration of Central Support Services below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	

Function code	Description	Program guidance
2540	*Printing, Publishing, and Duplicating Services*—The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities also include centralized services for duplicating school materials and instruments such as school bulletins, newsletters, and notices.	
2550	**Planning, Research, Development, and Evaluation Services**—Activities associated with conducting and managing system-wide programs of planning, research, development, and evaluation for a school system. Planning Services—Activities concerned with selecting or identifying the overall, long-range goals and priorities of the organization or program. They also involve formulating various courses of action needed to achieve these goals. This is done by identifying needs and the relative costs and benefits of each course of action. Research Services—Activities concerned with the systematic study and investigation of the various aspects of education, undertaken to establish facts and principles. Development Services—Activities in the deliberate evolving process of improving educational programs. Evaluation Services—Activities concerned with ascertaining or judging the value or amount of an action or an outcome. This is done through careful appraisal of previously specified data in light of the particular situation and the goals previously established. **Used in the indirect cost calculation.**	
2560	**Public Information Services**—Activities concerned with writing, editing, and otherwise preparing educational and administrative information for dissemination to students, staff, managers, and the general public through direct mailing, the various news media, email, the Internet, websites, and personal contact. The information services function code includes related supervision and internal and public information services. Technology that supports this code should be coded to function **2580**. **Used in the indirect cost calculation.**	
2570	*Personnel Services*—Activities concerned with maintaining personnel for the school system. It includes such activities as recruitment and placement, noninstructional personnel training, staff transfers, health services, and staff accounting. Noninstructional Personnel Training—Activities associated with the professional development and training of noninstructional personnel. These include such activities as in-service training, seminars and conferences, continuing professional education, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of noninstructional personnel. The incremental costs associated with providing temporary employees to perform job duties while regular employees attend training should be captured in this function code. All costs should be coded here regardless of whether training services are provided internally or purchased from vendors.	

Function code	Description	Program guidance
2580	*Administrative Technology Services*—Activities concerned with supporting a district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes. These activities include expenditures for internal technology support, as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related administrative costs such as virus and filtration software.	
2590	*Other Central Services*—Other central support services not coded elsewhere in the function 2500 range.	
2600	**Operation and Maintenance of Plant—**Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. ***(See additional bold code 2680 below)***	
2610	*Operation of Buildings*—Activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and HVAC systems and doing minor repairs. Also included are the costs of building rental and property insurance.	
2620	*Maintenance of Buildings*—Activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventive maintenance.	
2630	*Care and Upkeep of Grounds*—Activities involved in maintaining the land and improvements (but not the buildings). These include snow removal, landscaping, and grounds maintenance.	
2640	*Care and Upkeep of Equipment*—Activities involved in maintaining equipment owned or used by a district. They include such activities as servicing and repairing furniture, machines, and movable equipment.	
2650	*Vehicle Operation and Maintenance (Other than Student Transportation Vehicles)*—Activities involved in maintaining general purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles; replacing vehicle parts; and cleaning, painting, greasing, fueling, and inspecting vehicles for safety (i.e., preventive maintenance).	
2660	*Security*—Activities concerned with maintaining a secure environment for students and staff, whether they are in transit to or from school, at a campus or administrative facility, or participating in school-sponsored events. These include costs associated with security plan development and implementation; installation of security monitoring devices, such as cameras and metal detectors; security personnel, such as campus police and security guards; purchase of security vehicles and communication equipment; and related costs.	

Function code	Description	Program guidance
2670	*Safety*—Activities concerned with maintaining a safe environment for students and staff, whether they are in transit to or from school, at a campus or administrative facility, or participating in school- sponsored events. These include costs associated with installing and monitoring school fire alarm systems and providing school crossing guards, as well as other costs incurred in an effort to ensure the basic safety of students and staff.	
2680	**Heads of Components Operation and Maintenance of Plant**—Activities associated with the overall administration of Plant Operations and Maintenance below the executive level. See description of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
2690	*Other Operation and Maintenance of Plant*—Operation and maintenance of plant services that are not coded elsewhere in the function 2600 range.	
2700	**Student Transportation**—Activities concerned with conveying students to and from school, as provided by state and federal law. This includes trips between home and school, and trips to school activities. ***(See additional bold code below)***	Only **400** **513**
2710	*Vehicle Operation*—Activities involved in operating vehicles for student transportation, from the time the vehicles leave the point of storage until they return to the point of storage. These include driving buses or other student transportation vehicles.	Only **400** **513**
2720	*Monitoring Services*—Activities concerned with supervising students in the process of being transported between home and school, and between school and school activities. Such supervision can occur while students are in transit and while they are being loaded and unloaded, and it includes directing traffic at the loading stations.	Only **400** **513**
2730	*Vehicle Servicing and Maintenance*—Activities involved in maintaining student transportation vehicles. It includes repairing and replacing vehicle parts, and cleaning, painting, fueling, and inspecting vehicles for safety	Only **400** **513**
2740	**Heads of Components Student Transportation—**Activities associated with the overall administration of Student Transportation below the executive level. See description of heads of components on page **III-5**. **Used in the indirect cost calculation.**	Only **400** **513**
2790	*Other Student Transportation*—Student transportation services that are not coded elsewhere in the function 2700 range.	Only **400** **513**
2900	**Other Support Services**—All other support services not coded elsewhere in the function 2000 range and not properly coded to function 2910.	
2910	**Heads of Components Support Services—Other—**Activities associated with the overall administration of Other Support Services below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	

Function code	Description	Program guidance
3000	OPERATION OF NONINSTRUCTIONAL SERVICES ***(Use detailed codes below)***	
3100	**Food Service Operations**—Activities concerned with providing food to students and staff in a school or district not properly coded to function 3110. This function includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.	
3110	**Heads of Components Food Service Operations—**Activities associated with the overall administration of Food Service Operations below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
3200	**Enterprise Operations—**Activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is to finance or recover the costs primarily through user charges not properly coded to function 3210. Food service operations should be coded to function 3100.	
3210	**Heads of Components Enterprise Operations—**Activities associated with the overall administration of Enterprise Operations below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
3300	**Community Services Operations—**Activities concerned with providing community services to students, staff, or other community participants not properly coded to function 3310. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a childcare center for working parents. Activities related to counseling students and parents as described in function **2120** should be coded there.	Only **900**
3310	**Heads of Components Community Services Operations**— Activities associated with the overall administration of Community Services Operations below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	Only **900**
3400	**Bookstore Operations—**Activities concerned with bookstore operations not properly coded to function 3410.	
3410	**Heads of Components Bookstore Operations** Activities associated with the overall administration of Bookstore Operations below the executive level. See definition of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
4000	**FACILITIES ACQUISITION AND CONSTRUCTION—**Activities concerned with acquiring land and buildings, remodeling buildings, constructing buildings and additions to buildings, initially installing or extending service systems and other built-in equipment, and improving sites. ***(See additional bold code below)***	
4100	*Land Acquisition*—Activities concerned with initially acquiring and improving land.	

Function code	Description	Program guidance
4200	*Land Improvement*—Activities concerned with making permanent improvements to land, such as grading, fill, and environmental remediation.	
4300	*Architecture and Engineering*—The activities of architects and engineers related to acquiring and improving sites and improving buildings. Charges are made to this function only for those preliminary activities that may or may not result in additions to a district's property. Otherwise, code these services to function 4100, 4200, 4500, 4600, or 4700, as appropriate.	
4400	*Educational Specifications Development*—Activities concerned with preparing and interpreting descriptions of specific space requirements to be accommodated in a building. These specifications are interpreted by the architects and engineers in the early stages of blueprint development.	
4500	*Building Acquisition and Construction*—Activities concerned with buying or constructing buildings.	
4600	*Site Improvement*—Activities concerned with making nonpermanent improvements or enhancements to building sites. These improvements include fencing, walkways, tunnels, landscaping, and playground and shade structures.	
4700	*Building Improvement*—Activities concerned with building additions, reconstruction, remodeling, and with initially installing or extending service systems and other built-in equipment.	
4800	**Heads of Components Facilities Acquisition and Construction—**Activities associated with the overall administration of Facilities Acquisition and Construction below the executive level. See description of heads of components on page **III-5**. **Used in the indirect cost calculation.**	
4900	*Other Facilities Acquisition and Construction*—Facilities acquisition and construction activities that are not coded elsewhere in the function 4000 range.	
5000	**DEBT SERVICE—**Activities related to servicing long-term debt including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt including current and advance refundings, capital lease payments, and other long-term notes. Interest on short-term obligations that are repayable within 1 year, such as tax anticipation notes and lines of credit, should be coded to function **2510**.	
6000	**OTHER FINANCING USES—**A number of outlays are not properly classified as expenditures, but still require budgetary or accounting control. These include certain transfers of monies from one fund to another, indirect costs, and payments to bond escrow agents.	

Object code	Description	Function guidance
6100	PERSONAL SERVICES—SALARIES ***(Use detailed codes below)***	
6110	**Certified Salaries—**Amounts earned by permanent or temporary employees certified by the Arizona Department of Education. **Although expenditure object codes 6111 through 6114 are optional, districts must maintain adequate records to be able to report these categories on the annual financial report.**	
6111	*Administrators*	
6112	*Teachers*	
6113	*Substitute Teachers*	
6114	*Other*	
6150	**Classified Salaries—**Amounts earned by permanent or temporary employees not certified by the Arizona Department of Education. Examples are business managers, clerks, secretaries, custodians, social workers, nurses, bus drivers, food service workers, and crossing guards.	Salaries and benefits for Other Instructional Staff (e.g., classroom aides) should be coded to function code 1900
6200	PERSONAL SERVICES—EMPLOYEE BENEFITS ***(Use detailed codes below)***	
6210	**Employee Insurance—**Amounts paid for the employer's share of any insurance plans, such as life, health, dental, and accident insurance.	
6220	**Social Security Taxes—**Amounts paid for the employer's share of social security. **Although expenditure object codes 6221 and 6222 are optional, districts must maintain adequate records to separately identify Social Security and Medicare.**	
6221	*Social Security—OASDI*	
6222	*Medicare—Hospital Insurance*	
6230	**State Retirement System Contributions—**Amounts paid for the employer's share of retirement and long-term disability contributions to the Arizona State Retirement System. **Although expenditure object codes 6231, 6232, and 6235 are optional, districts must maintain adequate records to separately identify State Retirement, Long-Term Disability, and the Alternative Contribution Rate amounts.**	
6231	*State Retirement*	
6232	*Long-Term Disability*	
6235	*Alternative Contribution Rate* A.R.S. §38-766.02	
6240	**Tuition Reimbursement—**Amounts reimbursed to any employee qualifying for tuition reimbursement on the basis of district policy.	
6250	**Unemployment Insurance—**Amounts paid to provide unemployment insurance for its employees. These charges may be distributed to functions in accordance with the salary budget or may be coded to function **2310**.	

Object code	Description	Function guidance
6260	**Workers' Compensation**—Amounts paid to provide workers' compensation insurance for its employees. These charges may be distributed to functions in accordance with the salary budget or may be coded to function **2310**.	
6270	**Health Benefits**—Amounts paid to provide health benefits, other than insurance, for its current or former employees.	
6280	**Unused Leave and Severance Payments**—Amounts paid for unused leave and severance pay when employees separate from employment. **Although expenditure object codes 6281 through 6283 are optional, districts must maintain adequate records to be able to report these categories for use in the indirect cost calculation.**	
6281	*Unused Leave Payments*—Amounts paid for unused leave when an employee retires or separates from district employment.	
6282	*Normal Severance Payments*—Amounts paid other than leave payments, if any, when an employee retires or separates from district employment. Do not include amounts for abnormal or mass severance payments here as those are classified in 6283 below.	
6283	*Abnormal or Mass Severance Payments*—Amounts paid as separation incentives when offered to all employees or all employees in an employee group or class. Include payments such as lump sum payments that may be linked to years of service, increased pension benefits, and payments of unused leave beyond normal amounts.	
6290	**Other Employee Benefits**—Employee benefits other than those coded elsewhere in the expenditure object code 6200 range, including fringe benefits such as taxable meal reimbursements, automobile allowances, housing or related supplements, moving expenses, and paid parking. Districts may establish separate codes for various accrued amounts.	
6300	**PURCHASED PROFESSIONAL AND TECHNICAL SERVICES**—Services that by their nature can be performed only by persons or firms with specialized skills and knowledge. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, and accountants. It is recommended that a separate account be established for each type of service provided to a district. This code also includes conference registration fees. ***(See additional bold code below)***	
6310	*Official/Administrative Services*—Services in support of a district's various policy-making and managerial activities. Include management-consulting activities oriented to general governance or business and financial management of a district, school management support activities, and election services.	Usually **2300** **2400** **2500**
6320	*Professional—Educational Services*—Services supporting the instructional program and its administration. Include curriculum improvement services, assessment, counseling and guidance services, library and media support, and contracted instructional services.	Usually **1000** **2100** **2200**

Object code	Description	Function guidance
6330	*Other Professional Services*—Professional services other than educational services that support the operation of a district. Include medical doctors, lawyers, architects, auditors (for federal programs only), accountants, therapists, audiologists, dietitians, editors, negotiations specialists, systems analysts, and planners.	
6340	**Technical Services**—Services that are not regarded as professional, but require basic scientific knowledge, manual skills, or both. Include data processing and coding services, data entry, formatting, and processing services other than programming; purchasing and warehousing services; and graphic arts.	
6350	**Audit Services**—Audit services associated with financial and compliance audits of a district. Do not include amounts related to audits of federal programs. Federal program audit costs should be coded to expenditure object code 6330.	Usually **2310**
6360	*Employee Training and Professional Development Services*—Services supporting the professional development of district personnel, including instructional, administrative, and service employees. Included are course registration fees that are not tuition reimbursement; charges from vendors to conduct training courses, at either district facilities or off-site; and other expenditures associated with training or professional development by third-party vendors. All expenditures should be captured in this account regardless of the type or intent of the training course or professional development activity.	Only **2213** **2230** **2570**
6400	PURCHASED PROPERTY SERVICES ***(Use detailed codes below)*** **Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.**	
6410	**Utility Services**—Expenditures for utility services supplied by public or private organizations other than water/sewage (6411), telecommunication (**6531**) and energy services (**6620** range).	
6411	**Water/Sewage**—Expenditures for water/sewage utility services from a private or public utility company.	
6420	**Cleaning Services**—Services purchased to clean buildings and grounds, including snow removal, custodial, and lawn care services not provided by district employees. Disposal services should be coded to object code 6421.	Only **2600**
6421	**Disposal Services**—Expenditures for garbage pickup and handling not provided by district employees.	Only **2600**
6430	Repairs and Maintenance Services—Expenditures for repairs and maintenance services not provided directly by district employees. These services cannot be paid for from the **UCO** Fund. ***(Use detailed codes below effective July 1, 2021)***	
6431	**Nontechnology-Related Repairs and Maintenance**—Contracts and agreements covering the upkeep of buildings and nontechnology equipment. Costs for renovating and remodeling should be coded to expenditure object code **6450**.	Only **2600** **2700**
6432	**Technology-Related Repairs and Maintenance**—Expenditures for repairs and maintenance services for technology equipment that are not directly provided by district employees. This includes ongoing service agreements for technology hardware.	Only **2230** **2580**

Bold effective 7/1/21

Bold effective 7/1/21

Object code	Description	Function guidance
6440	**Rentals**—Costs for renting or leasing land, buildings, and equipment. Operating leases should be coded here. Capital leases should be coded to expenditure object codes **6832** and **6842**.	
6441	*Rental of Land and Buildings*—Expenditures for leasing or renting land and buildings for both temporary and long-term use.	Only **2610**
6442	*Rental of Equipment*—Expenditures for leasing or renting machinery, vehicles, furniture, fixtures, and other equipment for both temporary and long-term use. This includes bus and other vehicle rental when operated by district personnel. Expenditures for the rental of vehicles for employee travel should be coded to expenditure object code **6580**.	
6443	**Rental of Computers and Related Equipment**—Expenditures for leasing or renting computers and related equipment for both temporary and long-term use.	
6450	**Construction Services**—Includes amounts paid to contractors for constructing, renovating, and remodeling buildings. This code should also be used to account for amounts paid to contractors for making permanent improvements to land, such as grading, fill, and environmental remediation, and nonpermanent site improvements such as fencing, walkways, and roads. Additional examples of construction projects: ▪ Construction of buildings ▪ Asbestos removal ▪ Recarpeting ▪ Removal of a capital asset ▪ Repaving a parking lot ▪ Reroofing an entire building Construction services must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund.	Only **4000**
6490	**Other Purchased Property Services**—Purchased property services that are not coded elsewhere in the expenditure object code 6400 range. Communication services should be coded to expenditure object code **6531** or **6532**.	Usually **2600**
6500	OTHER PURCHASED SERVICES ***(Use detailed codes below)*** **Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.**	
6510	Student Transportation Services ***(Use detailed codes below)***	
6511	**Student Transportation Purchased From Other Arizona Districts**—Amounts paid to other Arizona districts for transporting children to and from school and school-related events.	Only **2700**
6512	**Student Transportation Purchased From Out-of-State Districts**—Payments to districts outside Arizona for transporting children to and from school and school-related events.	Only **2700**

Object code	Description	Function guidance
6519	**Student Transportation Purchased From Other Sources**—Payments to persons or agencies other than districts for transporting children to and from school and school-related events. These include payments to individuals who transport themselves or their own children or for reimbursement of transportation expenditure/expenses on public carriers. Expenditures for the rental of buses that are operated by district personnel should be coded to expenditure object code **6442**.	Only **2700**
6520	Insurance (Other than Employee Benefits) ***(Use detailed codes below)***	
6521	**Current Year Insurance**—Expenditures for insurance coverage, including property, liability, and fidelity, for the current fiscal year. Insurance for group health should be coded to expenditure object code **6210**.	Only **2310** **2610** **2700**
6522	**Prepaid Insurance**—Expenditures in the current year for insurance coverage, including property, liability, and fidelity, to be provided in subsequent fiscal years. Insurance for group health should be coded to expenditure object code **6210**. For financial statement reporting purposes, prepaid insurance should be coded to balance sheet object code **0151**.	Only **2310** **2610** **2700**
6530	Communications ***(Use detailed codes below)***	
6531	**Telecommunications**—Expenditures for telephone and voice communication services, and voicemail; data communication services to establish or maintain computer-based communications, networking, and Internet services; video communications services to establish or maintain one-way or two-way video communications via satellite, cable, or other devices billed by a service provider.	Usually **2610** If supporting instruction: **1000** **2230**
6532	**Other Communications Services**—Costs of services provided by persons or businesses that assist in transmitting and receiving messages, such as postal communication services to establish or maintain postage machine rentals, postage, express delivery services, or couriers.	Only **2500** If related to elections: **2340**
6540	**Advertising**—Expenditures for announcements in professional publications, newspapers, broadcasts over radio and television, or on the Internet. These expenditures include advertising for such purposes as personnel recruitment, legal ads, new and used equipment, and sale of property. Costs for professional advertising or public relations services should be coded to expenditure object code **6330**.	Usually **2300** **2500**
6550	**Printing and Binding**—Expenditures for job printing and binding, usually according to a district's specifications. This includes designing and printing forms and posters as well as printing and binding district publications. Preprinted standard forms should be coded to expenditure object code **6610**.	Usually **2540**
6560	Tuition ***(Use detailed codes below)***	
6561	**Tuition to Other Arizona Districts**—Tuition paid to other districts within the State that educate students residing within a district's boundaries. A.R.S. §§15-824 and 15-825	Only **1000**

Object code	Description	Function guidance
6562	**Tuition to Out-of-State Districts—**Tuition paid to districts outside the state that educate students residing within a district's boundaries. A.R.S. §15-825	Only **1000**
6563	**Tuition to Private Schools—**Tuition paid to private schools that educate students with disabilities residing within a district's boundaries. A.R.S. §15-765	Only **1000**
6564	**Tuition to Educational Service Agencies/Cooperatives/IGAs—**Tuition paid to a county or county educational service agency, or fiscal agent of an entity formed by two or more districts for the purpose of educating students, such as county service programs (including payments to the Small District Service Program Fund pursuant to A.R.S. §15-365). Other types of payments made to fiscal agents under an intergovernmental agreement should be recorded in applicable codes (e.g., shared services of an accountant should be coded to expenditure object code **6330**). A.R.S. §15-764	Only **1000**
6565	**Tuition Out Debt Service—**The amount a district may budget for the bond issues portion of tuition charged for students attending school in another district. The amount a common school district, not within a high school district (Type 03), may budget is limited. A.R.S. §15-910(M)	Only **1000**
6569	**Tuition—Other—**Tuition paid to the State and other governmental organizations, such as the Arizona School for the Deaf and Blind, as reimbursement for providing specialized instructional services to students residing within the boundaries of the paying district. A.R.S. §15-765	Only **1000**
6570	**Food Service Management—**Expenditures for the operation of a local food service facility by other than district personnel. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenditures by a district for food, supplies, labor, and equipment should be coded to the appropriate object codes.	Only **3100**
6580	**Travel—**Expenditures for district personnel, as well as federally funded advisory committee members and nonemployees traveling for an official district purpose. Included are transportation (e.g., public transportation fares, private vehicle reimbursement at the designated rate per mile, or vehicle rentals), meals with an overnight stay or substantial rest period, lodging, and other expenses. Payments of set amounts on a monthly or other periodic basis, regardless of actual travel time, are not considered travel expenses but should be treated as employee compensation in the applicable expenditure object code in the **6100**s. Student travel should be coded to expenditure object code **6890**. Conference registration fees are not travel costs and should be coded to expenditure object code **6300**.	
6590	**Miscellaneous Purchased Services—**Purchased services other than those coded elsewhere in the expenditure object code 6500 range. Any payments made to other districts except for tuition and transportation should be coded to 6591 or 6592. ***(See additional detailed codes below)***	

Object code	Description	Function guidance
6591	**Services Purchased from Other Arizona Districts—**Payments to another district within Arizona for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. If a question arises as to whether to code such payments to the expenditure object code **6300** range or to this code, 6591 should be used so that *all* payments between districts can be eliminated when consolidating reports from multiple districts at state and federal levels.	
6592	**Services Purchased from Out-of-State Districts—**Payments to another district outside Arizona for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. If a question arises as to whether to code such payments to the expenditure object code **6300** range or to this code, 6592 should be used so that *all* payments between districts can be eliminated when consolidating reports at the federal level.	
6600	SUPPLIES ***(Use detailed codes below)*** **Items that are consumed, worn out, or deteriorate through use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.**	
6610	**General Supplies—**Expenditures for all supplies (other than those appropriately classified in another 6600 code listed below) for the operation of a district, including: ▪ **Construction materials**—Supplies such as concrete, lumber, nails, electrical switches/outlets, wire, insulation, and roofing materials used by a district employee during original construction or renovation of a building or land improvement. Construction materials cannot be paid for from the **M&O** Fund. Amounts paid to contractors for construction or renovation projects are recorded in object code **6450**. ▪ **Other general supplies**—Supplies used in the operation of a district, such as consumable teaching or office supplies and supplies used in repair and maintenance projects. These supplies cannot be paid for from the **UCO** Fund. If an item qualifies as an instructional aid it should be recorded in object code **6643**.	
6611	*District Supplies*	
6612	*Supplies for Sale or Rental*	
6620	Energy ***(Use detailed codes below)***	
6621	**Natural Gas—**Expenditures for gas utility services from a private or public utility company, or natural gas for vehicles purchased in bulk or periodically from a service station.	Usually **2610** **3100** Used in vehicles: **2650** **2710**

Object code	Description	Function guidance
6622	**Electricity**—Expenditures for electric utility services from a private or public utility company.	Usually **2610** **3100**
6623	**Bottled Gas**—Expenditures for bottled gas, such as propane received in tanks, for use in buildings or for fueling vehicles.	Usually **2610** **3100** Used in vehicles: **2650** **2710**
6624	**Oil**—Expenditures for bulk oil normally used for heating.	Usually **2610**
6625	**Coal**—Expenditures for raw coal normally used for heating.	Usually **2610**
6626	**Unleaded Fuel**—Expenditures for unleaded fuel purchased in bulk or periodically from a service station.	Usually **2650** **2710**
6627	**Diesel Fuel**—Expenditures for diesel fuel purchased in bulk or periodically from a fuel service station.	Usually **2650** **2710**
6629	**Other**—Expenditures for energy that cannot be coded in one of the preceding categories.	
6630	Food ***(Use detailed codes below)***	
6631	**USDA Commodities (Excluding Freight)**—The fair market value of commodities donated by the U.S. Department of Agriculture for the district's food service program. Processing charges should be coded to expenditure object code 6633 and storage costs should be coded to expenditure object code 6634.	Only **3100**
6632	**USDA Commodities (Freight Only)**—Expenditures for freight charges for USDA commodities.	Only **3100**
6633	**Other Food**—Expenditures for food used in the district's food service program. USDA commodities should be coded to expenditure object code 6631; however, any processing charges for USDA commodities should be coded here. Food used in instructional programs should be coded to expenditure object code **6610**.	Only **3100**
6634	**Storage Costs for USDA Commodities**—Expenditures for the storage costs related to USDA commodities.	Only **3100**

Object code	Description	Function guidance
6640	Books, Periodicals, and Instructional Aids ***(Use detailed codes below)***	
6641	**Library Books**—Expenditures for purchases of library books and related items available for general use by students, including resource materials maintained in a library or classroom, such as videos, software, newspapers, magazines, books, and other media used in the library/media center. Also recorded here are binding or other repair costs for library books. Library books must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. A.R.S. §15-903.C	Usually **2200**
6642	**Textbooks**—Expenditures for printed or nonprinted instructional materials or educational systems for each course of study adopted by the governing board in accordance with A.R.S. §§15-721 and 15-722. Such materials may include books, workbooks, computer software, videos, and other media for instructional purposes. Also recorded here are the cost of textbooks that are purchased to be resold or rented and binding or other repair costs for textbooks. Textbooks must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. A.R.S. §15-903.C	Usually **1000**
6643	**Instructional Aids**— Expenditures for materials used by students that supplement a district's adopted, educational program. Paper used in the mass production of educational materials, such as workbooks, is included here. However, paper used in the day-to-day production of handouts or lesson materials and general supplies of a consumable nature (e.g., lasting less than 1 year), such as pens, pencils, crayons, and clay, should be reported as general supplies in object code **6610**. Additionally, expenditures for items appropriately coded as equipment in the **6730** object code range should not be reported here. Instructional aids must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. A.R.S. §15-903.C The following examples are provided to ensure consistent treatment by all districts, but other items may also be considered instructional aids based on the description above. If an item listed below is adopted by the Governing Board as part of the basic instructional program, it should be coded to object code 6642. ▪ Auto parts for shop class ▪ Bats and rackets ▪ Calculators for students ▪ Drama scripts/plays ▪ Electronic book readers ▪ Electronic media (books, videos, etc.) ▪ Globes and maps ▪ Instructional games and apps ▪ Math manipulatives ▪ Musical instruments (likely to be replaced rather than repaired) ▪ Sheet music ▪ Software (Instructional) ▪ Books ▪ Workbooks	Usually **1000**
6644	**Other Books, Periodicals, and Media**—Expenditures for books, periodicals, and other media such as DVDs purchased for nonstudent users or for noncredit enrichment programs.	Usually **2590**
6650	**Supplies—Technology-Related**—Technology-related supplies that are typically used in conjunction with technology-related hardware or software. Some examples are writable CDs/DVDs, flash or jump drives, parallel cables, and monitor stands.	Usually **1000** **2230** **2580**

Object code	Description	Function guidance
6700	PROPERTY ***(Use detailed codes below)***	
6710	**Land and Existing Land Improvements**—Expenditures for the purchase of land and the existing land improvements thereon. Include the present value amount of land capital leases in the year of acquisition. Periodic lease payments should be coded to expenditure object codes **6832** and **6842**. Also included are special assessments against a district for capital improvements such as streets, curbs, and drains. Expenditures for improving sites and adjacent ways after acquisition should generally be coded to expenditure object codes **6300**, **6450**, or to a code under 6730, as appropriate. Land and existing land improvements costs cannot be paid for from the **M&O** Fund.	Only **4100** **4200** **4600**
6720	**Buildings—**Expenditures for acquiring existing buildings. Also, include the present value amount of building capital leases in the year of acquisition. Periodic lease payments should be coded to expenditure object codes **6832** and **6842**. Expenditures for the contracted construction of buildings, for major permanent structural alterations, and for the initial or additional installation of heating and ventilating systems, fire protection systems, and other service systems in existing buildings should be coded to expenditure object code **6450**. Buildings built and alterations performed by district employees should be coded as salaries, benefits, and materials in the applicable object codes in the **6100**s, **6200**s, **6610**, and 6730s. Building rent should be coded to expenditure object code **6440**. Building costs cannot be paid for from the **M&O** Fund.	Only **4500** **4700**
6730	Equipment ***(Use detailed codes below)***	
6731-6739	Expenditures for initial, additional, and replacement equipment in the categories below. Also, include the present value amount of capital leases of equipment in the year of acquisition. Periodic lease payments should be coded to expenditure object codes **6832** and **6842**. **Equipment should be classified in the applicable detailed object codes below and cannot be paid for from the M&O Fund.**	

Cost Less than $5,000*	Cost $5,000 or More*	Equipment Categories
6731 and/or 6732	**6733**	**Furniture and Equipment** (see examples on page III-51)
6734 and/or 6735	**6736**	**Vehicles** (Buses, cars, trucks, vans, etc.)
6737 and/or 6738	**6739**	**Technology-Related Hardware and Software** (see examples on page III-51)

* *Arizona school districts do not use a dollar threshold for determining whether an item is equipment or a supply. The detailed equipment classifications above allow correct coding of equipment in accordance with Arizona requirements and separate identification of lower cost items for federal grant reporting, including indirect cost reporting.*

An item should be coded as equipment if it is included in the examples below **or** if it meets **all** three equipment criteria below the tables. Items listed as equipment examples below should **not** be evaluated using the equipment criteria. The examples are provided to ensure consistent treatment by all districts. Also, the examples include certain items that are exceptions to the equipment criteria, such as component parts.

Furniture and Equipment Examples (Object Codes 6731-33)		
Athletic Equipment ▪ Blocking sleds ▪ Chalk line dispensers ▪ Fitness machines ▪ Goal posts (Movable) ▪ Helmets/Pads ▪ Hurdles ▪ Mats ▪ Nets (Tennis/Volleyball) ▪ Tackling dummies ▪ Weights	**Furniture/Furnishings** ▪ Bookcases ▪ Chairs ▪ Desks ▪ Filing cabinets ▪ Large area rugs ▪ Tables	**Other Equipment*** ▪ Appliances (Kitchen) ▪ Auto diagnostic machines ▪ Bar code scanners ▪ Battery chargers ▪ Cameras (photo and video) ▪ Cash registers ▪ Copiers (off network) ▪ DVD/Blu-Ray players ▪ Floor jacks ▪ Key cutters ▪ Kilns ▪ Laminators ▪ Leaf blowers ▪ Microwaves ▪ Musical instruments ▪ Paint sprayers ▪ Power tools ▪ Satellite dishes ▪ Sewing machines ▪ SPED assistance equipment ▪ Telephones ▪ TVs ▪ Two-way radios ▪ Vacuums ▪ Washers/Dryers ▪ Welders
Fixtures ▪ Bleachers (Indoor) ▪ Ceiling fans ▪ Chalk/white boards ▪ Drinking fountains ▪ Hot water heaters ▪ HVAC units ▪ Light fixtures ▪ Sinks ▪ Toilets ▪ Wall mirrors	**Component Parts** ▪ A/C compressors ▪ Automotive engines ▪ Automotive transmissions	

* Items may be coded to Technology-Related Hardware and Software if connected to the computer network.

Technology-Related Hardware and Software Examples (Object Codes 6737-39)		
▪ Computers (tablets, laptops, etc.) ▪ Computer monitors ▪ Copiers (on network)	▪ Network equipment ▪ Projectors ▪ Printers	▪ Scanners ▪ Smart Boards ▪ Software (Non-instructional)

If an item is **not** included in the examples above, it should be coded as equipment if it meets **all** of the following:

EQUIPMENT CRITERIA

1. Typically has a useful life of at least one year.
2. Typically repaired rather than replaced when worn or damaged.
3. An independent unit that retains its original shape, appearance, and character with use and does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.

Object code	Description	Function guidance
6740	**Depreciation—**The portion of the cost of a capital asset that is charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is apportioned over the estimated useful life of such an asset, and each period is charged with a portion of such cost. Through this process, the cost of the asset is ultimately charged off as an expense. **This code should be used in proprietary funds only.**	
6750	**Capital Asset Impairments—**Used to record impairment losses on capital assets. An asset is considered impaired when there is a significant, unexpected decline in the amount of service. If the loss meets the criteria as a special or extraordinary item, then other financing uses and other items object code **6950** or **6960** should be used. **This code should be used in proprietary funds only.**	
6800	DEBT SERVICE AND MISCELLANEOUS ***(Use detailed codes below)***	
6810	**Dues and Fees—**Expenditures or assessments for membership in professional or other organizations, certification/licensing fees, or payments to a paying agent for services rendered, such as bank fees.	
6820	**Judgments Against a District—**Expenditures from current funds for all judgments against a district that are not covered by liability insurance, but are of a type that might have been covered by insurance. Only amounts paid as the result of court decisions are recorded here. Judgments against a district resulting from failure to pay bills or debt service are recorded under the appropriate expenditure object codes as though the bills or debt service had been paid when due.	Only **2310**
6830	Redemption of Principal ***(Use detailed codes below)***	
6831	**Bonds**—Principal payments on bonds in the current year.	Only **5000**
6832	**Other**—Principal payments on long-term obligations, other than bonds, such as capital leases. Operating leases should be coded to expenditure object code **6440**.	Only **5000**
6840	Interest on Long-Term Debt ***(Use detailed codes below)***	
6841	**Bonds—**Interest payments on bonds.	Only **5000**
6842	**Other**—Interest payments on long-term obligations, other than bonds, such as capital leases. Operating leases should be coded to expenditure object code **6440**.	Only **5000**
6850	**Interest on Short-Term Debt—**Expenditures for interest on tax anticipation notes, registered warrants, revolving lines of credit, and account balances not paid in full within 30 days.	Only **2510**
6860	**Bond Issuance and Other Debt-Related Costs—**Expenses in connection with bond and other debt issuance costs, including lease-purchase debt issuance costs. Also include issuance costs related to issuing refunding bonds when the bond issuance costs are paid from cash on hand. If issuance costs related to refunding bonds are paid from refunding bond proceeds, use Other Financing Use object code **6940**.	Only **5000**

Object code	Description	Function guidance
6870	**Pass-through Payments—**Payments to another entity for monies received by the district on their behalf or as required by legal agreement. Such payments are paid to the other entity without directly controlling how the monies are spent by that entity. Include Career Technical Education District payments made to member districts and any other similar payments that are not considered sub-awards as described in 6880 below. **Used in the indirect cost calculation.**	
6880	**Sub-awards—**Sub-awards are awards provided by a district to a subrecipient to carry out part of the services for which the award was received by the district. Sub-awards do not include payments to a contractor or payments to an individual that is a beneficiary of the program paid for by the award. A sub-award may be provided through any form of legal agreement or contract. **Districts must maintain adequate records to be able to report the portion of each individual sub-award exceeding $25,000 for the indirect cost calculation.**	
6890	**Miscellaneous Expenditures—**Amounts paid for goods or services not properly coded to any other expenditure object code. Students' food and hotel costs associated with student travel, as well as student entrance fees paid by a district should be coded here. The refund of prior year's revenues should also be reported here.	

For codes related to transfers-out, payments to escrow agent for defeasance of debt, and special and extraordinary items, see page III-54.

Object code	Description	Function guidance
6900	OTHER FINANCING USES AND OTHER ITEMS ***(Use detailed codes below)***	
6910	**Indirect Costs Transfers-Out**—An amount approved as a percentage of the total project budget, to be used to pay overhead costs that cannot be easily identified with a specific project. Indirect costs are calculated on total actual expenditures less capital expenditures, multiplied by the approved indirect cost rate. This object code should be used when monies are transferred to the Indirect Costs Fund from a Federal Project Fund or the Food Service Fund. Other Financing Sources object code **5200** should be used to record the transferred monies received in the Indirect Costs Fund. This object code should be included as a fund transfers-out for financial reporting purposes.	Only **6000**
6930	**Fund Transfers-Out**—Used to classify operating transfers from one fund to another. Other Financing Sources object code **5200** should be used to record the corresponding transfer-in amount. See list of **authorized transfers**.	Only **6000**
6940	**Payment to Escrow Agent for Defeasance of Debt**—Amounts paid to an escrow agent from advance refunding bond proceeds that are to be placed in an irrevocable trust.	Only **6000**
6950	**Special Items**—Transactions or events within the control of district administration that are either unusual in nature or infrequent in occurrence. For some districts, this may include termination benefits resulting from workforce reductions or costs in connection with an early retirement program offered to all employees represented in one or more classes of employees.	Only **6000**
6960	**Extraordinary Items**—Transactions or events that are **both** unusual in nature and infrequent in occurrence. For some districts, this includes significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm, or costs related to an environmental disaster.	Only **6000**

This account code element identifies expenditures by instructional level and school. The first digit of the three-digit unit code identifies the instructional level, and the second and third digits identify the individual school. This element is also useful for districts that have established site-based management procedures by providing each school with a budget allotment. In addition, districts with some schools operating on an alternative calendar must separately budget for such schools in accordance with A.R.S. §15-855. This element should be used for that purpose.

Code	Description
100	**Elementary—**A school organized as an elementary school with a grade level of kindergarten through grade 8. Expenditures for preschool programs for children with disabilities are coded here.
200	**High School—**A school accredited as a high school with a maximum grade level span of 9 through 12.
500	**District-wide—**Assigned to any expenditure that applies to an entire district and is not clearly assignable to an instructional level. When reporting information for the district's annual report card in accordance with Arizona Revised Statutes (A.R.S.) §15-746, expenditures coded to this unit code in the district's accounting records must be allocated to the schools. (Districts that have more than 99 district-wide units may also assign numbers higher than 599.)

Arizona Online Instruction (AOI) schools should use a unit code within the 100-range for elementary program expenditures, and within the 200-range for high school program expenditures. If an AOI school contains both elementary and high school grade levels, a code within the 100-range should be used for kindergarten through grade 8, and a code within the 200-range should be used for grades 9 through 12. If an expenditure applies to both elementary and high school grade levels, the cost should be allocated between the AOI school's elementary and high school unit codes.

Transfers of monies between funds should be made only when specifically authorized by statute or allowed by a federal grant. The following list of authorized transfers does not include any transfers that may be appropriate to allow school districts to reduce taxes as described in statute. See fund descriptions for when various funds can be used to reduce taxes according to statute. Fund transfers-in should be coded under other financing sources object code **5200**. Fund transfers-out should be coded under other financing uses object code **6930**, or other financing uses object code **6910** when transferring to the Indirect Cost Fund. For each operating fund transfer-in, there should be a corresponding fund transfer-out.

Adjustments due to errors or reclassifications of revenues or expenditures from one fund to another should not be recorded as fund transfers but should be made by a journal entry involving the correct detailed account codes to correct the error or reclassify the transaction.

From	To	Description	A.R.S. § reference
Bond Building (630)	**Debt Service (700)**	Balance upon completion of the construction or acquisition for which the bonds were issued if a district has outstanding indebtedness.	15-1024(B)
Career and Technical Education and Vocational Education Projects (535)	**School Plant (500)**	Monies in excess of $100,000 at fiscal year-end.	15-1231(C)
Civic Center (515)	**School Plant (500)**	Balance upon termination of the civic center school program.	15-1105(F)
Community School (520)	**M&O (001)**	Balance upon termination of a community school program.	15-1143
Condemnation (660)	**School Plant (500)**	Unused monies remaining after 10 years.	15-1102(E)
Employee Insurance Program Withholdings (855)	**M&O (001)**	Interest at fiscal year-end.	15-1223(B)
Energy and Water Savings (665)	**M&O (001)**	Monies associated with an energy or water savings project remaining after the capital investment monies of the qualified provider or utility, energy or water services company, plus a reasonable carrying charge, are repaid in full.	15-910.02(J)

From	To	Description	A.R.S. § reference
Federal Projects (100-399) or **Food Service (510)**	**Indirect Costs (570)**	The amount transferred may not exceed the sum of the amount calculated with the district's indirect cost rate established by the Arizona Department of Education plus any interest on federal program monies the district is not required to revert and chooses to transfer to the Indirect Cost Fund. Federal guidance restricts the use of interest retained by districts to administrative expenditures. Districts that choose to transfer allowable federal program interest to the Indirect Costs Fund should separately track the use of those monies to document compliance with the federal guidance.	
Impact Aid (378)	**M&O (001)**	Federal impact aid monies to provide cash for the difference between the Transportation Revenue Control Limit and Transportation Support Level or to reduce or eliminate taxes.	15-905(R)
Impact Aid (378)	**Teacherage (580)**	Federal impact aid monies for the maintenance and renovation of teacher housing.	15-905(R) Laws 2004, Ch. 209
Impact Aid Revenue Bond Building (639)	**Impact Aid (378)**	Balance remaining after the acquisition or construction of facilities and payment of other related costs.	15-905(R) 15-2107(C)
Impact Aid Revenue Bond Debt Service (720)	**Impact Aid (378)**	Surplus monies remaining after all impact aid revenue bonds are paid.	15-905(R) 15-2107(B)
Insurance Refund (585)	**Self-Insurance (950-989)**	For payment of uninsured losses, claims, defense costs, and other costs related to self-insurance.	15-386(B)
M&O (001)	**Energy and Water Savings (665)**	Districts must transfer payment amounts for repayment of the capital investment of the qualified provider or utility, energy, or water services company based on the established repayment schedule.	15-910.02(H)

From	To	Description	A.R.S. § reference
M&O (001)	**School Opening (545)**	Districts may transfer a portion of the ending cash balance. The maximum amount that may be transferred is the lesser of the ending cash balance in the M&O Fund or the eligible budget balance carryforward.	15-943.01(C) and (D)
M&O (001)	**UCO (610)**	Districts that have been approved by the voters to fund a capital outlay override from revenues other than a tax levy may transfer the voter-approved amount of cash from the prior year's ending cash balance.	15-481(M)
Other Postemployment Benefits (9XX)	**M&O (001)**	Monies remaining at the end of 5 years of no activity in the OPEB Internal Service Fund. This transfer does not apply to the OPEB Trust Fund (**8XX**).	15-1225(B)
School Opening (545)	**M&O (001)**	Balance remaining after 5 years of no activity in the School Opening Fund.	15-943.01(C)
State Income Tax Withholdings (865)	**M&O (001)**	Interest at fiscal year-end.	15-1222(A)

The following journal entries are examples of double-entry account coding for various transactions. The examples do not include the unit code element; however, districts must use the unit code to identify expenditures by instructional level and individual school. **As applicable, the determining factor used to code an expenditure as construction services, a capital supply, or equipment item or as a noncapital item is indicated after the description of the entry.**

	Account codes	Description	DR	CR
1.	001 000 0000 0103	Cash on Deposit with County Treasurer	$90,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer	35,000	
	001 000 0000 3110	State Equalization Assistance		$90,000
	610 000 0000 3110	State Equalization Assistance		35,000
	(To record receipt of state equalization assistance by the Maintenance and Operation and Unrestricted Capital Outlay Funds.)			
2.	001 100 1000 6110	Certified Salaries	$600	
	001 200 1000 6110	Certified Salaries	600	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$1,200
	(To record the biweekly salary of a teacher who teaches regular and special education classes. Note that appropriate benefit codes would also be used.)			
3.	610 100 2500 6739	Tech-Related Hardware & Software—$5,000 or More	$6,500	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$6,500
	(To record the renewal of the license for accounting software used by the business office. Note that because the purchase is not assignable to a particular program code, it is coded to program code 100—Regular Education.) **Determining factor: Non-instructional software is listed as an example of technology-related hardware and software under object codes 6737-39 and the cost is $5,000 or more.**			
4.	001 400 2700 6511	Student Transportation Purchased from Other Arizona Districts	$1,000	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$1,000
	(To record the payment made to another district for transporting the paying district's students.)			
5.	610 400 2700 6736	Vehicles—$5,000 or More	$40,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$40,000
	(To record the purchase of a van to be used to transport disabled students. Additionally, program code 420—Pupil Transportation—Special Education, could be used to better track special education expenditures.) **Determining factors: Vans are listed with vehicles in object codes 6734-36 and the cost is $5,000 or more.**			
6.	610 620 1000 6643	Instructional Aids	$1,000	
	610 000 0000 0102	Cash in Bank		$1,000
	(To record the purchase of baseball bats to be used in physical education class.) **Determining factor: Bats are listed as an example of an instructional aid under object code 6643.**			

	Account Codes	Description	DR	CR
7.	665 100 6000 6930	Fund Transfers-Out	$5,000	
	665 000 0000 0103	Cash on Deposit with County Treasurer		$5,000
	001 000 0000 0103	Cash on Deposit with County Treasurer	5,000	
	001 000 0000 5200	Fund Transfers-In		5,000
	(To record the transfer of cash from the Energy and Water Savings Fund to the Maintenance and Operation Fund. Note that Transfers-In must equal Transfers-Out.)			
8.	610 100 1000 6643	Instructional Aids	$2,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$2,000
	(To record the payment for instructional computer software.) **Determining factor: Instructional software is listed as an example of an instructional aid under object code 6643.**			
9.	001 100 2600 6430	Repairs and Maintenance Services	$2,500	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$2,500
	(To record the payment for a maintenance agreement for district copiers.)			
10.	001 200 2200 6580	Travel	$250	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$250
	(To record the payment to reimburse the Special Education Director for cost incurred within approved rates for travel to a meeting in another city.)			
11.	001 100 2500 6580	Travel	$800	
	001 100 2500 6300	Purchased Prof. and Tech. Services	200	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$1,000
	(To record the payment for the Transportation Director to attend a training workshop out of town.)			
12.	001 100 2200 6300	Purchased Prof. and Tech. Services	$ 5,000	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$ 5,000
	(To record the payment made to a vendor for teacher training.)			
13.	525 620 1000 6300	Purchased Prof. and Tech. Services	$60	
	525 000 0000 0102	Cash in Bank		$60
	(To record the payment to a referee who is not a district employee for officiating a basketball game.)			
14.	610 100 1000 6643	Instructional Aids	$9,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$9,000
	(To record the payment for workbooks to be used in the classroom.) **Determining factor: Workbooks are listed as an example of an instructional aid under object code 6643.**			
15.	001 100 2600 6430	Repairs and Maintenance Services	$5,000	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$5,000
	(To record the payment to a vendor for replacing doors on a building.) **Determining factor: Replacing doors on a building is not listed as an example of a construction project under object code 6450 and it does not constitute remodeling or renovation of a building.**			

	Account Codes	Description	DR	CR
16.	001 100 2600 6150	Classified Salaries	$2,000	
	001 100 2600 6610	General Supplies	3,000	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$5,000

(To record the payments for doors replaced by district employees. Note that appropriate benefit codes should also be used.) **Determining factor: Doors are not included in the equipment examples under the 6730 object code range. Additionally, they do not meet all three equipment criteria.**

17.	610 100 4000 6450	Construction Services	$6,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$6,000

(To record the payment to a third party for replacing carpeting in classrooms due to flood damage.) **Determining factor: Recarpeting is listed as an example of a construction project under object code 6450.**

18.	610 100 4000 6733	Furniture and Equipment—$5,000 or More	$12,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$12,000

(To record the payment for an air conditioning unit.) **Determining factor: HVAC units are listed as an example of a fixture within furniture and equipment object codes 6731-33 and the cost is $5,000 or more.**

19.	610 100 5000 6832	Redemption of Principal—Other	$26,000	
	610 100 5000 6842	Interest—Other	1,500	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$27,500

(To record the payment of principal and interest on the lease-purchase of copiers.)

20.	610 100 2200 6440	Rentals	$20,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$20,000

(To record the payment on the operating lease of copiers for the school libraries.)

21.	610 100 4000 6450	Construction Services	$30,000	
	610 000 0000 0103	Cash on Deposit with County Treasurer		$30,000

(To record the payment to a vendor for repaving a parking lot.) **Determining factor: Repaving a parking lot is listed as an example of a construction service under object code 6450. Note that patching or resealing a parking lot is considered a repair/routine preventive maintenance* under object code 6430 and should not be paid from the Unrestricted Capital Outlay Fund.**

22.	001 100 2620 6430	Repair and Maintenance Services	$7,000	
	001 000 0000 0103	Cash on Deposit with County Treasurer		$7,000

(To record the payment to a vendor for repainting a classroom.) **Determining factor: Repainting is not listed as an example of a construction project under object code 6450 and it does not constitute remodeling or renovation of a building. Note that exterior painting projects that extend the life of a building, not done for aesthetic purposes or as routine preventive maintenance* should be coded to 6450 and should not be paid from the Maintenance and Operation Fund.**

*A.R.S. §15-2032 defines routine preventive maintenance as services that are performed on a regular schedule at intervals ranging from four times a year to once every three years, or on the schedule of services recommended by the manufacturer of the specific building system or equipment, that are intended to extend the useful life of a building system and reduce the need for major repairs.

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Refer to USFR Compliance Questionnaire

INTRODUCTION

In accordance with Arizona Revised Statutes (A.R.S.), each school district must prepare and the governing board must adopt an annual expenditure budget that includes all funds except Agency Funds. Annual expenditure budgets for Agency Funds, while not required, may be prepared for internal management purposes to facilitate monitoring those funds' activity.

Although budgets are developed internally by the district's management, they also can be influenced by special interest groups. These groups include parents, faculty, staff, legislators, and government agencies. The concerns of these groups should be addressed either directly or indirectly in the budgeting process.

Participants in the budgeting process should include the district governing board, the district superintendent, the chief business officer, and other district and school administrators. In addition, the districts may want to include representatives of the faculty and parents. District governing boards should oversee the entire budgeting process. Each governing board should review current conditions, evaluate proposals, and formally adopt the final version of the proposed budget as prescribed by law.

LEGAL REQUIREMENTS

The policies presented are derived from A.R.S. All pertinent budget information can be found in the most recent budget packet issued annually.

Refer to most recent Expenditure Budget Packet

Preparation of the Annual Expenditure Budget

Districts must prepare a proposed expenditure budget and budget summary each fiscal year on budget forms prescribed by the Office of the Auditor General and the Arizona Department of Education (ADE). (A.R.S. §§15-903 and 15-905)

The district must submit the proposed expenditure budget or proposed budget summary to the Superintendent of Public Instruction and the county school superintendent no later than July 5 of each year or no later than the date of publication or mailing of the notice of the public hearing and board meeting, if prior to July 5. The district may submit the proposed budget summary to the Superintendent of Public Instruction in place of the proposed budget. Both the proposed budget and summary must be kept on file at the district and made available to the public upon request. (A.R.S. §15-905.A)

Notice of Public Hearing and Board Meeting

The district governing board must hold a public hearing to present the proposed expenditure budget to the public, and a board meeting to adopt the expenditure budget. (A.R.S. §15-905.D and .E) The governing board must prepare a notice of public hearing and board meeting. The notice must give the time for the meeting, not

later than July 15, and designate a public place within the district where the hearing and meeting will be held. (A.R.S. §15-905.B)

The governing board must publish or mail the proposed expenditure budget or budget summary and the notice of public hearing and board meeting no later than 10 days prior to the hearing and meeting. If published, the proposed expenditure budget or budget summary and notice must be published in a newspaper of general circulation within the district. The proposed budget or budget summary must be printed in at least eight-point type. If the proposed expenditure budget or budget summary and notice are mailed, they must be mailed to each household in the district. The governing board must file a publisher's affidavit of publication or an affidavit of mailing with the Superintendent of Public Instruction within 30 days after publication or mailing. The cost of publication or mailing must be paid by the district. (A.R.S. §15-905.C)

Public Hearing and Board Meeting

The governing board must hold the public hearing at the time and place designated in the notice to present the proposed expenditure budget publicly to all those present. Any person may request the governing board to explain the budget or any item therein. Additionally, any resident or taxpayer of the district may protest the inclusion of any item in the proposed expenditure budget. (A.R.S. §15-905.D)

Immediately after the public hearing, the president of the governing board must call to order the board meeting to adopt the expenditure budget. The governing board may make deductions from the expenditure budget as it deems necessary, but must not make additions to the proposed expenditure budget for the Maintenance and Operation (M&O) or Capital Outlay Funds. The adopted expenditure budget must not exceed the general budget limit and total capital budget limit. The budget must be recorded as adopted in the minutes. The governing board must submit the adopted expenditure budget to the county school superintendent and the Superintendent of Public Instruction no later than July 18. The county school superintendent must immediately transmit a copy of the adopted expenditure budget to the county board of supervisors. (A.R.S. §15-905.E)

Review by the Superintendent of Public Instruction

The Superintendent of Public Instruction must review the adopted expenditure budget and notify the governing board no later than October 30 if the budget is in excess of the general budget limit or the total capital budget limit. If the governing board receives notification that the expenditure budget is in excess of the general budget limit or the total capital budget limit by less than 1% of the general budget limit, the governing board shall adjust the expenditure budget so as not to exceed these limits. (A.R.S. §15-905.E)

If the governing board receives notification that the expenditure budget is in excess of the general budget limit or the total capital budget limit by 1 % of the general budget limit, the governing board must hold a public meeting on or before December 15 to revise the expenditure budget. The governing board must give notice of the public meeting in a manner similar to that required for the budget's initial adoption. The governing board must submit the revised expenditure budget to the county school superintendent and the Superintendent of Public Instruction no later than December 18. The county school superintendent must then

immediately transmit a copy of the revised expenditure budget to the county board of supervisors. (A.R.S. §15-905.E)

Budget Override Election

If the district's proposed expenditure budget will exceed the aggregate budget limit for the budget year, the governing board must hold an override election on the dates prescribed in A.R.S. §16-204 to obtain voter approval to increase the aggregate budget limit. The aggregate budget limit may be increased by the following.

1. An increase above the revenue control limit
2. An increase above the revenue control limit to provide special programs to improve academic achievement of pupils in kindergarten programs and grades one through three, or all grades.
3. An increase above district additional assistance.

Each increase may be fully funded by an increase in the district's property tax rate or funded by revenues other than the district's property taxes. Increases in the revenue control limit may be authorized for up to seven years and increases in district additional assistance may be authorized for up to seven years. Increases in the revenue control limit approved for five or more years must be phased out during the last two years of the authorized period. (A.R.S. §15-481)

If the voters do not approve the budget override, the governing board must prepare and adopt an alternate budget that does not exceed the aggregate budget limit.

Districts should refer to A.R.S. §15-481 for specific requirements governing budget override elections.

Refer to most recent Expenditure Budget Packet

Budget Revisions

Districts may revise their adopted expenditure budget during the fiscal year provided all revisions are completed by May 15. If the district has overestimated the amount of revenue from certain sources, it must adjust the general budget limit and adopted expenditure budget prior to May 15 based on actual revenue amounts for the current year. The expenditure budget packet provides detailed instructions on budget revisions.

In addition to revising the adopted expenditure budget, the governing board may authorize, at a public meeting, the expenditure of monies for any subsection within the M&O Fund in excess of amounts specified in the budget. However, total expenditures of the M&O Fund may not exceed the budgeted amount. The governing board may also authorize, at a public meeting, the expenditure of monies in excess of the Capital Outlay Fund budget provided monies are available in the Capital Outlay Fund reserve. (A.R.S. §15-905.G)

Districts must obtain approval to exceed the adopted expenditure budget for federal and state projects funds. In accordance with A.R.S. §15-207.B, the State Board of Education may, with the approval of the county board of supervisors, authorize a district to exceed the adopted expenditure budget for federal funds received pursuant to A.R.S. §15-206. In accordance with A.R.S. §15-916, a district governing board may, with the approval of the county school superintendent, authorize the expenditure of state grant monies in excess of the adopted expenditure budget by action taken at a public meeting. The district must notify ADE within 30 days of the amount of authorized expenditures. Alternatively, if a district receives a federal or state grant that was not included in its adopted budget, it may revise its adopted expenditure budget prior to May 15 to include the additional monies received.

Charter Schools

Charter schools sponsored by a school district must be included in the district's budget in accordance with A.R.S. §15-185.

Capital Outlay Fund Reserve Plan

The governing board may accumulate monies designated for capital outlay in the Capital Outlay Fund. The maximum amount that may be accumulated in any fiscal year must not exceed five times the capital levy revenue limit for that year unless the district obtains approval from the State Board of Education to exceed the maximum.

If the governing board elects to accumulate monies designated for capital outlay, the district must adopt and may subsequently revise a Capital Outlay Fund Reserve Plan. The Reserve Plan should cover a specified number of years, not to exceed five, and be revised annually. The Reserve Plan should detail proposed expenditures by asset class over the years following the budget year from the Capital Outlay Fund designated balance in accordance with A.R.S. §15-962.

The Reserve Plan must be adopted or amended at a public hearing. The governing board must publish a notice of the public hearing in a newspaper of general circulation within the district or mail the notice to each household in the district no later than 10 days before the hearing. (A.R.S. §15-962) A copy of the Reserve Plan must be forwarded to the county school superintendent and ADE prior to August 31.

No longer required

BUDGETING METHODS

A district may employ one or more methods for developing a budget that will meet its legal and managerial requirements. Following are the more common budgeting methods. Districts may employ any of the methods described or use other methods, separately or in combination, in preparing the annual budgets.

Object-of-Expenditure Budgeting — Object-of-expenditure budgeting requires budget requests to be based on the types of expenditures to be made, such as the number of people to be hired or specific goods or services to be purchased. District administrators should then compile, modify, and submit an overall budget request.

Incremental Budgeting — Incremental budgeting requires that each budget line item be considered for an increase, a decrease, or no change. Increases and decreases are usually tied to factors such as inflation or changes in enrollment. This method assumes that resources are being properly distributed in the current period and that existing programs should be continued.

Zero-Based Budgeting — Zero-based budgeting requires the budget process to start from zero each year to build a new budget. The district must evaluate its goals and objectives to justify its programs on the basis of benefits provided versus the cost of providing them.

Program Budgeting — Program budgeting requires combining planning objectives with the budgeting process. Budgets are prepared at the program level and then merged to build a budget at the department or school level. These budgets are then combined to establish a district budget.

BUDGETING PROCESS

Budgeting Factors

Both internal and external factors can have a significant influence on developing and implementing the budgets. These factors should be considered throughout the budgeting process. Internal factors include the district's mission, management style, fiscal policies, accountability requirements, debt policies, and compensation goals and policies. External factors include sources of funding, inflation, governmental regulations and financial control, competition for students, and demographic trends.

Determination and Communication of Budgeting Guidelines

District administrators should determine budget guidelines based on the district's positions for the budget year on such issues as salary increases, implementation of new programs, and reduction or elimination of other programs that directly impact decisions in the budget process. These guidelines should be communicated to the heads of the various budget units.

Budgeting of Revenues and Expenditures

Districts should evaluate all revenue sources when developing the revenue estimates in the annual budgets. Analysis of each revenue source will help ensure accurate estimates of anticipated revenues. Estimates should take into account such factors as economic conditions, enrollment trends, and student attrition rates.

On the official budget forms, budgeted expenditures must be presented at the object code level within the M&O, Capital Outlay, Bond Building, School Plant, and Debt Service Funds and at the fund level for all other funds. Expenditures will generally be budgeted at the object code level within the various budget units and combined by district administrators for presentation purposes. Supplementary schedules should be prepared and retained to support amounts recorded in the adopted budget.

Refer to most recent Expenditure Budget Packet

Preparation and Development of Budgets

The school district budget forms are revised annually for legislative and other changes by the Office of the Auditor General and ADE. The expenditure budget packet includes the School District Annual Budget, Supplement to School District Annual Budget, Summary of School District Proposed Budget, and Budget Work Sheets. Detailed instructions for preparation and adoption are included in the expenditure budget packet.

The Revenue Budget is also issued in a USFR Memorandum, but at a later date. The Revenue Budget presents estimated revenues and transfers for each fund. For those funds for which property taxes are levied, the budget presents estimated revenues by source within each fund and provides for the calculation of the district's primary and secondary property tax rates.

No longer required

BUDGET CONTROL

The principal goal of budget control is to ensure that actual expenditures do not exceed budgeted expenditures. There are two distinct phases of budget control. Preliminary control is established when the budget is adopted. The adopted budget establishes the basis for all transactions throughout the year. Subsequent control is exercised throughout the fiscal year by the use of daily budget control, budgetary accounting, budget reports, budget revisions, and a year-end analysis of budget performance.

Daily Budget Control

Budget control should be maintained on a daily basis to ensure that actual expenditures do not exceed budget limits. This can be accomplished by reviewing purchase orders to monitor the level of encumbrances and to determine the remaining unencumbered balances.

Budgetary Accounting

For districts of any size, the utility of the budget as a management and control device is enhanced when budget controls appear as an integral part of accounting reports. Budget control accounts may be integrated with the accounting system to provide accounting control over revenues not yet realized and unexpended balances of budget allocations. Budgetary integration into the accounting system is now ordinarily accomplished automatically through the use of data processing systems.

Budget Reports

Budget reports are used to continuously monitor budget capacity and performance. Budget reports comparing actual results to budgeted amounts should be prepared at least monthly and reviewed by the heads of the individual budget units on a timely basis. At the district management level, a report of operations and variance analysis may be prepared monthly and should be prepared at least quarterly. Monthly budget reports should include the budgeted expenditures per the adopted budget, current month expenditures, year-to-date expenditures, encumbrances, and unencumbered balances. The level of detail presented in the reports should be dependent on each district's specific management needs. Monthly budget reports may be used to monitor activity at any level from fund to object code.

Budget Revisions

Refer to most recent Expenditure Budget Packet

In conjunction with budget monitoring throughout the fiscal year, there should be a continuous review of data on which budget estimates are made. Changes in current conditions may necessitate the reallocation of resources within a budget unit or possibly among budget units within a fund. This review may lead to revisions of the budget so that it continues to be a realistic plan of expenditures. Procedures for initiating the budget revisions should be documented and approved by the governing board. Procedures for budget revisions should allow for some budget flexibility while maintaining the adopted budget's integrity. The expenditure budget packet, issued once a year, details budget revision procedures.

Budget Performance Analysis

Following the close of the fiscal year, district administrators should critically analyze budget performance. The results of the analysis should be presented to the governing board and should be used to assist in future planning and budgeting. Significant variations between budget and actual revenues and expenditures, whether favorable or unfavorable, should be analyzed and explained. Budget performance analysis should include an examination of budget revisions to assess their impact on current and future budget years. The factors that cause the district to achieve or not to achieve certain predetermined goals should be analyzed and their impact on future budgets should be evaluated.

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Refer to USFR Compliance Questionnaire

For proper accounting and financial reporting, districts must account for their financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units, which requires using a fund accounting system. Fund accounting systems provide the means to separate financial resources into funds in order to determine compliance with finance-related legal, contractual, or other restrictive requirements; and to aid management by separating transactions related to certain restrictions and specific district functions or activities.

To avoid undue complexity, inflexibility, and inefficient financial management in accounting and reporting, districts should establish only the minimum number of funds necessary for legal and operating requirements.

PRINCIPLES OF FUND ACCOUNTING

Funds

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Although accounts are separately maintained for each fund, funds that have similar characteristics are combined into broad fund categories. The three fund categories are governmental, proprietary, and fiduciary.

Governmental Funds—These funds account for most of a district's financial resources based on the purposes for which these resources may or must be used. Governmental funds are classified into five fund types: general, special revenue, capital projects, debt service, and permanent funds.

Proprietary Funds—These funds account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining with user charges as the primary source of revenues. Proprietary funds are classified into two fund types: enterprise and internal service funds.

Fiduciary Funds—These funds account for assets a district holds in a trustee capacity or as an agent for individuals, private organizations, and other governmental entities and which therefore may not be used to support a district's own programs. Fiduciary funds are classified into four fund types: pension (and other employee benefit) trust, investment trust, private-purpose trust, and agency funds.

Measurement Focus

Measurement focus is used to describe the types of transactions and events that are reported in a fund's operating statement.

Governmental funds are accounted for using the current financial resources measurement focus. The emphasis of this measurement focus and these funds' operating statements is on transactions or events of the period that have increased or decreased the resources available for spending in the near future.

Proprietary and fiduciary funds (except agency funds) are accounted for using the economic resources measurement focus. The emphasis of this measurement focus is on transactions and events that have increased or decreased total economic resources for the period. Consequently, the operating statements include all transactions that increase or decrease net position.

Agency funds are custodial in nature since assets equal liabilities and, therefore, do not have a measurement focus.

Basis of Accounting

Basis of accounting refers to when changes in a fund's resources are recognized in the accounting records and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Districts should use either the modified accrual or accrual basis of accounting, as appropriate.

Modified Accrual Basis—Districts should account for governmental funds on the modified accrual basis. Under this basis of accounting, districts recognize increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Consequently, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Revenue is considered available when it is collectible within the current period or during the encumbrance period thereafter. If revenues are not considered available in the current period, the revenues should be reported as a deferred inflow of resources until the revenues become available. If revenues are received but have not been earned, the revenues should be reported as a liability until the revenues are earned.

Revenues that are generally susceptible to accrual prior to receipt are tuition, interest on investments, property taxes, and intergovernmental grants and aid. Food service and auxiliary operations sales and miscellaneous revenues are not susceptible to accrual because they are generally not measurable until received in cash.

Expenditures are recognized when the related fund liabilities are incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized when due. These expenditures are recognized when due because it is only at that time that they are generally liquidated with expendable available financial resources. However, principal and interest payments on long-term debt due early in the following fiscal year may be recorded as expenditures in the current fiscal year if debt service fund resources are available for the payments.

Accrual Basis—Districts should account for proprietary and fiduciary funds on the accrual basis. Under this basis of accounting, districts recognize increases and decreases in economic resources as soon as the underlying transaction or event occurs. Consequently, revenues are recognized when they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of the related cash inflows and outflows.

FINANCIAL STATEMENTS

For a description of the basic financial statements required by generally accepted accounting principles for the governmental, proprietary, and fiduciary funds, see §VII, Financial Reporting.

INTRODUCTION

Governmental funds are those funds through which most governmental functions are typically financed. Districts should account for governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental funds are classified by fund type based primarily on the extent to which the government is constrained by the specific purposes for which amounts in those funds can be spent. Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides guidance on classifying and reporting fund types for the governmental funds. Governmental funds consist of five fund types: general, special revenue, capital projects, debt service, and permanent funds. Some funds prescribed by Arizona Revised Statutes (A.R.S.) may be classified in multiple fund types under GASB Statement No. 54 depending on the specific restrictions, commitments, and assignments related to the funds resources.

Determining the appropriate fund type depends on constraints on the fund's revenues and, for special revenue funds, the portion of the fund's inflows so constrained. Districts need to consider whether revenues are restricted, committed, or assigned. These terms refer to governmental fund balance reporting classifications that are described in §III, Chart of Accounts. Also, for special revenue funds, the restricted or committed revenue must be a substantial portion of the fund's inflows. Inflows include revenues and other financing sources. GASB has not formally defined "substantial portion," however, indications are that a substantial portion would be more than a material amount, but does not necessarily mean at least a majority of the total inflows of all financial resources for the fund.

Changes to the statutory restrictions applicable to a fund may also occur that could change the fund's type. As such, these funds should be evaluated each year to determine the appropriate fund type for that year.

FUND TYPES

General Fund

The general fund accounts for and reports all financial resources of a district except those required to be accounted for and reported in another fund. A district's general fund for accounting and budgeting purposes may be different from the general fund for financial statement reporting purposes.

For accounting and budgeting purposes, the general fund is described as the Maintenance and Operation (M&O) Fund by A.R.S. and may be separated into seven programs titled regular education, special education, pupil transportation, desegregation, dropout prevention, joint career and technical education and vocational education center, and K-3 reading program.

When districts prepare audited financial statements, the general fund includes the M&O Fund and any other fund used for accounting or budgeting purposes that does not meet the definition of another

governmental fund type. The following funds **should** be included in the general fund for financial statement reporting purposes:

- Maintenance and Operation
- Indirect Costs
- School Opening

In addition, districts need to analyze the following funds to determine if they should be included in the general fund for financial statement reporting purposes:

- Advertisement
- Auxiliary Operations
- Condemnation
- Energy and Water Savings
- Federal Projects
- Gifts and Donations
- Insurance Proceeds
- Litigation Recovery
- School Plant
- State Projects
- Teacherage
- Unrestricted Capital Outlay

Specific information on what districts should consider in analyzing the above funds is included under the other fund types discussed below.

The **Unemployment Insurance Fund** should not be reported as a separate fund for financial statement reporting purposes. Instead, interfund revenues and expenditures should be eliminated and any remaining revenues and balance sheet amounts **should** be allocated to the funds that contributed revenues to the fund. Alternatively, if it would not materially misstate the financial statements, the remaining revenues and balance sheet amounts **may** be included in the general fund. These adjustments for financial statement reporting purposes should not be recorded in the accounting records.

If the general fund is different for budgeting than for financial reporting purposes, the budget to actual statement/schedule included with a district's audited financial statements should include only the M&O Fund in the general fund. Districts will need to include a reconciliation of the general fund activity as reported in the budget comparison statement/schedule to the general fund activity reported in the statement of revenues, expenditures, and changes in fund balance.

Special Revenue Funds

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. Examples of funds that **should** be classified and reported as a special revenue fund for financial statement reporting purposes include the following:

- Career & Technical Education & Vocational Education Projects
- Civic Center
- Classroom Site
- Community School
- Compensatory Instruction
- County, City, and Town Grants
- Extracurricular Activities Fees Tax Credit
- Fingerprint
- Food Service
- Grants and Gifts to Teachers
- Instructional Improvement
- Insurance Refund
- Career Technical Education
- Structured English Immersion
- Textbooks

In addition, the following funds **could** also be classified and reported as a special revenue fund for financial statement reporting purposes.

Advertisement—If the governing board commits specific revenues of the fund for purposes other than capital purposes or debt service and those revenues are a substantial portion of the fund's inflows, the fund **may** be reported as a special revenue fund. If the fund's resources are committed or assigned for capital purposes or debt service, the fund should not be reported as a special revenue fund, but **may** be reported as a capital projects or debt service fund, as applicable. Otherwise the fund **should** be included in the general fund.

Auxiliary Operations and **Gifts and Donations—**Some revenues of these funds may be restricted while other revenues may be committed by the governing board. If committed revenues are not for capital purposes or debt service and restricted and committed revenues are a substantial portion of the fund's inflows, the fund **may** be reported as a special revenue fund. Otherwise the fund **should** be included in the general fund.

Litigation Recovery—If none of the revenues of the fund are restricted to replacing or repairing school buildings or other school property, the fund **may** be reported as a special revenue fund. If all revenues are restricted to replacing or repairing school buildings or other school property, districts **should** determine the primary use of the fund (capital purposes or debt service) and report the fund as a capital projects or debt service fund, as applicable. If the fund includes some revenues that are restricted to replacing and repairing school buildings or other school property and some revenues that are not, the fund **should** be included in the general fund. Revenues that are not restricted for replacing or repairing school buildings or other school property may be used only to procure legal services or for the cost of litigation.

Federal and **State Projects**—Each federal and state project fund should be evaluated to determine whether the federal or state revenues are restricted, committed, or assigned. For most of the federal and state project funds specifically listed in §III, Chart of Accounts, the revenues are restricted by the grantor. However, some of the funds such as **Medicaid Reimbursement, National Forest Fees, Taylor Grazing Fees,** and **Impact Aid** include unrestricted revenues. Similarly, revenues of other federal and state projects not listed in the Chart of Accounts may also be unrestricted. Unrestricted revenues may be committed or assigned by a district. Federal and state projects funds should be reported as follows:

- If the revenues are restricted or committed to expenditures for specific purposes other than capital projects or debt service, and restricted and committed revenues are a substantial portion of the fund's inflows, the fund **should** be reported as a special revenue fund.
- If the revenues are restricted, committed, or assigned to capital projects or debt service, the fund should not be reported as a special revenue fund, but **may** be reported as a capital projects or debt service fund, as applicable.
- All other funds **should** be included in the general fund.

Teacherage—Revenues of the fund are restricted to providing employee housing. If the governing board has not specifically committed these revenues for capital purposes or debt service, the fund **may** be reported as a special revenue fund. However, if all revenues are committed for capital purposes or debt service, districts **may** report the fund as a capital projects or debt service fund, as applicable. If the fund

includes some revenues that are committed to capital purposes or debt service and some that are not, the fund **should** be included in the general fund.

Capital Projects Funds

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Examples of funds that **should** be classified and reported as a capital projects fund for financial statement reporting purposes include the following:

Adjacent Ways	Federal Impact Aid (Construction)
Bond Building	Gifts and Donations—Capital
Building Renewal Grant	Impact Aid Revenue Bond Building
Emergency Deficiencies Correction	New School Facilities

In addition, the School Plant Fund and the following funds **could** also be classified and reported as capital project funds for financial statement reporting purposes.

Condemnation—If the fund includes only proceeds from right-of-way settlements, which may be used only for capital purposes, the fund **should** be reported as a capital projects fund. However, if the fund also includes proceeds from sales by condemnation or threat of condemnation, which are restricted for capital purposes and debt service, districts should determine whether the fund is primarily used for capital purposes or debt service and report it as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include the fund in the general fund.

Energy and Water Savings, Insurance Proceeds, and **Unrestricted Capital Outlay—**Revenues of these funds are restricted for capital purposes and debt service. Districts **should** determine whether each fund is primarily used for capital purposes or debt service and report it as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include these funds in the general fund.

Debt Service Funds

Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. Examples of funds that **should** be classified and reported as a debt service fund for financial statement reporting purposes include the following:

Debt Service	Impact Aid Revenue Bond Debt Service

The Condemnation, Insurance Proceeds, and Unrestricted Capital Outlay Funds could also be reported as Debt Service Funds as discussed above.

School Plant Fund—This fund is generally limited to debt service; however, statute allows certain amounts to be used for maintenance and operation or capital purposes. If resources of the school plant fund are committed or assigned for maintenance and operation, the fund **should** be included in the general fund. If resources of the school plant fund are committed or assigned for capital projects and debt service, districts **should** determine whether the fund will be used primarily for capital purposes or debt service based on existing commitments and assignments of the fund's resources and report the

fund as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include the fund in the general fund.

Permanent Funds

Permanent funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the district's programs.

REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES (USES)

Governmental fund revenues include tuition, interest on investments, property taxes, intergovernmental grants and aid, food service sales, auxiliary operations sales, gifts and donations, and other miscellaneous revenues. Other financing sources include proceeds from the issuance of long-term debt and fund transfers-in.

Governmental fund expenditures include salaries and benefits, supplies, purchased professional and technical services, purchased property services, other purchased services, other miscellaneous charges, and principal and interest payments on long-term debt. Expenditures may also include acquisition or construction costs for land, buildings, vehicles, furniture and equipment, land and building improvements, and capital lease payments. Other financing uses include fund transfers-out.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

Governmental fund assets include cash, investments, receivables, supplies inventory, prepaid items, and amounts due from other funds and other governmental entities. Receivables may include property taxes receivable, accounts receivable, and interest receivable.

Governmental funds should only report deferred outflows of resources for those items designated by GASB. Currently, there are no deferred outflows of resources districts should report in governmental funds.

Governmental fund liabilities include accounts payable, accrued payroll, employee benefits, contracts payable, interest payable, tax anticipation notes payable, claims and judgments, and amounts due to other funds and other governmental entities. Other liabilities include unearned revenues, such as grants, the current portion of capital leases payable, current portion of compensated absences, and current portion of long-term debt.

Governmental fund deferred inflows of resources include revenues that are measurable but not available in the current period, such as property taxes.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. See §III, Chart of Accounts for a description of these classifications.

INTRODUCTION

Proprietary funds account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining (i.e., the primary source of revenues is user charges) and consist of two fund types: enterprise and internal service funds.

Districts should account for proprietary funds using the economic resources measurement focus and the accrual basis of accounting.

FUND TYPES

Enterprise Funds

Enterprise funds account for activities that provide goods or services to external users for a fee. Enterprise funds are required to be used to account for any activity whose principal revenue sources meet any of the following criteria: (1) debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of a district); (2) legal requirement to recover costs through fees and charges; (3) policy decision of the governing board or management to recover the costs of providing services through fees or charges. Districts are permitted to account for the Food Service and Auxiliary Operations Funds as enterprise funds, but accounting for them as governmental funds is recommended.

Internal Service Funds

Internal service funds account for activities that provide goods or services to other funds, departments, component units, or to other governmental entities on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which a district is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Examples of internal service funds are activities such as central data processing, central printing and duplicating, and self-insurance. District Services Funds established in accordance with A.R.S. §15-1108 should also be accounted for as Internal Service Funds.

REVENUES, EXPENSES, AND OTHER SOURCES (USES)

Enterprise and internal service funds revenues include operating and nonoperating revenues. Operating revenues include charges to the public (e.g., students and faculty), schools, departments, or other governmental entities for goods and services, and miscellaneous revenues. Nonoperating revenues include interest on investments, intergovernmental revenues other than charges for goods and services, and gains on disposal of capital assets. Other sources include capital contributions, special and extraordinary items, and fund transfers-in.

Enterprise and internal service funds expenses include operating and nonoperating expenses. Operating expenses may include supplies and materials, salaries and benefits, administrative costs, repairs and maintenance, utilities, and depreciation. (All depreciable property of enterprise and internal service funds should be depreciated. See §VI-E, Property Control.) Nonoperating expenses include interest expense and losses on disposal of capital assets. Other uses include special and extraordinary items and fund transfers-out.

Most transactions between an internal service fund and other district funds are treated as quasi-external transactions, not transfers, for proper budgetary control. Accordingly, an internal service fund (e.g., a print shop) would record expenses for the cost of providing the goods or services (e.g., purchase of paper, ink, etc.) and a revenue for the amount charged and either an interfund or intergovernmental receivable. When goods or services are provided internally to a governmental fund (e.g., M&O Fund), the governmental fund would record an expenditure and interfund payable (due to other fund) for the goods or services.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Enterprise and internal service fund assets may include cash, investments, receivables, inventories, prepaid items, and capital assets. Receivables may include accounts and interest receivable, and amounts due from other funds and other governmental entities.

Enterprise and internal service fund deferred outflows of resources and deferred inflows of resources may include the difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt.

Enterprise and internal service fund liabilities may include accounts payable, contracts payable, accrued payroll, employee benefits, compensated absences, claims and judgments, and amounts due to other funds and other governmental entities. Other liabilities may also include unearned revenues and long-term liabilities such as capital leases payable.

Enterprise and internal service fund net position are separated into three classifications: net investment in capital assets, restricted, and unrestricted. See §III, Chart of Accounts, for a description of these classifications.

INTRODUCTION

Fiduciary funds account for assets a district holds in a trustee capacity or as an agent for individuals, private organizations, and other governmental entities and which therefore may not be used to support a district's own programs. Fiduciary funds are classified as either trust or agency funds.

FUND TYPES

Trust Funds

Trust funds account for monies held in a trustee capacity and are handled in accordance with the terms of the trust agreement and applicable laws. There are three types of trust funds: pension (and other employee benefit) trust funds, investment trust funds, and private-purpose trust funds. The funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Districts should account for trust funds using the economic resources measurement focus and the accrual basis of accounting.

Pension (and other employee benefit) Trust Funds—These funds account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Typically, these funds are used to account for local pension and other employee benefit funds that are provided by a district in lieu of or in addition to the state retirement system. (Pension trust funds should not be used to account for contributions to a multiple-employer public employee retirement system such as the Arizona State Retirement System; such contributions should be reported in the funds where the costs or employee deductions occur.)

Investment Trust Funds—These funds account for the external portion (i.e., the portion that does not belong to a district) of investment pools operated by a district.

Private-Purpose Trust Funds—These funds account for other trust agreements under which the principal and income benefits individuals, private organizations, or other governments.

Agency Funds

Agency funds account for monies or other assets a district holds in a custodial capacity. Assets are usually held in the agency fund for a period of time based on legal or contractual requirements, and are expended for or returned to the entity or individual for whom they are held. This fund type includes the student activities fund, which accounts for all monies raised by students to finance student clubs and organizations but held by a district as an agent. Agency funds may also be used to account for intergovernmental agreements and to account for employee insurance programs and state income tax withholdings before the monies are remitted to the appropriate entities.

Agency funds should be accounted for using the accrual basis of accounting. However, agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

ADDITIONS AND DEDUCTIONS

Trust fund additions include investment income, employee and employer contributions, gifts, contributions, bequests, endowments, and donations.

Trust fund deductions are generally specified in the trust agreement and may include administrative expenses, such as salaries, wages and employee benefits, retirement benefits, and refunds of contributions.

Agency fund additions include monies or other assets collected from or on behalf of other entities or individuals.

Agency fund deductions include remittances to the entities or individuals for whom monies or other assets are held and disbursements made on their behalf.

ASSETS, LIABILITIES, AND NET POSITION

Trust fund assets include cash, investments, interest and dividends receivable, and amounts due from other funds, and liabilities include accounts payable, amounts due to other funds, and long-term liabilities. Investment trust funds do not have liabilities.

Agency fund assets include cash, investments, and interest and dividends receivable, and liabilities include accounts payable and deposits held for others.

Net position in the trust funds are classified as “held in trust” for the appropriate party. No net position is reported in the agency funds, since all assets are offset by a corresponding liability.

An effective accounting system is essential to provide control and accountability over school district assets and accurate and timely financial information to stakeholders. The Legislature and state agencies use district financial information to make education policy decisions and ensure compliance with legal and contractual provisions. The governing board and district management use financial information to develop overall policies and procedures, assess the district's financial position and the efficiency and effectiveness of district operations, budget for operating and capital expenditures, and project future financing requirements. Investors and creditors use information about available and probable financial resources, actual and contingent liabilities, and the district's overall financial position to evaluate the district's ability to meet debt service obligations. The public uses district financial information to determine how well the district is meeting its stewardship responsibilities.

An effective accounting system can also help safeguard district assets from fraud, theft, or misuse. Accounting system policies and procedures formally documented and adopted by the governing board should provide separation of responsibilities, adequate internal checks and balances, and sufficient records to support financial transactions.

Responsibilities should be assigned to specific departments, if applicable, and adequately separated within departments so that one individual does not have complete authority over an entire financial transaction or process. Districts should also periodically rotate responsibilities among employees when practical and require employees who process financial transactions to take vacation time and have another employee perform their responsibilities. If adequate separation of responsibilities is not possible because of a district's limited staff size, district management should implement review procedures at appropriate points in the process to compensate for employees performing incompatible functions.

The policies, procedures, and recordkeeping methods described throughout the Accounting Procedures section provide an effective accounting system and control environment for districts. Specific controls should be tailored to each district's needs, and alternative procedures may be used if they provide at least the same level of internal control. See §IX, Information Technology, for information regarding general and application controls for automated systems.

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Accounting records and procedures (i.e., methods) comprise the accounting system through which a district identifies, assembles, analyzes, classifies, records, and summarizes its financial transactions and reports the district's financial position and results of operations. An accounting system's primary objectives are to provide management with reliable financial information in conformity with generally accepted accounting principles on a timely basis and to safeguard assets. To achieve these objectives, the accounting system should ensure that all transactions are recorded in the appropriate accounts for the actual amounts and in the fiscal years in which they occur. Additionally, the accounting system should monitor the district's legal compliance in its use of financial resources.

Accounting records provide the documentary support for account balances and must be properly maintained to provide financial accountability for the district. Accounting records include source documents, journals, registers, ledgers, and other supplementary records.

DOUBLE ENTRY ACCOUNTING

Districts should implement a double entry accounting system to provide for the proper recording and reporting of financial data.

In a double entry accounting system each transaction affects at least two accounts. Therefore, to maintain the accounts in balance, in any transaction the total amount of debits must equal the total amount of credits.

A debit or credit will have a different effect on various accounts. A debit does not always indicate an increase in an account, nor does a credit always indicate a decrease. The following chart shows the effect of a debit or credit in the accounts.

Assets*		**Liabilities****		**Fund Balance****	
Debit	Credit	Debit	Credit	Debit	Credit
Increase	Decrease	Decrease	Increase	Decrease	Increase

Revenues**		**Expenditures***	
Debit	Credit	Debit	Credit
Decrease	Increase	Increase	Decrease

* Normally a debit balance account
** Normally a credit balance account

Districts should use either the modified accrual or accrual basis of accounting, as appropriate, to record revenues, expenditures (expenses), and the related assets and liabilities, and to prepare financial reports. Under the modified accrual basis of accounting, districts should record revenues in the accounting period in which they become measurable and available to finance expenditures of the fiscal period. Districts should record expenditures in the fiscal year in which the related fund liability is incurred except for unmatured principal and interest on long-term debt, which should be recognized when due.

Under the accrual basis of accounting, revenues should be recognized in the period they are earned, and expenses should be recognized in the period incurred.

The modified accrual basis of accounting should be used for the general, special revenue, debt service, capital projects, expendable trust, and agency funds. The accrual basis of accounting should be used for the enterprise, internal service, nonexpendable trust, and pension trust funds. See §V, Fund Accounting, for more information on the basis of accounting.

SOURCE DOCUMENTS

Source documents are used to initiate accounting transactions and should be retained to support each entry recorded in the accounting records. Examples of cash receipts source documents include prenumbered cash receipt forms, validated treasurer's receipts, cash register tapes, and validated bank deposit receipts. Examples of cash disbursements source documents include requisitions, purchase orders, receiving reports, and vendor invoices.

A journal entry form usually serves as the source document for entries in the general journal, since it provides for the recording of certain internal transactions that are not initiated by the type of source documents discussed in the preceding paragraph. Districts should maintain adequate separation of initiating, approving, and recording journal entries. District management should review and approve journal entries before they are recorded in the accounting records.

Districts should implement a system that prenumbers and numerically controls journal entries. Each journal entry should contain explanations, attachments, or references to documentary evidence supporting the entry, and the signature or initials of the individual making the entry and the official authorized to approve it. Journal entries should identify the account codes to be debited and credited.

JOURNALS

A journal is defined as a book of original entry. Journals provide a chronological, detailed record of daily financial transactions and support balances in the general ledger accounts. Journals may be posted manually or generated by computer. The two types of journals are general journals and special journals.

The following guidelines should be followed in maintaining general and special journals.

1. Each page should indicate the type of journal, fund, program, and page number.

2. Each transaction should be coded in accordance with §III, Chart of Accounts.

3. The date of each transaction (day, month, and year) should be recorded.

4. The amounts in each column should be totaled for each page, and the debits should equal the credits.

5. Each entry should be posted individually to the general ledger if from the general journal, or in total monthly if from a special journal. Each amount posted should be cross-referenced to show where the amount was posted to or from.

General Journal

The general journal is used to record standard monthly journal entries, adjusting entries, and year-end closing and reversing entries in the general ledger. The following are examples of such entries.

1. Establishing an asset or liability account

2. Correcting posting errors

3. Reclassifying revenues or expenditures (expenses)

4. Closing revenue and expenditure (expense) accounts to fund balance (retained earnings)

The following are sample entries that would be recorded in the general journal. The first entry establishes asset accounts, and the second closes revenue and expenditure accounts to fund balance at the end of the fiscal year.

Page 02 GENERAL JOURNAL					
Date 19XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
6/30	998-000-0000-0181	Land and Improvements	X	$ 57,000	
	998-000-0000-0182	Buildings and Improvements	X	4,299,000	
	998-000-0000-0183	Equipment	X	978,000	
	998-000-0000-0184	Construction in Progress	X	100,000	
	998-000-0000-0310	Investment in General Fixed Assets	X		$5,434,000
To record the district's capital assets and related investments in capital assets at June 30, 19XX.					

Page 02

GENERAL JOURNAL

Date 19XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
6/30	001-000-0000-1000	Revenues — Local	X	$2,750,000	
	001-000-0000-2000	Revenues — Intermediate	X	950,000	
	001-000-0000-3000	Revenues — State	X	2,500,000	
	001-100-1000-6000	Expenditures — Regular Education — Instruction	X		$3,150,000
	001-100-2000-6000	Expenditures — Regular Education — Support Services	X		1,900,000
	001-200-1000-6000	Expenditures — Special Education — Instruction	X		340,000
	001-200-2000-6000	Expenditures — Special Education — Support Services	X		110,000
	001-400-2000-6000	Expenditures — Pupil Transportation — Support Services	X		290,000
	001-000-0000-0302	Fund Balance — Reserved for Inventory of Supplies	X		95,000
	001-000-0000-0330	Fund Balance — Unreserved	X		315,000
To close out revenue and expenditure accounts to the fund balance accounts at fiscal year-end.					

Special Journals

Districts may use a special journal to record recurring entries of a particular type. Special journals should be kept separately by fund and type of transaction. Consequently, several types of journals may be established to account for various types of transactions. Two of the most common special journals are cash receipts and cash disbursements journals. Account codes in special journals should be grouped in such a way as to facilitate posting to the general ledger.

Cash Receipts Journal — Cash receipts are recorded in this journal when received. A sample of a cash receipts journal is shown below.

Page 01

FUND . . . . . 001 CASH RECEIPTS JOURNAL
ACCOUNT NO. . 0103

			Receipts — Credit			
Date 19XX	Payor	Cash Debit	Local 1000	Intermediate 2000	State 3000	Federal 4000
7/1	Arizona Dept. of Education State Aid Apport. #1	$589,000			$589,000	

Cash Disbursements Journal — Disbursements are recorded in this journal by date of receipt of goods or services, when recording vouchers. When a warrant is received from the county school superintendent, the warrant number and date are recorded. An example of a cash disbursements journal follows.

Left Side

FUND . . . . . 001 CASH DISBURSEMENTS JOURNAL Page 03
PROGRAM 100
ACCOUNT NO. 0103

			Warrant		
Date 19XX	Voucher No.	Payee	Number	Date	Cash Credit
9/3	4	Salt River Project	1020	9/10	$ 9,000
9/5	5	Superintendent's Salary	2151	9/10	2,800
9/5	5	Teachers' Salaries	2152-2261	9/10	141,700

Right Side

	Expenditures — Debit						
Function Code	Personal Services — Salaries 6100	Personal Services — Employee Benefits 6200	Purchased Professional and Technical Services 6300	Purchased Property Services 6400	Other Purchased Services 6500	Supplies 6600	Other Expenses 6800
2600						$9,000	
2300	$ 2,800						
1000	141,700						

GENERAL LEDGER

The general ledger is the summary of financial transactions and the basis for preparing trial balances and financial reports. The ledger should be organized according to the Chart of Accounts. The general ledger should contain the following accounts.

1. Assets, Liabilities and Fund Equity/Other Credits — Asset and liability accounts should be established to record assets or liabilities. The balances in these accounts fluctuate during the year with increases and decreases in individual assets and liabilities, but the accounts are not closed at the end of each fiscal year. The fund equity/other credits accounts are used to account for the difference between assets and liabilities.

2. Revenues, Other Financing Sources, Expenditures (Expenses), and Other Financing Uses — These accounts are opened at the beginning of each fiscal year and are used to record the activity of a given fund for the year. These accounts are closed to fund equity/other credits accounts at the end of each fiscal year.

At the beginning of the fiscal year, after the budget is approved, the district should follow these procedures.

1. A general ledger account should be established for each major source of revenues, expenditures (expenses), other financing sources and uses, and transfers in and out.

2. Subsidiary ledgers should be prepared when more detailed information is desired.

3. Each budgeted amount for revenues, expenditures (expenses), other financing sources and uses, and transfers should be entered in the "Memo" column of the appropriate general ledger account.

Total revenues, expenditures (expenses), and other financing sources and uses should be posted monthly from the appropriate journals to the general ledger accounts.

Examples of possible accounts in the general ledger for the Maintenance and Operation Fund (001) follow.

FUND . . . . . 001 **CASH ON DEPOSIT WITH COUNTY TREASURER** Page 01
ACCOUNT NO. 0103

Date 19XX	Ref.	Transaction Description	Amount Debit	Amount Credit	Balance
7/01		Balance Forward			$ 82,000
7/31	RJ1	July Receipts	$589,000		671,000
7/31	DJ1	July Disbursements		$351,500	319,500

FUND . . . . . 001 **REVENUES — STATE EQUALIZATION ASSISTANCE** Page 01
ACCOUNT NO. . . 3110

Date 19XX	Ref.	Transaction Description	Revenues Amount	Revenues To Date	Balance to be Received (Memo)
7/01	GJ2	Current Year Budget			$7,068,000
7/31	RJ1	First Apportionment of State Aid	$589,000	$589,000	6,479,000

FUND . . . . . 001 **PERSONAL SERVICES — SALARIES** Page 01
PROGRAM 100
FUNCTION NO. . . 2400
ACCOUNT NO. . . 6100

Date 19XX	Ref.	Transaction Description	Disbursements Amount	Disbursements To Date	Encumbrances (Memo)	Unencumbered Balance (Memo)
7/01	GJ2	Current Year Budget				$52,000
7/01		Principal's Contract			$51,200	800
7/31	DJ1	July Disbursements	$3,940	$3,940	47,260	800

References:
GJ General Journal
RJ Cash Receipts Journal
DJ Disbursements Journal

SUBSIDIARY LEDGER

Financial information in greater detail may be maintained in a subsidiary ledger. A subsidiary ledger is a group of subaccounts, the sum of which should equal the balance in the related general ledger control account. Entries in the subsidiary ledgers are posted from the special journals. Each entry should be referenced in the subsidiary ledger to permit tracing to the source document.

ENCUMBRANCE ACCOUNTING

The purpose of encumbrance accounting is to reserve that portion of the budget or cash balance that has been committed by issuance of purchase orders, contracts, or other commitments. There are many ways to establish an encumbrance system.

Districts may use ledgers maintained by fund to monitor encumbrances by including a column for recording each encumbrance and a column for the unencumbered balance.

1. At the beginning of the fiscal year, the district should enter the budgeted expenditures of each budget controlled fund, or the cash balance of each cash controlled fund in the unencumbered balance column.

2. When purchase orders, lease-purchase contracts, salary contracts, etc. are issued, amounts should be entered in the encumbrance column and the unencumbered balance should be calculated.

3. When a purchase is proposed, the district should determine whether the unencumbered balance is sufficient to approve the purchase.

4. When expenditures are recorded, the original amounts recorded in the encumbrance column should be reversed and the unencumbered balance should be recalculated if necessary.

5. When revenues are received in a cash controlled fund, the unencumbered balance of the appropriate general ledger accounts should be increased.

RECONCILIATIONS

Reconciliation to the County School Superintendent

Districts, except those participating in the Accounting Responsibility Program pursuant to A.R.S. §15-914.01, should reconcile their records of cash balances by fund monthly, and their records of revenues, expenditures, and cash balances by fund, program, function, and object code at least at fiscal year-end, to the county school superintendent's records. In addition, the county school superintendent's office should reconcile the district's accounting records to those of the county treasurer. These procedures are necessary for accurate recordkeeping.

Districts should reconcile their records to the Monthly Report of Revenues, Expenditures, and Ending Cash Balances from the county school superintendent. This report should include the beginning and ending cash balance for the month, and revenues and expenditures (expenses) processed during the month by fund, program, function, and object code. The report may also include budgeted expenditures (expenses), year-to-date expenditures (expenses), and remaining budget balances.

The reconciliation process should comprise these procedures.

1. The district should obtain the county school superintendent's Monthly Report of Revenues, Expenditures, and Ending Cash Balances and the district's general ledger.

2. The district should compare each fund's ending cash balance according to the district's records to the fund's ending cash balance on the county school superintendent's report. If these amounts do not agree, individual revenue and expenditure (expense) transactions should be compared.

3. At fiscal year-end, district should compare total revenues and expenditures (expenses) according to the district's records to total revenues and expenditures (expenses) according to the county school superintendent's records. Total expenditures (expenses) according to the district's records should equal total expenditures (expenses) according to the county school superintendent's records plus expenditures (expenses) not processed by the county school superintendent, less expenditures (expenses) processed by the county school superintendent that were not processed by the district.

4. Differences should be resolved, and the reasons for the differences should be documented.

Reconciliation to the County Treasurer

Districts that have assumed accounting responsibility pursuant to A.R.S. §15-914.01 should reconcile their records of cash balances by fund, if possible, or by treasurer's account to the county treasurer's records at least monthly and at fiscal year-end. These procedures are necessary for accurate recordkeeping.

Districts should reconcile their records to the county treasurer's report of the previous month-end account balances, or if available, the county treasurer's monthly Treasurer's Report. The Treasurer's Report shows beginning balances for the month, total receipts, total transfers in and out, total disbursements, and the ending balances for the month for each account the treasurer maintains.

The reconciliation process should comprise these procedures.

1. The district should obtain the treasurer's report of the previous month-end account balances, the treasurer's paid warrants listing, and the district's general ledger. The district may also need to obtain copies of certain detailed treasurer's accounting records, such as ledger cards, to help resolve differences.

2. The district should prepare or obtain a listing of outstanding warrants. Outstanding warrants are warrants issued by the district that have not yet been paid or recorded by the county treasurer.

3. The district should compare each fund or treasurer's account ending cash balance according to the treasurer's report of the previous month-end account balances to the ending cash balances per the district's records. If these amounts do not agree, individual revenue and expenditure (expense) transactions should be examined.

4. Differences should be resolved, and the reasons for the differences should be documented.

Reconciling Differences

Revenue amounts recorded by the county school superintendent or county treasurer and the district may differ due to one or more of the following reasons. Districts may use various procedures to identify revenue differences, such as examining validated treasurer's receipts and journal entries.

1. Timing differences may result from revenues being recorded by the county school superintendent or county treasurer in one month and recorded by the district in another month. An example of a timing difference is when interest on pooled investments and tax apportionments is recorded by the county school superintendent or county treasurer but not by the district.

2. Transfers or journal entries may be omitted or not recorded correctly by the county school superintendent, county treasurer, or the district.

3. Misclassifications of revenues may occur as a result of the county school superintendent or county treasurer posting to an incorrect district or fund, or the district posting to an incorrect fund.

4. Clerical or mathematical errors may be made by one of the entities.

The expenditure (expense) amounts recorded by the county school superintendent or county treasurer and the district may differ because of one or more of the following reasons. Districts may use various procedures to

identify differences such as examining the district's files of expenditures, outstanding warrant listings, and journal entries.

1. The county treasurer may pay interest on registered warrants that has not been recorded by the district.

2. The county treasurer may pay stopped warrants that have not been included in the district's total expenditures.

3. The county treasurer may make debt service payments that are not recorded by the district.

4. Transfers or journal entries may be omitted or not recorded correctly by one of the entities.

5. Misclassifications of expenditures (expenses) may occur as a result of the county school superintendent or county treasurer posting to an incorrect district or fund, or the district posting to an incorrect fund.

6. Clerical or mathematical errors may be made by one of the entities.

Districts should notify the county school superintendent or county treasurer of errors in the county school superintendent's or county treasurer's records discovered during the reconciliation process by forwarding a copy of the district's correcting journal entries.

ENCUMBRANCE PERIOD

During the 60-day encumbrance period following June 30, districts should maintain separate accounting records of each fund simultaneously for the prior and current fiscal years. Districts should record revenues and expenditures (expenses) of the prior fiscal year in the records of the prior fiscal year, and revenues and expenditures (expenses) of the current fiscal year in the records created for the new fiscal year. The reconciliation of month-end cash balances during this period should include the revenues and expenditures (expenses) of both fiscal years.

At the end of the 60-day encumbrance period, the prior fiscal year's accounting records should be closed to fund balance as shown on page **VI-B-4**.

TRIAL BALANCE

A trial balance is a listing of the balances of the accounts in the general ledger, and should be prepared monthly to ensure that the ledger is in balance. The general ledger is in balance if the total of the debit and credit columns are equal. Districts should prepare a trial balance for each fund at the end of each fiscal year to prepare the Annual Financial Report and financial statements.

Refer to related School District FAQs

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Cash includes currency on hand, such as petty cash funds and cash receipts not yet deposited; negotiable instruments, such as drafts, checks, warrants, and money orders; and balances on deposit with financial institutions such as commercial banks and county treasurers.

Cash received directly by school districts may include tuition and fees for classes and community school activities, gifts and donations, and proceeds from the sale or lease of district property. Cash is also generated through sales of goods and services by food service operations, auxiliary operations, and student activities.

Because of the relatively high risk associated with transactions involving cash, districts should establish and maintain effective policies and procedures to safeguard cash, prevent loss or misuse, provide prompt and intact depositing, and ensure accurate recording. Effective internal control not only helps safeguard monies, but can protect employees involved in handling those monies from accusations of misuse.

Internal control should be tailored to each district's specific needs. The recommended controls in this section are provided as examples of sound financial and administrative practices that can be used in either automated or manual systems to ensure that evidence of review, verification, and approval is maintained. Other controls may be used if they provide at least the same level of internal control. See §IX, Information Technology, for information regarding general and application controls for automated systems.

POLICIES

The following policies should be implemented to comply with statutory requirements and provide effective internal control over cash (checks, warrants, drafts, money orders, currency, etc.):

1. Cash-handling and recordkeeping functions should be separated among employees to safeguard cash.
2. Cash received by a district should be promptly recorded and accurately classified in accordance with §III, Chart of Accounts.
3. Employees handling significant amounts of cash should be adequately bonded.
4. Evidence of receipt should be prepared for each cash payment received. For example, sequentially numbered transactions generated by a computer system or cash register or prenumbered and numerically controlled handwritten cash receipt forms may be used.
5. In all locations where cash is received, it should be immediately safeguarded in a locked cash drawer or cash register. Cash not being deposited the same day as received should be secured in a safe or locked cabinet while awaiting deposit. Access to cash should be limited to only those employees who require access.
6. All district monies on deposit with financial institutions must be covered by insurance or collateralization agreements.
7. Checks, warrants, drafts, and money orders should be restrictively endorsed "for deposit only" to the credit of the district immediately upon receipt.

8. Cash received should be deposited intact daily, when significant, or at least weekly. See §VI-F, Revenues, for detailed deposit procedures.
9. Evidence of deposits received from financial institutions should be retained for all deposits such as a deposit posting report from the county treasurer or validated deposit slip or treasurer's receipt.
10. Bank accounts are prescribed by Arizona Revised Statutes (A.R.S.) and must be authorized by the governing board. A list of authorized check signers designated by the governing board for each bank account should be kept current. Inactive bank accounts should be closed promptly.
11. Disbursements from authorized bank accounts should be made with sequentially numbered checks or electronic fund transfers from eligible bank accounts. Each check should have a dollar limit and be marked "void after 6 months" to reduce loss exposure and ensure prompt cashing by the payee.
12. Checks should be properly completed before issuance and should not be made payable to cash or bearer. Voided checks should be so marked to prevent reuse and retained and made available to the employee performing bank account reconciliations.
13. Unused checks and check stock should be physically safeguarded and access to them limited to authorized personnel who are not check signers.
14. If electronic signatures or signature stamps are used to sign checks, they should be safeguarded and access to them limited to only the employee whose signature they represent.
15. Petty cash accounts for minor disbursements may be established by warrants drawn on the Maintenance and Operation (M&O) Fund or checks drawn on the M&O Fund revolving bank account. The petty cash accounts should be authorized by the governing board and maintained on an imprest basis where the total petty cash on hand plus any Petty Cash Withdrawal Requests equals the authorized amount at all times. The petty cash accounts should be closed at fiscal year-end and the cash returned to the M&O Fund or revolving bank account as applicable.
16. A bank reconciliation should be prepared monthly for each bank account and evidence of the reconciliation should be documented and retained. An employee who is not responsible for handling cash or issuing checks should prepare the bank reconciliation. If the employee preparing bank reconciliations must also be involved in handling cash or issuing checks, district management should review and approve the reconciliations, and evidence of the review should be documented and retained.

BANK ACCOUNTS

Governing boards may authorize establishment of only the following bank accounts, and the bank accounts must be used only for their intended purpose as described in the authorization reference provided:

Bank Account	Authorization
M&O Fund revolving bank account	A.R.S. §15-1101
Miscellaneous receipts clearing bank account(s)*	A.R.S. §15-341(A)(20)
Food Service Fund clearing bank account(s)*	A.G. Opinion I60-35
Food Service Fund revolving bank account	A.R.S. §15-1154
Auxiliary Operations Fund bank account	A.R.S. §15-1126

Bank Account	Authorization
Auxiliary Operations Fund revolving bank account(s)	A.R.S. §15-1126
Student Activities Fund bank account(s)*	A.R.S. §15-1122
Student Activities Fund revolving bank account*	A.R.S. §15-1124
Federal payroll tax withholdings bank account*	USFR p. VI-H-6
State income tax withholdings bank account*	A.R.S. §15-1222
Employee insurance programs withholdings bank account(s)*	A.R.S. §15-1223
Payroll direct deposits clearing bank account*	A.R.S. §15-1221
Electronic payments clearing bank account*	A.R.S. §15-1221
Grants and gifts to teachers bank account*	A.R.S. §15-1224
Principals' supplies bank account(s)*	A.R.S. §15-354

* Bank charges are not authorized to be paid from this bank account. The district should contact its financial institution to request that any bank charges for this account be charged directly to another allowable account such as the M&O Fund revolving bank account. If the financial institution cannot redirect the fees to another allowable account, then the bank account should be reimbursed for any bank charges from an appropriate district fund or bank account.

Authorized bank accounts for depositing miscellaneous revenues, payroll processing, food service programs, auxiliary operations, and student activities are described in the corresponding subsections. All other authorized bank accounts are described below.

Maintenance and Operation (M&O) Fund Revolving Bank Account—A.R.S. §15-1101

An M&O Fund revolving bank account may be established by the governing board. The maximum allowable amount is 50 cents for each student, with a limit of $10,000 for elementary and high school districts and $20,000 for unified school districts, except as follows:

1. If the student count of an elementary or high school district is fewer than 10,000 students, the governing board may authorize only up to $5,000 in the revolving bank account.
2. If the student count of a unified school district is fewer than 20,000 students, the governing board may authorize only up to $10,000 in the revolving bank account.

A warrant should be drawn against the M&O Fund to establish the revolving bank account. The revolving bank account's custodian must be covered by a bond in an amount of at least twice the account's authorized amount.

The revolving bank account should be operated on an imprest basis. This means that monies in the bank plus the total of the paid invoices and bank charges less interest should equal the authorized revolving bank account imprest amount. Also, if a district establishes a petty cash account from the M&O Fund revolving bank account, the petty cash amount must be included as part of the imprest amount. All reimbursements for revolving bank account expenditures for the current fiscal year should be made by June 30 so that expenditures are reported in the proper accounting period.

The revolving bank account, as stated in A.R.S. §15-1101, may be used for activities that require immediate cash outlays such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Salaries and wages may not be paid from the revolving bank account.

Revolving bank account establishment procedures

1. A voucher and application must be submitted to the county school superintendent. The voucher is prepared and approved as described in §VI-G, Expenditures. The application should state that the revolving bank account is to be established from the M&O Fund and must include the amount requested, purpose of the account, name of the bonded bank account custodian, and name of the insurance company and policy number for the bonding. Districts participating in the Accounting Responsibility Program pursuant to A.R.S. §15-914.01 should document the information described above, but do not need to submit the voucher and application to the county school superintendent.
2. The warrant for establishment of the bank account should be deposited immediately into the revolving bank account. See §VI-F, Revenues, for detailed deposit procedures.
3. The custodian should enter the deposit date, description, and deposit amount in the revolving bank account detailed records. Evidence of the deposit from the financial institution should be retained.

Revolving bank account disbursement procedures

1. The employee requesting a check should:
   a. Complete a Revolving Bank Account Check Request that includes the information shown in the exhibit on page **VI-C-10**.
   b. Obtain the appropriate supervisor's approval on the Revolving Bank Account Check Request.
   c. Submit the approved Revolving Bank Account Check Request and supporting documentation (e.g., invoice) to the revolving bank account custodian.
2. The revolving bank account custodian should:
   a. Document review of the Revolving Bank Account Check Request and the invoice's mathematical accuracy. Any discrepancies noted should be resolved prior to check issuance.
   b. Record the disbursement in the revolving bank account detailed records and prepare and sign a revolving bank account check.
   c. Enter the check number, account code, and date on the Revolving Bank Account Check Request.
   d. Mark the vendor invoice and other supporting documents paid, indicating check number, amount, and date, to prevent reuse.
   e. Forward the signed check to the requester.
   f. Retain the Revolving Bank Account Check Request and supporting documents. These documents should be used when the bank account is replenished.

When the revolving bank account cash balance reaches a predetermined minimum level, the bank account custodian should submit documentation and request replenishment of the account as described below.

Revolving bank account replenishment procedures

1. The bank account custodian should submit all Revolving Bank Account Check Requests and related supporting documentation to the employee responsible for voucher preparation.
2. The employee responsible for voucher preparation should:
   a. Review Revolving Bank Account Check Requests, related supporting documentation, and any recent bank statements.
   b. Prepare a voucher equal to the total of the paid Revolving Bank Account Check Requests and any applicable bank charges less interest. See §VI-G, Expenditures, for detailed voucher preparation procedures.
3. The warrant for replenishment of the bank account should be deposited immediately into the revolving bank account. See §VI-F, Revenues, for detailed deposit procedures.
4. The bank account custodian should verify the deposit amount and enter the deposit in the revolving bank account detailed records. Evidence of the deposit from the financial institution should be retained.

Electronic Payments Clearing Bank Account—A.R.S. §15-1221

The governing board may establish an electronic payments clearing bank account to deposit monies for the purpose of making electronic payments to vendors including the payment of retirement contributions to Arizona State Retirement. The bank account may be established by requesting a warrant from the county school superintendent for an amount equal to the vendor's payment amount. The bank account may be an interest bearing account. The bank account must be a clearing bank account maintaining a zero balance except for any interest earned for the account. At the end of the fiscal year, any interest earned for the account must be deposited with the county treasurer and recorded as interest revenue in the M&O Fund.

Grants and Gifts to Teachers Bank Account—A.R.S. §15-1224

The governing board may establish a grants and gifts to teachers bank account to deposit grants and gifts that are less than $1,500 and designated for a teacher's use for instructional purposes.

Districts must account for each grant or gift deposited in the bank account. Detailed records for each grant or gift should include, at a minimum, the teacher's name, grantor, date and amount of each deposit and withdrawal, and remaining balance. Disbursements from the bank account must be authorized by the teacher designated to use the grant or gift and must be by check, signed by two district employees appointed by the governing board.

Monies not spent before the end of the fiscal year in which the grant or gift was accepted must remain in the bank account until needed for instructional purposes as designated by the teacher or determined by the grantor.

Principals' Supplies Bank Account(s)—A.R.S. §15-354

The governing board may establish principals' supplies bank accounts and authorize school principals to issue checks on behalf of the district for purchases of supplies and materials that are necessary to conduct the school's operations. A separate account must be maintained in the district's M&O budget for each authorized school in the district for the purchase of supplies and materials. Each school's account must not exceed $5,000. A warrant should be drawn against the M&O Fund to establish each bank account.

The governing board may delegate the purchasing authority for each school's bank account to either the school's principal or to one or more employees who report to the principal. Disbursements from the bank account(s) must be by check, signed by an authorized employee appointed by the governing board. A.R.S. §15-354 exempts purchases from the bank account(s) from competitive purchasing requirements.

Within 30 days after the purchase, the principal must supply the governing board with a receipt from the seller of the supplies and materials that shows the price for each item purchased. The principal and the governing board must ensure that all purchases are necessary to conduct the school's operations. Disbursements from the principals' supplies bank account(s) should be recorded as expenditures in the M&O Fund in the fiscal year they are made. This should be done when receipts are submitted to the governing board or at least by June 30.

Bank Reconciliations

Districts should obtain monthly bank statements that summarize the account activity and report the ending cash balance for each bank account. Bank statement cash balances generally do not agree to the district's records because checks may be outstanding, deposits may have been made after the bank statement date, and the district may not have recorded bank charges and interest. Therefore, a reconciliation is performed to verify the accuracy of both the bank and district balances.

Bank account reconciliation procedures

The employee reconciling the bank account should:

1. Receive the bank statement directly from the financial institution through electronic access to the account or by mail and have access to voided checks and electronic images or copies of canceled checks.
2. Obtain the detailed records of deposits and disbursements for the bank account.
3. Compare the canceled checks to the detailed records to ensure that the number, date, payee, and amount are in agreement. Canceled checks should be examined for alterations (such as changes to payee or dollar amounts), authorized signatures, and irregular endorsements.
4. Document any outstanding checks. Outstanding checks are checks that have been issued and deducted in the detailed records but have not been deducted from the bank balance as shown on the bank statement. If checks have been outstanding for 6 months (180 days) or longer, the employee should void the checks and increase the recorded bank account balance by the amount of the voided checks.
5. Compare the date and amount of each deposit shown on the bank statement to the detailed records and to the evidence of deposit provided by the financial institution.
6. Document all deposits made after the bank statement date and, therefore, not included in the balance shown on the bank statement.

7. Differences noted in #3 and #5 should be resolved and the balance in the detailed records adjusted, if necessary.
8. Record any bank charges and interest indicated on the bank statement in the detailed records.
9. Compute the month-end adjusted bank balance as follows:

	Ending balance per bank statement
+	Deposits made after statement date
–	Outstanding checks
+ or –	Any item disputed and resolved as a bank error
=	Month-end reconciled balance

10. Compare the balance computed in #9 to the adjusted balance in the detailed records. Differences should be researched and resolved.
11. Document the employee who prepared the reconciliation and when it was completed. If the employee preparing the reconciliation is also responsible for handling cash or issuing checks, district management should review and document approval of the reconciliation.
12. Retain the reconciliation and all supporting records.

PETTY CASH ACCOUNT

Petty cash accounts authorized by the governing board may be used for minor disbursements when checks are not practical or immediate cash payments are required. One employee should be designated the petty cash account custodian for each petty cash account. Petty cash accounts may be established by checks drawn on the M&O Fund or the M&O Fund revolving bank account made payable to the account custodian. The account custodian should ensure that cash is safeguarded in a locked cabinet or safe. Access to petty cash should be limited to only the designated account custodian and the custodian's supervisor.

Each petty cash account should be maintained on an imprest basis. This means that the monies in the petty cash account plus Petty Cash Withdrawal Requests (amount requested or net amount paid if change was returned) should equal the authorized petty cash account amount at all times. Petty cash accounts should be reconciled monthly by an employee other than the account custodian or supervisor. Additionally, the supervisor or designee should perform periodic unannounced audits of petty cash accounts.

Each petty cash account should be returned to the M&O Fund or M&O Fund revolving bank account by June 30 in order for expenditures to be reported in the proper accounting period. To do this, the account custodian should submit the remaining cash for deposit in the M&O Fund or M&O Fund revolving bank account along with any paid Petty Cash Withdrawal Requests and supporting sales receipts. Disbursements from petty cash accounts are recorded as expenditures in the district's accounting records each time the account is replenished and when it is closed at fiscal year-end.

Petty cash account disbursement procedures

1. The employee requesting petty cash should:
   a. Complete a Petty Cash Withdrawal Request that includes the information shown in the exhibit on page **VI-C-10**.
   b. Obtain the appropriate supervisor's approval on the Petty Cash Withdrawal Request.
   c. Submit the approved Petty Cash Withdrawal Request and any sales receipts for reimbursement to the petty cash account custodian.
2. The petty cash account custodian should:
   a. Review the Petty Cash Withdrawal Request to confirm proper supervisor approval.
   b. If a sales receipt was submitted for reimbursement with the request:
      (1) Verify the mathematical accuracy of the receipt and resolve any noted discrepancies.
      (2) Disburse cash to the requesting employee, who should sign for the cash received.
      (3) Complete the Petty Cash Withdrawal Request and retain all documentation to be used when the petty cash account is replenished.
   c. If a sales receipt was not submitted with the request:
      (1) Disburse cash to the requesting employee, who should sign for the cash received.
      (2) Receive the sales receipt and any change from the requesting employee after the purchase is made.
      (3) Verify the sales receipt's mathematical accuracy and enter the date and sales receipt amount on the Petty Cash Withdrawal Request. Calculate any change due from the requesting employee.
      (4) If change is received, issue a sequentially numbered receipt to the employee returning the change and document receipt of the change on the Petty Cash Withdrawal Request. Resolve any differences between the calculated change due and the actual change received.
      (5) Complete the Petty Cash Withdrawal Request and retain all documentation to be used when the petty cash account is replenished.

When the petty cash account balance reaches a predetermined minimum level, the account custodian should replenish the account.

Petty cash account replenishment procedures

1. The account custodian should complete a Revolving Bank Account Check Request that includes the information shown in the exhibit on page **VI-C-10** and submit it to the appropriate supervisor for approval.
2. The supervisor should review the petty cash accounts imprest basis and submitted sales receipts before approving the replenishment. Then the supervisor should submit the Check Request, supporting Petty Cash Withdrawal Requests, and sales receipts to either the employee responsible for voucher preparation for

replenishment from the M&O Fund or to the revolving bank account custodian for replenishment from the M&O Fund revolving bank account.

3. A warrant or check payable to the petty cash account custodian should be issued in the amount requested. See §VI-G, Expenditures, for detailed voucher preparation procedures or page **VI-C-4** for revolving bank account disbursement procedures.

INVESTMENT OF CASH

An effective system of cash management includes the investment of idle monies to increase revenues. Districts have a responsibility to act prudently with respect to public monies. Therefore, districts should look to the investment standards established for the State Treasurer in A.R.S. §35-310 et seq as a basis for the district's investment of monies not on deposit with the county treasurer. For information on the investment of Auxiliary Operations and Student Activities Funds' monies, see §X-G, Auxiliary Operations Fund, and §X-H, Student Activities Fund, respectively.

All district monies on deposit with the county treasurer must be pooled for investment by the treasurer, except Bond Building and Debt Service Funds monies. Interest earned on pooled investments is apportioned by the treasurer at least quarterly as prescribed in A.R.S. §15-996. See §VI-F, Revenues, for additional information on apportionment procedures.

Bond Building Fund—A.R.S. §15-1024

Bond Building Fund monies that are not required to be used for 10 days or more may be invested. All interest earned from the investment of Bond Building Fund monies must be credited to the Debt Service Fund unless the voters authorize it to be credited to the Bond Building Fund. This authorization must be based on a separate question on the ballot at the bond election.

Debt Service Fund—A.R.S. §15-1025

The governing board may request that the county treasurer invest Debt Service Fund monies on behalf of the district. All interest earned from the investment of Debt Service Fund monies must be credited to the Debt Service Fund.

_____ SCHOOL DISTRICT NO. ____

REVOLVING BANK ACCOUNT CHECK REQUEST

Date _____ Amount $_____

Payable to _____

Invoice No. _____

Purpose _____

_____

Requested by _____

Approved by _____ Date _____

TO BE COMPLETED BY THE BANK ACCOUNT CUSTODIAN:

Check No. _____ Date _____

Account Code _____

Signature _____

_____ SCHOOL DISTRICT NO. ____

PETTY CASH WITHDRAWAL REQUEST

Date _____

Requested by _____ Amount Requested $_____

Purpose _____ Less Sales Receipt Amount* $_____

_____ Equals Change to be Received* $_____

Account Code _____

Supervisor Approval _____ Date _____

Cash Received by _____ Date _____

Petty Cash Custodian Review _____ Date _____

TO BE COMPLETED BY THE PETTY CASH CUSTODIAN:

Receipt No. for Change Received _____ Date _____

Change Received by _____ Amount of Change Received* $_____

*Complete these lines when the sales receipt is received. Resolve any difference between the calculated Change to be Received and the actual Amount of Change Received, if any.

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Supplies include goods and materials of an expendable nature that are consumed in the normal course of operating the district. Districts may have several different types of supplies inventories. Principal types are educational supplies, office supplies, custodial and cleaning supplies, food supplies, and repair and maintenance supplies.

Districts should establish effective internal control policies and procedures over supplies inventories to provide accurate financial reporting and to physically safeguard such inventories. Strong internal control over inventories helps prevent theft, overstocking, understocking, spoilage, and obsolescence.

For maximum benefit, districts should tailor internal control policies and procedures to their specific needs. Districts may maintain a periodic inventory system, a perpetual inventory system, or a combination of both. Inventories may be maintained in a centralized system using a central warehouse, a decentralized system, or a combination of these systems. The policies and procedures discussed in this section are applicable to a centralized inventory system.

POLICIES

1. Districts should maintain proper separation of responsibilities between recordkeeping and custodial functions. (Small districts unable to adequately separate responsibilities due to insufficient staff size should implement additional supervisory review at appropriate points in the process to help ensure effective internal control.)

2. Districts should adequately safeguard supplies inventory. Supplies should be stored at a location where loss from fire, theft, temperature changes, humidity, or other elements is minimized.

3. If perpetual inventory records are not maintained, districts should take a complete physical inventory annually.

4. If perpetual inventory records are maintained, districts should take a complete physical inventory at least every three years, and periodically test count selected items.

5. The total cost of all inventory items should include ancillary costs such as freight and taxes. Districts should maintain adequate documentation to support the valuation of inventory.

PROCEDURES

Inventory Systems

Districts may maintain supplies inventory accounting records under a perpetual or a periodic inventory system.

Under a perpetual inventory system, purchases and issues are recorded directly in the inventory accounting records as the transactions occur. The quantity and cost balances in the inventory accounting records at fiscal

year-end should agree with the actual quantity and cost of inventory on hand. An advantage of this method is the ability to determine the quantity and cost of inventory on hand at any time within the accounting period. With a perpetual system, it may not be necessary to take a physical inventory at the end of each fiscal year. If inventory test counts indicate that the perpetual system is accurate, districts may take a physical inventory once every three years. However, districts should prepare an inventory listing from the perpetual inventory accounting records at the end of each fiscal year when a physical inventory is not taken. See page **VI-D-8** for an example of a perpetual inventory record.

Districts should arrange perpetual inventory accounting records by description or by stock number. Perpetual records should be maintained by district office personnel. However, if the records are maintained by warehouse personnel, the accounting supervisor, business manager, or other designee should make periodic checks to verify that amounts on hand agree with the records. The extent to which this testing is done depends on the nature of the inventory, its value, the rate of turnover, and the effectiveness of other inventory control procedures.

Under a periodic inventory system, inventory transactions are not recorded directly in the inventory accounting records. The cost and quantity of beginning inventory for each item remains unchanged in the inventory records during the accounting period. At the end of the accounting period, ending inventory quantities for each item are determined by physical inventory. The inventory accounting records are adjusted to reflect the ending physical inventory quantities. The cost of such inventory is determined by referring to the purchase documentation relating to the inventory items.

In order to facilitate the process of valuing inventory items at year-end under a periodic inventory system, districts should maintain a purchase record for each inventory item during the accounting period. The purchase record should include description, date of receipt, quantity received, purchase order number, and unit cost.

A perpetual inventory system is generally appropriate when the inventory consists of items of high dollar value and low quantity. Conversely, a periodic inventory system is generally used when the inventory consists of items of low dollar value and high quantity.

Methods of Accounting for Inventory

Districts may record supplies inventory using either the consumption method or purchases method of accounting. However, because of budgeting requirements, the purchases method should be used for the Maintenance and Operation and Capital Outlay Funds.

Under the consumption method, inventory items are considered expenditures (expenses) when the items are issued from the central warehouse and consumed by the user. All acquisitions are debited to the inventory asset account at the time of purchase. The inventory asset account is adjusted at year-end to reflect valuation according to the year-end physical inventory or perpetual inventory records, and the inventory items used are recorded as expenditures (expenses).

Under the purchases method, the acquisition costs of inventory items are considered expenditures (expenses) when the inventory is purchased from the vendor. Acquisitions are debited to supplies expenditure (expense) accounts at the time of purchase. At year-end, the inventory asset account is adjusted according to the year-end physical inventory or perpetual inventory records.

For financial reporting purposes, supplies inventory in the proprietary funds must be reported using the consumption method. See §V, Fund Accounting, for definitions of the fund categories.

Inventory Control

An important element of inventory control is to establish optimal minimum and maximum stock levels for items in the supplies inventory. The range between the minimum and maximum stock levels represents the optimal range of stock to be carried for an inventory item. Optimal levels help minimize the risks of having inadequate inventories to meet district requirements or of holding excessive inventories. Inventory carrying costs and the risk of inventory obsolescence are increased when excessive inventories are maintained.

To determine the minimum stock level, districts should take into consideration an item's volume of usage, and the time required to order and receive the item. When inventory is depleted to the minimum stock level, districts should purchase additional inventory items. To determine the maximum stock inventory level, districts should consider the cost of carrying inventory, the risk of obsolescence, and the benefit of obtaining quantity discounts.

Another important element of inventory control is adequately safeguarding supplies. Adequate safeguards can be achieved by providing controlled storage facilities to protect against unauthorized withdrawals, clear assignment and communication of custodial responsibilities, control of forms and documents authorizing issues of inventory, and environmental safeguards such as smoke detectors, fire alarms, fire extinguishers, and sprinkler systems.

Issuing and Receiving Warehouse Supplies

Districts should follow these procedures when receiving a requisition for supplies that are available in the warehouse. Districts should follow the procedures presented in §VI-G, Expenditures, for supplies that are not on hand and must be purchased. These procedures are based on a perpetual inventory system with records maintained by the district office.

Performed by	Procedure
Warehouse Clerk	1. Receives requisition from requestor and prepares warehouse issue form in triplicate. (The requisition and issue forms may be combined into one form. See example on page **VI-D-9**.)
	2. Forwards supplies and copy of issue form to requestor.
	3. Forwards signed copy of issue form to district office and retains original issue form on file.
District Clerk	4. Updates perpetual accounting records from the signed issue form.
District Manager	5. Reviews requisitions periodically to help ensure that items requisitioned are reasonable and the requisitioner was authorized to request supplies.

Physical Inventory

Districts should take a physical inventory of supplies every year unless perpetual records are maintained. If perpetual inventory records are maintained and periodic test counts indicate the records are accurate, a physical inventory should be taken at least once every three years. The inventory should be taken at year-end, if possible. If perpetual inventory records are not maintained and the physical inventory is taken other than at year-end, a log of supplies received and issued between the date of the physical inventory and year-end should be maintained. The information recorded in the log is necessary to calculate the amount on hand at year-end.

Preparing for the Inventory — The procedures listed below should be followed to prepare for a physical inventory.

1. Prepare written instructions and provide them to all employees involved in the physical inventory. These instructions should be detailed and reviewed with all participating employees to help ensure understanding and compliance.

2. Close the warehouse, if possible, or reduce activity as much as possible in the supplies area during the physical inventory. The district may request vendors to stop all shipments and may decide not to process any warehouse requisitions except for emergency orders during the inventory period.

3. Separate damaged or obsolete items. A responsible employee should prepare a listing of the damaged or obsolete items and present it to the governing board or an individual authorized by the board for approval prior to disposal. Obsolete items should be disposed of in accordance with the State Board of Education Rule R7-2-1131.

4. Perform housekeeping procedures before taking the physical inventory. Such procedures include neatly arranging like inventory items in stacks, bins, and shelves; and clearing aisles, and receiving and distribution areas.

Counting the Inventory — Districts may use various procedures to provide an accurate and efficient inventory count. Two common methods of taking inventory involve the use of inventory tags or **inventory count sheets**.

If tags are used, they should be prenumbered and consist of two parts. An employee not involved in counting the inventory should be responsible for custody of the tags and maintain a log to account for tags issued. Tags should be issued to inventory count teams in numerical sequence.

One member of the inventory count team should count the inventory on hand for each item, and call the location, item stock number, description, quantity, and unit of measure (i.e., dozen, case, etc.) for that item. The second team member should record this information on an inventory tag. The stub end of the tag should be attached to the stack or batch of items counted to indicate that the inventory item was counted. The second part of the tag is used as a source document in preparing the inventory listing. Unused tags should be returned to the employee maintaining the log to account for all tags.

Alternatively, districts may use **prenumbered inventory count sheets** (see sample on page VI-D-10). To numerically control count sheets, a log should be maintained by an employee not involved in the inventory count. Two-member count teams should complete inventory count sheets in the same manner described above for inventory tags. The personnel counting and recording the inventory should initial and date the inventory count sheets to document their responsibilities. Since inventory count sheets do not provide a means of identifying which items have been counted, the district may use other means, such as marking boxes counted, to ensure that all items have been counted. Unused inventory count sheets should be returned to the employee maintaining the count sheet log.

After completion of the initial inventory counts, an employee not involved in the first count should make second counts, on a test basis, to verify the accuracy of the physical inventory counts. All differences should be resolved before the physical inventory is concluded. Corrections to inventory tags or inventory count sheets should be initialed by the employee responsible for supervising the physical inventory process.

If a perpetual inventory system is used, the district should compare the quantities from the physical inventory with balances on the perpetual inventory cards and resolve any differences. If differences are significant, another count and review of descriptions should be performed. A responsible district employee should fully document and approve all adjustments to the perpetual accounting records resulting from the physical inventory.

Preparing the Inventory Listing — Districts should prepare a supplies inventory listing annually. The inventory listing should include item and unit descriptions, purchase document numbers, quantities, unit costs, extended costs, page totals, and a grand total. The descriptions and quantities may be obtained from the count sheets or tags.

If **inventory count sheets** are used, the count sheets may also serve as the inventory listing. Employees involved in the physical count should complete the item description, unit description, and quantity sections of the inventory listing, and then submit it to the district office. To complete the inventory listing, an employee in the district office should perform the following.

1. Price the inventory in accordance with the cost flow assumption adopted by the district and applicable supporting documentation (including vouchers, vendor invoices, and purchase orders), and record the purchase document numbers and unit cost on the inventory listing.

2. Compile, extend, and total the inventory listing.

3. Sign and date the listing to document responsibility for the valuation of the items.

If a physical inventory is not taken, the inventory listing should be prepared from the **perpetual inventory records** at fiscal year-end.

Districts should consider having a second employee verify the accuracy of the inventory listing on a test basis by comparing amounts to supporting documentation and verifying extensions and totals.

Districts should retain all inventory tags, **inventory count sheets**, control logs, written instructions, and other documentation relating to the physical inventory to support the inventory listing.

Inventory Pricing

Inventory valuations may directly affect the district's financial reports. Therefore, consistency in valuing the inventory is required to facilitate the comparison of financial reports from year to year and from district to district. Actual cost should be used to determine inventory value. Cost includes invoice price plus ancillary costs such as freight, sales taxes, and any other handling costs. United States Department of Agriculture (USDA) donated commodities should be valued at estimated fair value, an amount established by the Arizona Department of Education. Districts should refer to the *Child Nutrition Programs Guidance Manual* for information concerning requirements for storing, using, and accounting for USDA donated commodities. Supporting documentation should be retained in order to verify costs recorded on the supplies inventory listing.

The cost of supplies inventory may be determined by associating a flow of costs with the flow of supplies inventory transactions. The district should adopt and consistently apply the cost flow assumption from year to year. The cost flow assumption does not necessarily have to be consistent with the actual physical movement of the goods. The three most common cost flow assumptions are first-in , first-out (FIFO); last-in, first-out (LIFO); and average cost.

The FIFO method is based upon the assumption that the first items purchased are the first items out of inventory. Under this method, the invoice prices of the most recent purchases represent the ending inventory. The advantage of the FIFO method is that it provides a more accurate valuation of the cost of supplies remaining in inventory.

The LIFO method is based on the assumption that the last items purchased are the first items out of inventory. The advantage of the LIFO method is that it provides a more accurate valuation of the cost of supplies used during the period.

The average cost flow assumption assigns costs to inventory items based on the average cost of all similar items in the inventory.

The following is an example of an inventory item valuation under a perpetual system using the FIFO cost flow assumption.

PERPETUAL INVENTORY RECORD

Location: Bin 5 — Unit of Measure: 1 cap
Stock No. : RC378X — Maximum Stock: 15
Description: Radiator Caps — Minimum Stock: 04

	PURCHASES				ISSUES				BALANCE		
Transaction Date	P.O. No.	Units	Unit Cost	Total Cost	Issue No.	Units	Unit Cost	Total Cost	Units	Unit Cost	Amount
6/1/XX	100	10	$ 1.00	$ 10.00					10	$ 1.00	$ 10.00
6/5/XX	101	5	1.50	7.50					10 5	1.00 1.50	17.50
6/10/XX					200	6	$ 1.00	$ 6.00	4 5	1.00 1.50	11.50
6/12/XX					201	4 1	1.00 1.50	4.00 1.50	4	1.50	6.00
6/20/XX	102	5	2.00	10.00					4 5	1.50 2.00	16.00
6/21/XX					202	4 1	1.50 2.00	6.00 2.00	4	2.00	8.00
6/30/XX	103	5	2.10	10.50					4 5	2.00 2.10	18.50

Note: The valuation of the nine items remaining at June 30, 19XX, is $18.50, and may be obtained directly from the perpetual inventory accounting record. Under a periodic system, the value would be the same but would have to be calculated using the physical inventory listing and supporting documents.

Recording Supplies Inventory at Year-End

At year-end, districts should adjust the inventory asset account to the amount determined by the year-end physical inventory or perpetual inventory records. The following example illustrates a year-end adjusting entry assuming the district uses the purchases method to account for inventory during the year.

SAMPLE

GENERAL JOURNAL

Date 19XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
6/30	001-000-0000-0160	Inventory of Supplies	X	$1,200	
	001-000-0000-0303	Reserved for Inventory of Supplies	X		$1,200

To adjust the inventory of supplies and reserved for inventory of supplies balances to the physical inventory on June 30, 19XX.

_____ SCHOOL DISTRICT NO. ___

PERPETUAL INVENTORY RECORD

Location: _____ Unit of Measure: _____

Stock No. : _____ Maximum Stock: _____

Description: _____ Minimum Stock: _____

	PURCHASES				ISSUES				BALANCE		
Transaction Date	P.O. No.	Units	Unit Cost	Total Cost	Issue No.	Units	Unit Cost	Total Cost	Units	Unit Cost	Amount
			$	$			$	$		$	$

_____ SCHOOL DISTRICT NO. ___

WAREHOUSE REQUISITION/ISSUE FORM

No.: (numbered consecutively when received)
Date: _____

Requested by: _____

Department: _____

Location: _____

Item Stock No.	Quantity Ordered	Quantity Issued	Description	Unit of Measure	Unit Cost	Total Cost
					$	$

Total Amount $ _____

Issued by: _____

Title: _____

Date: _____

Received by: _____

Title: _____

Date: _____

_____ **SCHOOL DISTRICT NO. _____**

Sheet No.: (prenumbered)

INVENTORY COUNT SHEET

INVENTORY _____ 19 ____

Department:	Location:
Called/Counted by:	Priced/Extended by:
Entered/Recorded by:	Verified Costs/Extensions/Totals:
Test Counts by:	

Item Stock No.	Invoice/ Purchase Order No.(s)	Description	Quantity	Unit of Measure	Unit Cost	Extended Cost Total
					$	$

Page Total $_____

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Districts invest significant resources in the acquisition and maintenance of district property, including capital assets and other property. Capital assets consist of land, land improvements, buildings, building improvements, and equipment with a unit cost of $5,000 or more. Other property primarily includes equipment items with a unit cost of less than $5,000 that are not of a consumable nature. Districts should establish a complete property control system to protect all district property.

Internal control over district property should be adequate to:

- safeguard property against theft and misuse;
- promote appropriate and efficient use of district property;
- properly value, classify, and report capital assets;
- accumulate data for effective planning for property acquisitions, replacements, and maintenance;
- provide documentation for insurance purposes in the event of fire or other casualty loss;
- provide accurate information for district stakeholders; and
- ensure compliance with federal guidelines as defined by each grantor agency for federally owned equipment and equipment purchased in whole or in part with federal monies.

Internal control should be tailored to each district's specific needs. The recommended controls described in this section provide an effective system of property control that can be used with automated or manual systems. Other controls may be used if they provide at least the same level of internal control. See §IX, Information Technology, for information regarding general and application controls for automated systems.

POLICIES

To comply with statutory requirements to manage and control district property and provide effective internal control, the district should:

1. Provide adequate insurance coverage for all district property.
2. Establish physical controls to help prevent theft, loss, or misuse of district property.
3. Establish a cost threshold of $5,000 or less for capitalizing assets for reporting in financial statements and document governing board approval of the cost threshold.
4. Maintain a detailed list of capital assets that includes all required information by separate asset category for land, land improvements, buildings, building improvements, and equipment with unit costs in excess of the district's adopted cost threshold for capitalization. Proper supporting documentation should be maintained for all items recorded on the capital assets list. Information required to calculate annual depreciation for applicable assets may be maintained in a separate schedule.

5. Maintain a detailed stewardship list that includes all required information for equipment with unit costs of at least $1,000 that are not required to be included on the capital assets list.
6. Perform a physical inventory of equipment at least every 3 years and reconcile it to the stewardship and capital assets lists. However, equipment with unit costs of $5,000 or more purchased in whole or in part with federal monies must be inventoried at least every 2 years. 2 Code of Federal Regulations (CFR) §200.313(d)
7. Comply with applicable statutes and rules for disposing of district property, such as Arizona Revised Statutes (A.R.S.) §§15-341(G) and 15-342, Arizona Administrative Code (AAC) R7-2-1131, and 2 CFR §200.313.
8. Manage federally owned equipment with unit costs of $5,000 or more that is required to remain vested in the federal government in accordance with the federal agency's rules and procedures, and submit an annual inventory list to the appropriate federal agency. 2 CFR §200.312(a)

PROCEDURES

The following are recommended procedures for establishing and maintaining a complete property control system.

Classifying Capital Assets

Capital assets are generally classified into distinct categories for financial statement presentation. In addition to allowing more detailed reporting of capital assets in financial reports, this classification is necessary to calculate depreciation on the applicable assets as described on page **VI-E-7**. Also, as different identification and physical security controls apply to different classes of property based on the inherent risk for each classification, separately classifying assets allows the district to apply the appropriate controls to each type of asset. Capital assets are classified as follows:

Equipment—Includes all tangible personal property not affixed to land or buildings. Examples include machinery, tools, vehicles, and furniture. See Building Improvements and Land Improvements below for classification of affixed, nonmovable equipment.

Buildings—Includes all structures meant to provide shelter for people or shelter or storage for district property and existing improvements to such buildings at the time of acquisition.

Building Improvements[1]—Includes all improvements made to buildings after acquisition. Also includes fixtures (nonmovable equipment) installed after the building's acquisition that cannot be removed without damaging the building or the fixture, such as heating and air conditioning equipment or security systems. Such fixtures or systems already in place at the completion of construction or acquisition of a building are classified as part of the building rather than a building improvement.

[1] Districts should distinguish between expenditures for improvements and expenditures for repairs and maintenance. An expenditure that significantly increases the utility or extends an asset's useful life should be classified as an improvement. Expenditures for repairs and maintenance return an asset to its normal operating condition.

Land—Includes all land, easements, and existing permanent improvements made to land such as grading or soil treatment purchased or otherwise acquired by the district. Also includes initial site preparation costs if not directly connected with the construction of buildings or improvements to buildings, such as clearing, filling, grading, or demolition. Conversely, any site preparation costs directly connected with the construction of buildings or improvements to buildings should be classified in the building or building improvement categories, as applicable.

Land Improvements[2]—Includes all permanent and nonpermanent improvements made to land after its initial acquisition such as fencing, nonmovable bleachers, playground equipment, shade structures, or surfacing. Also includes any nonpermanent improvements that existed when the land was acquired so that it can be properly depreciated. Generally, land improvements paid for by the Adjacent Ways Fund are not considered district assets since they are not improvements to district property. However, if adjacent ways monies are used to improve district property to assure the safe ingress to and egress from district property directly adjacent to the public way for buses and fire equipment, the improvement would be included in land improvements.

Capital Assets List

The capital assets list should include all land, land improvements, buildings, building improvements, and equipment with unit costs of $5,000 or more. The governing board may choose to establish a lower capitalization threshold for the district. If the governing board adopts a lower threshold, it should be applied consistently to all related assets. The capital assets list should be maintained by separate asset classification as described above (i.e., land, land improvements, buildings, building improvements, and equipment) and should include the following information for each item:

1. Location—School, department, building, room, etc.
2. Identification number for equipment—Tag number, serial number, barcode, or other number that specifically identifies the asset.
3. Description—Name, model number, size, color, etc.
4. Method of acquisition—Purchase (e.g., construction, lease-purchase, or trade) or donation.
5. Source of funding—Fund used to purchase the asset.
6. Acquisition date—Month and year the asset was received or constructed. If the acquisition date is unknown, an estimated date may be recorded on the list.
7. Purchase document number—Purchase order, voucher, or other document number that can be traced to documents that support the information recorded on the list.
8. Actual cost, estimated historical cost, or donated acquisition value. (See Asset Valuation starting on page **VI-E-5**).
9. Depreciation information for each depreciable asset as described on page **VI-E-7**.

[2] Districts should distinguish between expenditures for improvements and expenditures for repairs and maintenance. An expenditure that significantly increases the utility or extends an asset's useful life should be classified as an improvement. Expenditures for repairs and maintenance return an asset to its normal operating condition.

For equipment purchased with federal monies that has a unit cost of $5,000 or more

10. Condition of the equipment.

11. Percentage of federal participation in the asset's cost.

Stewardship List

To help safeguard and control significant equipment not required to be included on the capital assets list, districts should maintain a stewardship list for all equipment with unit costs of $1,000 or more but less than the district's adopted cost threshold for capitalization. Districts may also choose to maintain a list of equipment with unit costs of less than $1,000 to help prevent theft or misuse of higher risk items, such as laptop computers and other technological devices. The required stewardship list should include the following information for each equipment item:

1. Location—School, department, building, room, etc.
2. Identification number—Tag number, serial number, barcode, or other number that specifically identifies the equipment.
3. Description—Name, model number, size, color, etc.
4. Acquisition date—Month and year the equipment was received. If the acquisition date is unknown, an estimated date may be recorded on the list.

Physical Controls

Property Identification

1. All property with unit costs greater than $50 should be identified as district property.
2. Each equipment item required to be included on the capital assets or stewardship list should also be tagged, marked with an identifying number, or specifically identified by some other means such as serial number or barcode.
   a. To assist in conducting physical inventories of equipment, identification numbers should be placed in a conspicuous and uniform position on items when they are received.
   b. If preprinted tags or barcode stickers are used, the district should distribute them to each location that receives equipment and keep a record of those assignments. Tags should be sequentially numbered and issued.
   c. Small or valuable items, such as musical instruments, are not required to be tagged if this would impair the item's value or usefulness. Engraving or permanently marking such items is recommended to facilitate their possible return if they are lost or stolen.

Physical Security—Districts should safeguard district property from unauthorized use, theft, and damage. Districts should use locks, alarm systems, and usage logs or reports to restrict and monitor use. Access to district buildings and equipment should be restricted to appropriate personnel and appropriate hours based on the intended use.

If property is checked out from a central area, such as audio/visual equipment, media items, computer carts, or vehicles, procedures should be in place to track the reason for use, the person responsible for the property while checked out, and the return of property. Additionally, detailed use logs that track mileage should be created and reviewed for district vehicles to ensure the vehicles are used only for district business.

District property should also be safeguarded against environmental hazards. Equipment sensitive to humidity and temperature changes should be protected from climate changes to the extent practicable.

Asset Valuation

Properly valuing assets assists with recording them on the capital assets and stewardship lists and helps ensure that capital assets are recorded accurately in financial reports. Assets other than those received by donation should be valued at actual cost, or estimated historical cost when records of actual cost are not available.[3] Assets received by donation should be recorded at acquisition value. Valuation for an asset should also include any charges necessary to put the asset in its intended location and condition for use. The following table identifies examples of additional charges that should be included in an asset's value based on the asset's classification.

Equipment	Land and Improvements	Buildings and Improvements
• Taxes • Freight, delivery • Installation • Assembly • Testing	Fees for services: • Legal • Escrow and title • Architectural • Survey and appraisal • Recording Assumption of: • Liens • Delinquent taxes	Fees for services: • Legal • Architectural and engineering • Permits and licenses • Escrow and title

Additional consideration is needed for valuing assets acquired through grouped asset acquisitions (i.e., when more than one asset is acquired in the same transaction), construction contracts, lease-purchases, or trade-ins.

Grouped Asset Acquisitions—If multiple assets are acquired in a single transaction such as a bulk purchase of equipment, buildings and land purchased together, or land purchased with existing nonpermanent improvements, the total cost related to the group of assets should be allocated proportionately among the assets. Allocation of value for like items purchased together is accomplished by totaling the acquisition cost and all incidental charges related to the group of assets and equally distributing the cost over the items purchased. For nonlike items such as buildings and related land or

[3] Estimated historical cost may be obtained from a historical cost appraisal or some other reasonable means such as historical vendor catalogs, price quotes, price lists, or governing board meeting minutes. Documentation supporting the estimated cost should be retained. If the asset recorded at estimated historical cost is subject to depreciation, the cost on the depreciation schedule should be reduced by the appropriate amount of accumulated depreciation based on the known or estimated age of the asset.

land and nonpermanent improvements acquired together, the allocation should be based on the fair market value of each asset at the date of acquisition.

Construction Contracts—All costs incurred during the construction period should be accumulated until completion of the project as construction in progress. Such costs may include architectural and engineering fees; costs of materials, supplies, and labor; temporary buildings used for construction offices and the storage of materials and tools; permits, licenses, and fees; premiums for workers' compensation and casualty insurance; and easements. If district employees construct an asset, their salaries, wages, and employee benefits for related labor should be included in the constructed asset's cost. Construction in progress should not be included on the capital assets list. After the project is completed, the district should reclassify the asset from the construction-in-progress category to be an asset or part of an asset in the appropriate category such as land improvements, buildings, or building improvements.

Lease-purchase—Leases are classified as either operating or capital leases. An operating lease does not represent a purchase of an asset, rather it allows the use of property for a specified period without assigning ownership to the lessee. A lease is considered a capital lease (lease-purchase) if one or more of the following criteria is met:

1. The lease transfers ownership of the property to the district by the end of the lease term.
2. The lease contains a bargain purchase option. A bargain purchase option is a provision allowing the district to purchase the leased property for a price that is lower than the expected fair market value of the property at the date the district may exercise the bargain purchase option. The difference between the purchase price and the expected fair market value should be large enough that it is reasonably assured when the lease is entered into that the district will make the bargain purchase.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased asset.[4]
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs such as insurance and maintenance included in the lease payment, equals or exceeds 90 percent of the fair value of the leased property.[4]

In accordance with generally accepted accounting principles, the district should value lease-purchases that are recorded on the capital assets list at the lesser of the fair market value at the inception of the lease, or the present value of the net minimum lease payments (usually the principal amount) at the beginning of the lease term, excluding executory costs and interest.

Trade-in—A purchase transaction may include the trade-in of a used asset. The new asset's fair market value (invoice price) should be recorded on the capital assets list, and the asset that was traded in should be removed from the list. For example, a vehicle with an invoice price of $20,000 is acquired by payment of $12,000 cash and the trade-in of another vehicle for $8,000. The new vehicle should be valued at $20,000.

[4] This criterion should not be used if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use.

Depreciation

Districts that prepare financial statements must calculate depreciation on certain capital assets (e.g., buildings, building improvements, nonpermanent land improvements, and equipment) to report in the government-wide financial statements. Land, land improvements that produce a permanent benefit (e.g., fill and grading costs), and construction in progress are not depreciated.

For all depreciable capital assets, districts should track the useful life, residual value, annual and accumulated depreciation amounts, and the accounting function for depreciation. In determining the function for depreciation, districts should use the function code from the Chart of Accounts, §III, for the area in which the asset is used, which may not be the same as the expenditure function code used when the asset was acquired. For example, classroom buildings are depreciated to function code 1000—Instruction rather than 4000—Facilities Acquisition and Construction Services. The district should review the function for depreciation when an asset's use is changed. The district may maintain information required for depreciation in the same format as the capital assets list or include it in a separate depreciation schedule that is cross-referenced to the capital assets list.

Acquisitions, Transfers, and Disposals

Acquisitions—A separate list of capital asset and stewardship acquisitions may be maintained during the year and used to update the appropriate list at fiscal year-end. Alternatively, the capital assets and stewardship lists may be updated directly for acquisitions as they occur. If a separate list of acquisitions is not prepared, the capital assets list should be sorted by acquisition date to assist in reconciling the previous year's capital assets list to the current year's capital assets list and capital asset acquisitions to total capital expenditures.

Transfers—Districts should establish procedures to transfer equipment between locations. The Authorization to Transfer Equipment form, on page **VI-E-12**, or a similar form should be prepared by the principal or employee responsible for the equipment being transferred. The transfer should be approved by the governing board or authorized designee before the transfer is made. The capital assets or stewardship list should be updated when a properly approved transfer form is received or transfers should be accumulated and the lists should be updated at fiscal year-end before any physical inventory is conducted.

Disposals—Districts should comply with applicable statutes and rules, such as A.R.S. §§15-341(G) and 15-342, AAC R7-2-1131, and 2 CFR §200.313, when disposing of district property. Special care should be taken when disposing of equipment that stores information such as computers, copiers, and printers to ensure that personally identifiable information and district licensed software are removed before disposal. Additionally, to document the explanation for and authorization of disposals, districts should:

1. File an incident, police, or similar report to document the circumstances and allow for adequate investigation of the loss or theft of district property. A copy of such report should be retained with the asset records to support the asset's removal from the capital assets or stewardship list, as applicable.
2. Complete a Request for Authorization to Dispose of District Property form (page **VI-E-13**) or a similar form for applicable district property, including capital asset and stewardship items to be disposed of by sale, trade-in, or donation or because of obsolescence or damage. The form should be

prepared by the employee responsible for the property and approved by the governing board or authorized designee.

3. After obtaining appropriate authorization for disposal, maintain a separate list of items awaiting physical disposal for control purposes until the items are properly disposed.
4. Update the district's capital assets or stewardship lists at the time of disposal or include such items on a list of disposals that will be used to update the lists at fiscal year-end. Disposal documentation should be retained to support the changes to the lists and to assist in reconciling the previous year's capital assets list to the current year's capital assets list.

If district property is disposed of by sale, any proceeds from the sale of assets should be recorded in the School Plant Fund (500) unless required to be remitted to a federal or state agency, such as the federal Schools and Library Division for some E-rate equipment, or the Arizona School Facilities Board as required by A.R.S. §§15-341 or 15-342.

Reconciling Capitalized Acquisitions to Total Capital Expenditures

Districts should reconcile current year capital acquisitions to total capital expenditures each fiscal year after all encumbrances have been included in the accounting records. Districts with a large volume of capital asset acquisitions may want to prepare a reconciliation more frequently. The purpose of this reconciliation is to help ensure that all current year acquisitions of land, land improvements, buildings, building improvements, and equipment items with unit costs of $5,000 or more (or a lower dollar amount if adopted by the governing board) are included on the capital assets list. An employee independent of the recordkeeping and custodial functions for capital assets should prepare the reconciliation, and district management should review and approve the reconciliation.

A separate reconciliation should be prepared for each fund that reported capital expenditures. Compatible property control and accounting systems may be able to automatically compare capital acquisition and expenditure information in a report for review and resolution of any differences. Reconciliations can be presented in other formats but should include all of the information shown on the sample form on page **VI-E-14**. To complete the sample reconciliation, enter the information as follows:

Lines 1-10 Enter the voucher number and date for each voucher that includes capital expenditures, using one line per voucher. Enter the capital expenditures from the voucher in the appropriate columns based on the type of asset acquired and the related per-unit cost. The Other Capital Expenditures column should include any capital expenditures from the voucher that were not appropriate to record in the columns to the left, such as supplies purchased from capital funds that are not used for construction, including library books, textbooks, and instructional aids. The Total column should be used to total each line and should equal the total capital expenditures reported on that voucher.

Note: If the unit cost of an item is not apparent from the voucher detail, supporting purchase documents such as purchase orders and vendor invoices should be examined to determine which column the expenditure should be reported in on the reconciliation.

Line 11 Enter the total from all vouchers for each column.

Line 12 Enter the net increase (debit) or decrease (credit) to capital expenditures made through adjusting journal entries in the related columns. Adjustments may include journal entries made to move the cost of salaries, employee benefits, and supplies related to in-house construction projects from the Maintenance and Operation Fund to a capital projects fund.

Line 14 Enter the total cost of additions made to the capital assets list during the fiscal year by asset type. The total cost for additions should be taken from the capital assets list based on acquisition date or a separate list of acquisitions for the fiscal year used to update the capital assets list.

Line 15 Enter the total construction in progress expenditures reported on the vouchers for projects that were not completed as of the fiscal year-end and, therefore, not added to the capital assets list.

Line 17 Differences between total capital expenditures and total capitalized acquisitions recorded for the fiscal year should be specifically explained and resolved. Any resulting adjustments to the capital assets list should be made in a timely manner to allow for accurate reporting of capital assets in the district's financial statements and annual financial report.

Differences may result from expenditure coding errors, classification errors in completing the reconciliation, or items added to the capital assets list at a value that is not expected to agree with current year expenditures. For example:

- Improvements improperly classified as repair and maintenance expenditures.
- Assets acquired through trade-in added to the capital assets list. No expenditure is recorded for the value of the trade-in in the related voucher.
- Donated assets added to the capital assets list during the fiscal year. No expenditure is recorded for the acquisition because an expenditure was not incurred.
- Lease-purchased assets added to the capital assets list at fair market value. Only the current year periodic lease payments will be included in the related voucher.
- Multi-year construction projects that were completed in the current year and added to the capital assets list. Only the current year expenditures for the project will be included in the related voucher.

Reconciling the Previous Year's June 30 Capital Assets List to the Current Year's June 30 Capital Assets List

Districts should reconcile the previous year's June 30 capital assets list total to the current year's June 30 capital assets list total to help ensure the accuracy and continuity of the list. The form on page **VI-E-15** may be used to document this reconciliation.

Line A Enter the total of each asset category from the previous year's June 30 capital assets list.

Line B Enter the current year's final adjusted capital asset acquisitions amount after performing the reconciliation of capital asset acquisitions to total capital expenditures.

Line C	Enter the current year's disposals amount from asset disposal documentation for the current year.
Line E	Enter the total of each asset category from the current year's June 30 capital assets list.
Line F	Differences noted should be specifically explained and resolved. Any resulting adjustments to the capital assets list should be made in a timely manner to allow for accurate reporting of capital assets in the district's financial statements and annual financial report.

Physical Inventory

Districts should take a physical inventory of all equipment included on the capital assets and stewardship lists, at least every 3 years. A complete physical inventory of capital assets purchased in whole or in part with federal monies should also be taken at least every 2 years for equipment costing $5,000 or more in accordance with 2 CFR §200.313(d).

Districts should develop written instructions that clearly indicate the procedures for taking the physical inventory. These instructions should be distributed to and reviewed with employees participating in the inventory process.

The physical inventory should be carefully planned and supervised by an employee independent of capital asset purchasing, custodial, and recordkeeping responsibilities. Oversight responsibility for the inventory should be assigned to a specific employee. Items should be inventoried in a systematic manner and over the shortest reasonable time period to help ensure that equipment is neither omitted nor inventoried more than once due to movement from one location to another. To further assist in obtaining an accurate inventory, movement of equipment should be restricted, to the extent possible, during the physical inventory.

Automated or manual inventory systems may be used to prepare location specific inventories. Current lists of equipment by location can be issued to each school or department to confirm items. The inventory should include each item's identification number, description, and location. Each school or department should assign an employee not responsible for the custody of equipment to compare the physical equipment to the equipment recorded on the inventory. Equipment in the school or department not included on the inventory should be added. Such items may include new acquisitions or transfers of equipment from another school or department. Similarly, equipment on the inventory that cannot be located should be documented on the inventory. Each department head or school principal should review and approve the completed inventory.

An alternative method for taking a physical inventory is to use uniform sequentially numbered equipment inventory sheets (see sample form on page **VI-E-16**). The district should distribute inventory sheets to each school or department. As each area is inventoried, the location, tag number, serial number or other identifying number, and description of the equipment should be recorded on the inventory sheets. The employees conducting and reviewing the inventory should initial and date the inventory sheets to document responsibility.

The employee supervising the physical inventory should maintain a control log of the automated reports or inventory sheets and account for their numerical sequence. The control log should indicate the district

locations being inventoried and the corresponding reports or inventory sheets related to those locations. All inventory reports and inventory sheets, including unused inventory sheets, should be returned to the employee maintaining the control log. The inventory reports or inventory sheets should be compared to the control log to ensure that all areas are accounted for and a complete inventory of capital assets and stewardship items has been performed.

While performing the inventory, employees should make note of any damaged or obsolete property observed. Department heads and school principals should initiate disposal procedures for these items when appropriate so they can be deleted from the capital assets or stewardship lists.

After the initial inventory has been taken, an employee not involved in that process should verify a sample of the equipment inventoried to help ensure the accuracy of the physical inventory. Differences should be resolved and adjustments to inventory records should be made and approved by the employee responsible for supervising the physical inventory process.

The last step in the inventory process is to have an employee independent of any custodial function reconcile the results of the inventory with the capital assets and stewardship lists. Any discrepancies should be appropriately investigated, any necessary adjustments should be made to the lists, and support for those adjustments should be retained.

Districts should retain all inventory reports, inventory sheets, control logs, written instructions, and other documentation relating to the physical inventory.

_____ SCHOOL DISTRICT NO. ___

AUTHORIZATION TO TRANSFER EQUIPMENT

Form No. _____

Date: _____

From:
School _____
Department _____
Location _____

To:
School _____
Department _____
Location _____

Tag Number	Serial Number (if any)	Description (Include Model Number)

Notes on Transfer: _____

_____

_____

Signature _____ Date _____
Department Head/Principal

Signature _____ Date _____
Board/Authorized Agent

FOR BUSINESS OFFICE USE ONLY	
Location updated on capital assets or stewardship list.	Initials _____ Date _____

_____ SCHOOL DISTRICT NO. ___

REQUEST FOR AUTHORIZATION TO DISPOSE OF DISTRICT PROPERTY

Form No. _____

Date: _____

Check one: **Sale** ___ **Trade-In** ____ **Loss** ____ **Donation** ____ **Other** ____

From:

School _____

Department _____

Location _____

Tag Number	Serial Number (if any)	Description (Include Model Number)	FOR BUSINESS OFFICE USE ONLY			
			Date Acquired	Recorded Cost/Value	Sale/Trade-In Amount	Disposal Date
				$	$	

Reason for Disposition: _____

_____

_____

Signature _____ Date _____

Department Head/Principal

Signature _____ Date _____

Board/Authorized Agent

FOR BUSINESS OFFICE USE ONLY	
Removed from capital assets or stewardship list, if applicable.	Initials _____ Date _____

_____ SCHOOL DISTRICT NO. _____

RECONCILIATION OF CAPITAL ASSET ACQUISITIONS TO TOTAL CAPITAL EXPENDITURES

For Fiscal Year _____

For Fund _____

Prepared by: _____ Reviewed by: _____

Date: _____ Date: _____

	CAPITAL EXPENDITURES								
	Voucher		Land and Improvements $5,000 or More	Buildings and Improvements $5,000 or More	Land, Buildings, and Improvements Less than $5,000	Equipment $5,000 or More	Equipment Less than $5,000	Other Capital Expenditures	Total
	No.	Date							
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
11.	Total Capital Expenditures from Vouchers								
12.	Total Adjustments Related to Capital Acquisitions								
13.	Total Capital Expenditures and Adjustments (Line 11 plus Line 12)								
14.	Total Assets Added to the Capital Assets List								
15.	Construction in Progress								
16.	Subtotal (Line 14 plus Line 15)								
17.	Difference (Line 13 less Line 16)								

Detailed Explanation of Differences: (See attachments)

_____ SCHOOL DISTRICT NO. ___

RECONCILIATION OF PREVIOUS YEAR'S JUNE 30 CAPITAL ASSETS LIST TO CURRENT YEAR'S JUNE 30 CAPITAL ASSETS LIST

Prepared by: _____ Reviewed by: _____

Date: _____ Date: _____

	Land and Land Improvements	Buildings and Building Improvements	Equipment	Total
A. Totals from previous year's capital assets list				
B. Current year's acquisitions				
C. Current year's disposals				
D. Total (Line A plus B less C)				
E. Totals from current year's capital assets list				
F. Difference (Line D less Line E)				

Detailed Explanation of Differences:

_____

_____

_____

_____

_____

_____ SCHOOL DISTRICT NO. ___

EQUIPMENT INVENTORY SHEET

Sheet No. (sequentially numbered)

School: _____ Prepared by: _____

Department: _____ Date: _____

Location: _____ Reviewed by: _____

Date: _____

Tag Number	Serial Number (if any)	Description (Include Model Number)

Damaged or Obsolete Property Noted:

_____

_____

_____

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Refer to USFR Compliance Questionnaire

POLICIES

The following policies should be implemented to comply with statutory requirements and establish effective internal control over revenues.

1. School districts must deposit all revenues received with the county treasurer at least monthly, except student activities and auxiliary operations monies maintained in accordance with Arizona Revised Statutes (A.R.S.) §§15-1122 and 15-1126, grants and gifts to teachers maintained in accordance with A.R.S. §15-1224, employee insurance program monies maintained in accordance with A.R.S. §15-1223, and extracurricular activities fees tax credit monies if deposited in an auxiliary operations bank account. A.R.S. §15-341(A)(19) and (20)
2. A sequentially numbered Deposit Transmittal (see page **VI-F-10**) or Treasurer's Receipt should accompany all monies sent to the county school superintendent for deposit with the county treasurer and monies sent directly to the county treasurer from the district.
3. Revenues should be properly recorded in a timely manner using the account codes prescribed in §III, Chart of Accounts.
4. The responsibilities of receiving, depositing, and recording revenues should be separated among employees. If this is not possible due to the district's limited staff size, review procedures should be in place to help ensure revenues are accurately recorded.

PROCEDURES

District revenues may be derived from local, county, state, and federal sources, and may be received directly by the district, or by the county school superintendent or county treasurer on the district's behalf. Districts participating in the Accounting Responsibility Program pursuant to A.R.S. §15-914.01 may need to modify some of the following procedures related to interaction with the county school superintendent and county treasurer.

Revenues Received Directly by the District

Except as noted above in Policy #1, revenues received by districts must ultimately be deposited with the county treasurer.

Some examples of revenues received directly by districts include tuition and fees for classes and community school activities, gifts and donations, food service sales, and proceeds from the sale or lease of district property. Such revenues should be remitted to the county treasurer upon receipt either directly or through the county school superintendent depending on county procedures if the amount is large or an immediate remittance to the county treasurer is necessary to provide cash to make expenditures. Alternatively, such revenues received directly by districts may be initially deposited into a miscellaneous receipts clearing bank account for later deposit with the county treasurer. Revenues received should be deposited intact with the county treasurer or into a clearing account daily, when significant, or at least weekly. Monies deposited into a clearing bank account must be remitted to the county treasurer at least monthly. Districts may also maintain a separate Food Service Fund clearing bank account to deposit food service revenues before remittance to the county treasurer.

The following suggested procedures provide for the minimum separation of responsibilities for processing revenues received directly by the district. Procedures for processing Food Service Fund revenues, Auxiliary Operations Fund revenues, and Student Activities Fund monies are included in §X-F, Food Service Fund; §X-G, Auxiliary Operations Fund; and §X-H, Student Activities Fund, respectively.

Performed by	Procedure
Cashier	1. Receives cash, checks, warrants, drafts, money orders, and any related supporting documentation; counts and inspects such cash received for correct amounts, payees, and endorsements, as applicable; and restrictively endorses checks, warrants, drafts, and money orders.
	2. Enters the date of receipt on supporting documentation.
	3. Reviews supporting documentation for mathematical accuracy and completeness and reconciles it to the accompanying revenue received. If the revenue received does not agree with the supporting documentation, resolves the differences. Documents review on the supporting documentation and initials.
	4. Issues a sequentially numbered receipt to the payer for the amount received. Attaches a copy of the receipt to the supporting documentation or marks the receipt number on the documents, and retains a record of the issued receipt. Note: If receipts are not generated from a cash register or computerized system, the clearing account custodian should issue the prenumbered receipt forms to the cashier for use in documenting revenues received.
	5. Secures payments received in a cash register, safe, or locked drawer until further processing.
	6. Prepares Part II of the Miscellaneous Cash Receipts Summary (see page **VI-F-9**) to report the total amount of revenue received and signs and dates where indicated.
	7. Submits revenues received, Miscellaneous Cash Receipts Summary, and supporting documentation to the clearing account custodian daily.
Clearing Account Custodian	8. Signs for revenues received from cashier.
	9. Prints summary reports of revenues received from a cash register or computerized system or totals manual receipts issued.
	10. Reviews supporting documentation and completes Part I of the Miscellaneous Cash Receipts Summary, including identifying the account for deposit (clearing account or county treasurer).
	11. Completes Part III of the Miscellaneous Cash Receipts Summary by reconciling total receipts (Part I) to the total cash count (Part II). Researches and resolves any differences and signs and dates where indicated.

Deposits to Miscellaneous Receipts Clearing Bank Accounts

The governing board may establish one or more miscellaneous receipts clearing bank accounts, depending on a district's needs, in accordance with A.R.S. §15-341(A)(20). These accounts are used to safeguard and accumulate revenues the district receives directly until remitted to the county treasurer. Revenues received should be deposited intact daily, if significant, or at least weekly. All revenues deposited in miscellaneous receipts clearing bank accounts must be remitted to the county treasurer at least monthly. Districts must retain evidence from the financial institution indicating the amounts and dates of deposit. No disbursements are allowed from miscellaneous receipts clearing bank accounts other than remittances to the county treasurer.

The following procedures are recommended for depositing revenues into miscellaneous receipts clearing bank accounts. Districts should use similar procedures when using a Food Service Fund clearing bank account as described in §X-F, Food Service Fund.

Performed by	Procedure
Clearing Account Custodian	1. Prepares a bank deposit slip(s) and deposits revenues daily, if significant, or at least weekly in the clearing account(s) indicated on the Miscellaneous Cash Receipts Summary.
	2. Records the deposit in the detailed clearing bank account(s) records and retains supporting documentation, including evidence of deposit from the financial institution.

Remittances from Miscellaneous Receipts Clearing Bank Accounts

Districts must remit revenues deposited in the miscellaneous receipts clearing bank accounts to the county treasurer at least monthly. The following procedures are recommended for remittance.

Performed by	Procedure
Clearing Account Custodian	1. Prepares a check payable to the county treasurer and updates the detailed clearing bank account records. The amount of the check should equal the total of all validated deposits made to the clearing account for revenues received since the last remittance.
	2. Prepares a sequentially numbered Deposit Transmittal (see page **VI-F-10**) or a Treasurer's Receipt. Note: If the county treasurer does not use electronic Treasurer's Receipts, the treasurer may issue blocks of Treasurer's Receipts to the district to be prepared and submitted with deposits. When this procedure is followed, the district should establish controls over the unused Treasurer's Receipts to help ensure that all Treasurer's Receipts are accounted for and related revenues are accurately recorded.
	3. Submits check, Deposit Transmittal or Treasurer's Receipt, Miscellaneous Cash Receipts Summaries, and supporting documentation to the authorized check signer.

Performed by	Procedure
Authorized Check Signer	4. Reviews mathematical accuracy and completeness of the Deposit Transmittal or Treasurer's Receipt based on review of supporting documentation. Verifies that the check is made payable to the county treasurer and signs the check and Deposit Transmittal or Treasurer's Receipt.
	5. Submits the check and Deposit Transmittal or Treasurer's Receipt to the county treasurer or county school superintendent, as appropriate.
	6. Submits a copy of the Deposit Transmittal or Treasurer's Receipt and supporting documentation to the recording clerk.
Recording Clerk	7. Enters Deposit Transmittal or Treasurer's Receipt number, date prepared, and amount in the Deposit Transmittal Control Log. Initials the Deposit Transmittal Control Log (see page **VI-F-11**).
	8. Records revenue in the accounting records by fund and object based on the information on the Deposit Transmittal or Treasurer's Receipt.
	9. Retains Deposit Transmittal or Treasurer's Receipt and supporting documentation. See procedures upon receipt of the Validated Treasurer's Receipt on page **VI-F-5**.

Direct Remittances to the County Treasurer

The following procedures illustrate remittances of revenues directly to the county treasurer without temporarily depositing them in a miscellaneous receipts clearing bank account.

Performed by	Procedure
Clearing Account Custodian	1. Prepares a sequentially numbered Deposit Transmittal or a Treasurer's Receipt for revenues to be deposited directly to the county treasurer as indicated on the Miscellaneous Cash Receipt Summaries. Note: If the county treasurer does not use electronic Treasurer's Receipts, the treasurer may issue blocks of Treasurer's Receipts to the district to be prepared and submitted with deposits. When this procedure is followed, the district should establish controls over the unused Treasurer's Receipts to help ensure that all Treasurer's Receipts are accounted for and related revenues are accurately recorded.
	2. Submits Deposit Transmittal or Treasurer's Receipt, revenues, and supporting documentation to a supervisor for review.
Supervisor	3. Verifies account coding, mathematical accuracy, and completeness of the Deposit Transmittal or Treasurer's Receipt based on review of revenues received and supporting documentation.
	4. Approves Deposit Transmittal or Treasurer's Receipt.
	5. Submits revenue received and the Deposit Transmittal or Treasurer's Receipt to the county treasurer or county school superintendent, as appropriate.

Performed by	Procedure
Supervisor	6. Submits a copy of the Deposit Transmittal or Treasurer's Receipt and supporting documentation to the recording clerk.
Recording Clerk	7. Enters Deposit Transmittal or Treasurer's Receipt number, date prepared, and amount in the Deposit Transmittal Control Log. Initials the Deposit Transmittal Control Log (see page **VI-F-11**).
	8. Records revenue in the accounting records by fund and object based on the information on the Deposit Transmittal or Treasurer's Receipt.
	9. Retains Deposit Transmittal or Treasurer's Receipt and supporting documentation.

Validated Treasurer's Receipt

Districts should receive a validated Treasurer's Receipt or revenue posting report from the county school superintendent for all revenue deposited by or on behalf of the district. The following procedures are recommended when the Treasurer's Receipt or revenue posting report is received.

Performed by	Procedure
Recording Clerk	1. For deposits made by the district:
	a. Receives the validated Treasurer's Receipt or revenue posting report from the county school superintendent. Enters the date received and the validated Treasurer's Receipt number in the Deposit Transmittal Control Log. Initials the Deposit Transmittal Control Log (see page **VI-F-11**).
	b. Verifies that the amount and account coding recorded on the validated Treasurer's Receipt or revenue posting report agrees to the amount and account coding posted to the accounting records.
	c. Reviews outstanding Treasurer's Receipts or Deposit Transmittals at least monthly to determine their status. Investigates any Treasurer's Receipts or Deposit Transmittals outstanding for an unusual length of time.
	2. For deposits made by entities other than the district:
	a. Compares validated Treasurer's Receipt or revenue posting report to supporting documentation, if applicable (e.g., reimbursement claims).
	b. Posts or reviews revenue transactions initiated by the county school superintendent to ensure accuracy of district's accounting records.
	3. For all deposits:
	a. Contacts the county treasurer or county school superintendent and resolves differences when the amount or account coding recorded on the validated Treasurer's Receipt or revenue posting report does not agree with the district's records.

Performed by	Procedure
Recording Clerk	b. Signs and dates validated Treasurer's Receipt or revenue posting report to indicate review.
	c. Retains district's copy of the Deposit Transmittal or Treasurer's Receipt and supporting documentation with the validated Treasurer's Receipt or revenue posting report.

REVENUE RECOGNITION

Proper accounting for revenues throughout the fiscal year and at fiscal year-end helps districts ensure that revenues are correctly stated in the financial statements and the Annual Financial Report. Districts should account for revenues in governmental funds on the modified accrual basis of accounting, which requires that revenues be recognized in the fiscal year in which they become measurable and available to pay liabilities of the current fiscal year. Under this basis of accounting, revenues for the year ended June 30 that were not received by June 30, but are expected to be received within 60 days after fiscal year-end, should be accrued. To help ensure revenues are recorded in the correct fiscal year, districts should notify the county school superintendent of the appropriate fiscal year in which to record revenues received during the 60-day period after fiscal year-end. Typical revenues that may need to be accrued include property taxes, federal reimbursements, tuition, and interest earned on investments. Information on the carryover of monies for state and federal grants is provided in §VI-J, State and Federal Financial Assistance.

REVENUE APPORTIONMENT

Although county school superintendents generally apportion district revenues, each district has the ultimate responsibility for ensuring that revenues are properly apportioned among its funds. The following paragraphs provide procedures for apportioning most of the various revenues that are not designated for one specific fund.

State and County Equalization Assistance

Equalization assistance is apportioned between the Maintenance and Operation (M&O) and Unrestricted Capital Outlay (UCO) Funds based on each fund's budgeted expenditures. Therefore, apportionment of state and county equalization assistance should be based on ratios calculated from amounts recorded on the district's adopted expenditure budget, as follows.

A = Revenue Control Limit budgeted for the M&O Fund

B = District Additional Assistance budgeted for the M&O Fund

C = Revenue Control Limit budgeted for the UCO Fund

D = District Additional Assistance budgeted for the UCO Fund

M&O Fund Ratio

$$\frac{A + B}{A + B + C + D}$$

UCO Fund Ratio

$$\frac{C + D}{A + B + C + D}$$

Property Taxes and Additional State Aid

Apportionment of property taxes should be based on ratios of the property tax levy in the budget year for the Maintenance and Operation, Unrestricted Capital Outlay, Adjacent Ways, and Debt Service Funds to the total property tax levy. Apportionment of additional state aid should be based on ratios of the primary property tax levy in the budget year for the Maintenance and Operation and Unrestricted Capital Outlay Funds to the total primary property tax levy for those funds. The ratios should be calculated after the tax rate is set by the county board of supervisors. Tax levy amounts should be obtained from the county school superintendent.

Interest Earned on Pooled Investments

Interest earned on pooled investments is apportioned by the county treasurer either monthly or quarterly to each district account based on an average daily, weekly, or monthly cash balance in accordance with the *Uniform Accounting Manual for Arizona County Treasurers*.

If the county treasurer maintains a separate account for each district fund, no further apportionment is required. However, if the county treasurer maintains the minimum number of accounts for each district as allowed in A.R.S. §15-996, the county school superintendent must further apportion interest earned from the pooled investments after it has been distributed by the county treasurer. As prescribed by A.R.S. §15-996(1), if the county treasurer maintains the minimum number of accounts, one treasurer's account must consist of the Maintenance and Operation, Unrestricted Capital Outlay, Adjacent Ways, and Classroom Site Funds and a second treasurer's account must consist of federal and state grant monies <u>and</u> all other monies except those which the treasurer must maintain separately for the Bond Building, Debt Service, and New School Facilities Funds.

When the minimum number of accounts is maintained and interest is distributed monthly by the county treasurer, the county school superintendent should apportion interest monthly. One method is to total each fund's beginning and ending cash balances and divide by two to determine the average monthly balance for each fund within the treasurer's account. Alternatively, the average monthly balance may be calculated by totaling each fund's daily or weekly balances, dividing by the total number of days or weeks in the month, and apportioning interest in proportion to the resulting average balances.

When the minimum number of accounts is maintained and interest is distributed quarterly by the county treasurer, the county school superintendent should apportion interest quarterly based on either month-end or beginning and ending monthly cash balances of each fund within the treasurer's account for the 3 months of the quarter.

Theoretically, the county school superintendent should credit interest earned on pooled investments to all funds with positive balances and charge interest expense to funds with negative balances proportionately. However, as a more practical alternative, the county school superintendent may choose to apportion interest income to only those funds with positive balances and not charge amounts to funds with negative balances unless actual interest expense was incurred by the district.

Any of the above methods, or any other reasonable method, may be used to apportion interest earned on pooled investments, but the method used should be applied consistently.

Certificates of Educational Convenience

Revenues from certificates of educational convenience in accordance with A.R.S. §15-825 should be apportioned to the Maintenance and Operation, Unrestricted Capital Outlay, and Debt Service Funds based on the related request forms submitted to the Arizona Department of Education.

Tuition

Tuition revenues should be apportioned to the Maintenance and Operation, Unrestricted Capital Outlay, and Debt Service Funds based on the actual charges to the district of residence calculated in accordance with A.R.S. §15-824.

_____ SCHOOL DISTRICT NO. ____

MISCELLANEOUS CASH RECEIPTS SUMMARY

_____ _____, 20___
Month Day

Part I—Cash Receipts Held for Deposit				
Receipt Number	Fund	Description (received from)	Amount of Receipt	Account for deposit (clearing account or county treasurer)
			$	

Total Receipts $_____

Part II—Cash Count	
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
2.00	
1.00	
.50	
.25	
.10	
.05	
.01	

Total Cash Count $_____

Part III—Reconciliation	
Total Receipts (Part I)	$
Total Cash Count (Part II)	
Difference	$
Reason for Difference:	

_____
Cashier Date

_____
Clearing Account Custodian Date

No. _____
(sequentially numbered)

Date _____

_____ **SCHOOL DISTRICT NO. ___**

DEPOSIT TRANSMITTAL

Fund	Object Code	Revenue Description	Check/Warrant #	Amount
				$

Total Deposited $_____

Authorized Signature _____ Date _____

_____ SCHOOL DISTRICT NO. ___

DEPOSIT TRANSMITTAL CONTROL LOG

Deposit Transmittal or TR Number	Date Prepared	Total Deposit Amount	Initials	VALIDATED TR		
				Date Received	TR Number	Initials
		$				

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Refer to related School District FAQs

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Refer to School District Procurement Rules

Refer to USFR Compliance Questionnaire

POLICIES

The following policies should be implemented to comply with statutory requirements and maintain effective internal control over expenditures:

1. The district should separate the responsibilities of expenditure processing (voucher preparation, recordkeeping, and authorization) among employees. If this is not possible due to the district's limited staff size, adequate review procedures by district management should be in place.
2. In accordance with Arizona Revised Statutes (A.R.S.) §§15-341 and 15-342(25), the governing board must obtain approval by a vote of the district electors for the construction of buildings and purchase or lease of school sites, except when the buildings and sites are totally funded from one or more of the following:
   a. Monies in the Unrestricted Capital Outlay (UCO) Fund. The estimated cost may not exceed $250,000 for a district that uses a small school adjustment prescribed in A.R.S. §15-949.
   b. Monies distributed from the School Facilities Board.
   c. Monies specifically donated for constructing school buildings.
3. All expenditures must be approved by the governing board. A.R.S. §15-321(G)
4. The governing board should not authorize expenditures from budget-controlled funds (Maintenance and Operation [M&O], UCO, Adjacent Ways, and Classroom Site Funds) or federal and state grant funds in excess of the adopted budgets except for expenditures authorized by the county board of supervisors as provided in A.R.S. §15-907. A.R.S. §15-304
5. The governing board should not authorize expenditures from cash-controlled funds unless sufficient cash is available in the funds. However, if the county treasurer maintains the minimum number of accounts as prescribed in A.R.S. §15-996 and the expenditures have been included in the budget section of the approved federal or state grant application, then the governing board may authorize expenditures from state and federal grants regardless of whether sufficient cash is available in the funds. Cash-controlled funds are all funds other than the budget-controlled funds listed above. A.R.S. §15-304
6. Sequentially numbered purchase orders should be prepared and approved by an authorized district official for all district expenditures before the goods or services are ordered, except for exempted items such as salaries and related costs, utilities, and in-state travel, or when a written contract is prepared. Districts may implement alternative procedures for credit card and procurement card purchases (see page **VI-G-16**).
7. Blanket purchase orders may be used for purchases of a recurring nature from the same vendor within a specified time frame, such as maintenance supplies and food service items. Blanket purchase orders should state a definite time period that the purchase order is in effect and a specific dollar limit. Invoice amounts paid against a blanket purchase order should be deducted from the total limit to determine the remaining unexpended balance. The district should periodically review open blanket purchase orders and close purchase orders outstanding for more than the specified time period. All blanket purchase orders should be closed with the vendor at year-end.

8. Receiving reports should be prepared for all goods and services received except exempted items. The date of receipt, quantity received, and signature of the recipient should be included on the receiving report.

9. School district warrants not presented for payment within 1 year after the date of issuance are void and have no further force or effect. Therefore, districts should appropriately adjust the records of the applicable funds in accordance with A.R.S. §15-999.

10. Districts must prepare, for all levy funds, a list of liabilities by fund and program for goods or services received but not paid for on or before June 30, and must file an Advice of Encumbrance based on the list with the county school superintendent (CSS) by July 18. A.R.S. §15-906

11. Districts must follow the School District Procurement Rules [*Arizona Administrative Code* (AAC) R7-2-1001 et seq] adopted by the State Board of Education and the guidelines for written quotes in this section. A.R.S. §§15-213 and 15-271

12. If the district uses credit cards or purchasing cards (p-card), the governing board should authorize card use by district employees and ensure district management establishes written policies and procedures. The policies and procedures should provide an effective accounting system to account for and control the cards. See page **VI-G-14** for policies and procedures specific to credit cards and p-cards.

PROCEDURES

Expenditure Processing

The following procedures for processing expenditures for the procurement of goods use a central supply warehouse for the illustration. Specific procedures may vary depending on the size and organization of the district or degree of automation (i.e., electronic approvals in place of signatures, electronic document storage in place of filing hard copies, electronic payments, etc.). See §IX, Information Technology, for information regarding general and application controls for automated systems. Similar procedures, modified appropriately, should be followed for the procurement of services.

Performed by	Procedure
Requisitioning Department	1. Prepares a sequentially numbered purchase requisition (**VI-G-21**), which should be signed and dated by the requisitioner and the department individual authorized to approve the requisition.
	2. Forwards requisition to the district office and retains a copy.
District Office Clerk	3. Verifies that items requested are not in central supply. If items are in central supply, forwards the requisition to central supply for processing. The procedures in §VI-D, Supplies Inventory, are then followed by central supply.
	4. Verifies that sufficient budget capacity exists to make expenditures from budget-controlled funds (M&O, UCO, Adjacent Ways, and Classroom Site Funds) and federal and state grant funds, if applicable. Verifies that sufficient cash is available to make expenditures from other funds.

Performed by	Procedure
District Office Clerk	5. Signs and dates the requisition, or returns it to the requisitioning department if sufficient budget capacity or cash balance, as applicable, is not available.
	6. Initiates procurement procedures required by the School District Procurement Rules (AAC R7-2-1001 et seq) if the amount of the purchase is expected to exceed $100,000.
	7. Selects a vendor in accordance with the guidelines for written quotes (**VI-G-9**) if the purchase is expected to be at least $10,000 and less than $100,000.
	8. Reverifies budget capacity or cash balance, as applicable, if the actual cost exceeds the estimated cost recorded on the requisition.
	9. Prepares a sequentially numbered purchase order (**VI-G-22** and 23). Forwards purchase order and requisition to be reviewed and approved by an individual, other than the preparer, who is authorized to do so by the governing board. If a purchase order is initiated but not issued, it should be voided to prevent reuse and retained.
	10. Orders goods from the selected vendor.
Receiving	11. Receives a copy of the purchase order (**VI-G-23**) and performs the following steps when the goods are received: a. Inspects the goods for visible damage in the carrier's presence. Damaged goods should not be accepted. b. Determines the quantity received. c. Completes the receiving report, indicating the date received, quantity received, condition of goods, and signature of employee receiving the goods. If a copy of the purchase order is used as a receiving report, the quantity ordered should have been blocked out and the quantity received should be recorded next to the description of each item. d. Delivers goods to the requisitioner and obtains confirmation of delivery by requiring the recipient to initial and date the receiving report. e. Submits the completed receiving report to the district office, with shipping documents attached, such as bills of lading or freight bills. Note: Receiving reports should also be prepared and retained for purchased services and construction projects for verification of performance and completion. Such receiving reports should be prepared by the district employee responsible for procuring the services or managing the project.
District Office Clerk	12. Compares the receiving report with a copy of the purchase order.

Performed by	Procedure
District Office Clerk	13. Notes on the purchase order items satisfactorily received and clearly indicates the status of the purchase order (complete, partial shipment, etc.).
	14. Attaches the receiving report with shipping documents to a copy of the purchase order and requisition, and retains all documents until receipt of vendor's invoice.
	15. Receives vendor's invoice and records the date the invoice is received on the invoice.
	16. Reviews vendor's invoice for mathematical accuracy, indicating evidence of such review on the invoice.
	17. Compares terms, quantities, and prices on the purchase order, vendor's invoice, and receiving report. Differences or open credit memos should be resolved before payment is made. If a partial shipment was received, the vendor should be paid for only the goods received.
	18. Calculates cash discount, if applicable.
	19. Attaches the vendor's invoice to a copy of the purchase order, requisition, receiving report, and shipping documents.
	20. Prepares an expenditure voucher, which consists of a voucher cover sheet and voucher supplement. Records expenditures by fund, program, function, object, and unit codes prescribed in §III, Chart of Accounts.
	21. Forwards the voucher and supporting documentation to the supervisor.
Supervisor	22. Verifies that the voucher cover sheet agrees to the voucher supplement and supporting documentation.
	a. Totals voucher supplement expenditures by fund and agrees these totals to the voucher cover sheet fund totals.
	b. Totals voucher supplement expenditures by vendor and agrees these amounts to the related warrant amount on the supplement.
	c. Reviews supporting documentation and agrees invoice amounts to the voucher supplement.
	23. Signs the voucher to indicate approval and submits it to the governing board for approval.
Governing Board	24. Governing board reviews and signs voucher to indicate approval. If authorized by a governing board resolution, vouchers may be signed between board meetings and ratified by the board at the next governing board meeting. A.R.S. §15-321

Performed by	Procedure
District Office Clerk	25. Receives approved voucher from the governing board and records the expenditures using the account codes indicated on the voucher. Districts in the Accounting Responsibility Program should see Warrant Processing for Districts in the Accounting Responsibility Program below.
	26. Forwards voucher to the CSS and retains a copy of the voucher with supporting documentation by voucher number until the warrants are received.

Warrant Receipt and Distribution

After the warrants are received but before distribution, the information recorded on the warrants should be compared to the information recorded on the voucher and warrant register.

Performed by	Procedure
District Office Clerk	1. Compares the warrants to the warrant register on a test basis to ensure that the warrant number, payee, account code, and amount agree.
	2. Agrees voucher cover sheet fund totals to fund totals recorded on the warrant register.
	3. Agrees the warrant payee and amount to the payee and amount recorded on the voucher supplement on a test basis.
	4. Researches and resolves any differences. Initials and dates the voucher supplement and warrant register to indicate evidence of review.
	5. For each warrant, cancels vendor's invoice by stamping "paid" and recording voucher and warrant numbers on the invoice.
	6. Attaches warrant register to voucher, retains voucher by voucher number, and mails warrants to vendors.

Warrant Processing for Districts in the Accounting Responsibility Program

Following are suggested procedures for warrant processing by districts in the Accounting Responsibility Program authorized by A.R.S. §15-914.01. Specific procedures may vary depending on the district's size and organization. However, care should be taken to ensure there is effective internal control over the process. Warrants may be generated manually or by machine. However, the internal control over warrant issuance and information recorded on the warrants should be the same regardless of the method of preparation. Access to blank warrants and authorized signatures should be limited to authorized personnel, the custody of blank warrants and authorized signatures should be separated between two employees, and warrant preparation should be assigned to an employee not responsible for signing warrants.

Performed by	Procedure
District Office Clerk	1. Receives the supply of sequentially numbered warrant stock from the printing company and examines the warrant stock to ensure that the complete order has been received.

Performed by	Procedure
District Office Clerk	2. Records the beginning and ending warrant numbers, date received, and initials in the warrant control log. Warrants should be stored in a secure location with the district office clerk.
	3. Examines the approved voucher to determine the number of warrants needed.
	4. Records the beginning and ending warrant numbers to be issued in the warrant control log. Warrants should be issued in numerical sequence. Initials and dates the warrant control log.
	5. Prepares the warrants from information recorded on the voucher supplement, such as payee, account codes, and amounts.
	6. Prepares the warrant register.
	7. Submits the completed warrants, voucher, warrant register, and all spoiled warrants to the district office clerk II.
District Office Clerk II	8. Receives the completed warrants, voucher, and warrant register.
	9. Reviews the warrants by comparing the information recorded on the warrants to the information recorded on the voucher and warrant register to ensure that the warrants are correct.
	10. Marks spoiled and incorrect warrants as "VOID" on the warrant and in the warrant register. Forwards the voided warrants to the district office clerk for retention.
	11. Obtains the authorized signature stamp or signature plate from a supervisor. Initials and records date and time of receipt in the authorized signature plate control log.
	12. Records the beginning meter number from the warrant signature machine in the warrant signature machine meter control log.
	13. Processes completed warrants through the warrant signature machine.
	14. Records the ending meter number from the warrant signature machine and difference in the warrant signature machine meter control log.
	15. Initials and dates the log.
	16. Returns the signature stamp or signature plate to a supervisor along with the warrant register. Returns the voucher and warrants to the district office clerk.
Supervisor	17. Receives the signature stamp or signature plate and warrant register.
	18. Initials and records date and time of receipt in signature stamp or signature plate control log.

Performed by		Procedure
Supervisor	19.	Reconciles number of warrants processed through warrant signature machine (as recorded in warrant signature machine meter control log) to warrants recorded in the warrant register. Differences noted during reconciliation should be resolved immediately before warrants are distributed. Initials and dates warrant signature machine meter control log as evidence of reconciliation.
	20.	Returns warrant register to the district office clerk.
District Office Clerk	21.	Forwards copy of voucher and warrant register to county treasurer.
	22.	Retains the voucher and warrant register by date or number.
	23.	Mails the warrants to vendors.
	24.	Records the numbers in the warrant control log of the voided warrants returned in step 10 and initials for receipt of the warrants returned.
	25.	Retains the voided warrants in numerical sequence.

Credit Memos

Vendor credits applicable to current fiscal year expenditures may be applied against subsequent payments to the same vendor or may be refunded in cash. If refunded in cash, the district should reduce the expenditures recorded in the accounting records. Credits applicable to a prior fiscal year should be refunded and recorded as miscellaneous revenue in the fund that was originally designated on the invoice for which the credit was requested.

Procedures to return a partial or complete shipment of goods

1. The outgoing shipment should be documented by recording the date of shipment, vendor name, quantity and description of items, related purchase order number, and invoice number. The normal receiving document used by the district clearly marked SHIPMENT OUT may be used.
2. A receipt should be obtained from the vendor or carrier for the outgoing shipment.
3. A credit memo should be obtained from the vendor (and a refund check, if appropriate) that includes reference to the original invoice and purchase order number, quantity and description of returned items, and amount of credit allowed.
4. The same fund code should be assigned to the credit memo that was originally designated on the invoice for which the credit was requested. The credit memo should be filed by vendor in an open credit memo file, and applicable information should be recorded in a credit memo control log.
5. If a refund check is received, normal cash receipts procedures should be followed. However, if the credit is applicable to current fiscal year expenditures, the accounting entry is to increase cash and decrease the expenditure account instead of recording the receipt as revenue.

Procedures to return a partial or complete shipment of goods

6. If only a credit memo is received, a deduction should be made from a subsequent invoice. The invoices selected for application of a vendor's credit memo should be processed as follows:
   a. The amounts appearing on the face of the invoices should be classified by account code as usual.
   b. A copy of the credit memo should be attached to the vendor's invoices submitted for payment.
   c. The voucher should be summarized by account codes of the invoices and credit memos as usual.
7. If the account codes of the credit memo differ from the original expenditures, the credit memo should be shown in the voucher supplement as a separate line item:
   a. With the fund, program, function, object, and unit code assigned to the credit memo.
   b. With the amount bracketed under the CODE AMOUNT column.
   c. With the description CREDIT MEMO following the vendor name.

Prepayments

In accordance with A.R.S. §15-905(N), districts may prepay any item that is normally prepaid in order to procure it or to receive a discounted price. Such items may include insurance premiums, magazine subscriptions, officiating services, conference registrations, hotel accommodations, airfare, service/ maintenance contracts, membership dues, early payments of lease purchases to reduce interest costs, enrollment fees, or payments to vendors that do not accept purchase orders, such as the federal government. Other items not specified may also be prepaid, but must meet the same criteria mentioned above. Districts should prepare written documentation, signed by authorized district management, supporting the decision to prepay such items and retain it with expenditure supporting documentation.

Items not meeting the prepayment specifications of A.R.S. §15-905(N) may be paid only after received. Such items ordered on or before June 30 but not received by June 30 may not be paid with current year monies, but may be paid with monies of the new fiscal year if sufficient budget capacity exists. Canceling the old purchase order and issuing a new purchase order in the new fiscal year will help facilitate proper accounting for such items.

Year-End

At fiscal year-end, the district must prepare, for all levy funds (M&O, UCO, and Adjacent Ways Funds), a list of liabilities for goods or services received on or before June 30 that were not paid by that date. Such liabilities typically include accounts payable, salaries and wages payable, lease-purchase contracts payable, and construction contracts payable. To prepare the list, the district should review purchase orders, receiving reports, vendor invoices, and other relevant vendor information; payroll records; lease-purchase contracts and corresponding payment schedules; and construction contracts and certificates-of-payment. The list, summarized by fund (and program for the M&O Fund), should include the vendor name, receiving report date, purchase order number, and estimated cost as recorded on the purchase order, or actual cost if the district has received the invoice.

Click here for Advice of Encumbrance Form

Advice of Encumbrance

School districts not participating in the Accounting Responsibility Program must prepare an Advice of Encumbrance in accordance with A.R.S. §15-906. The **Advice of Encumbrance** is available as a form on the Auditor General's website. This form indicates the amount by fund (and program for the M&O Fund) that must be encumbered to pay for levy fund liabilities of the prior fiscal year. The list of levy fund liabilities prepared at year-end should be used to complete the Advice of Encumbrance. Totals on the list of levy fund liabilities should agree with those recorded on the Advice of Encumbrance.

The total amount to be encumbered from each fund should be equal to or less than the unexpended budget balance for levy funds. The Advice of Encumbrance must be submitted to the CSS by July 18, and a copy should be retained with the list of levy fund liabilities. The liabilities recorded on the Advice of Encumbrance should be processed for payment on separate vouchers identified as encumbrance vouchers. The CSS is authorized to draw warrants against the encumbered funds for a period of 60 days after the close of the fiscal year. After the 60-day encumbrance period, no further payments may be made from levy funds on any claims from the prior year.

PROCUREMENT

For purchases exceeding $100,000, districts must follow the School District Procurement Rules, which are available on the Arizona Secretary of State's website. The Rules are located in the *Arizona Administrative Code* in Title 7 Education, Chapter 2 State Board of Education, Articles 10 and 11, School District Procurement.

Guidelines for Written Quotes

These guidelines are the minimum requirements that districts must follow for purchases below the $100,000 threshold. Any variations from these guidelines, such as lower dollar limits or higher levels of required competition, must be reasonable and must be documented in the district's governing board minutes as a policy.

1. The governing board may, in a public meeting, delegate procurement authority to a designated district employee or employees. Such delegation must specify the title of each employee; the activity or function authorized; any limits or restrictions on exercise of the delegated task, including the maximum total cost of any procurement; whether the task may be delegated further; duration; and conditions and procedures for modifying and revoking the delegation. The delegation may include the authority to approve a contract award up to an amount predetermined by the governing board.
2. The district should obtain written quotes from at least three vendors for purchases costing at least $10,000, and less than $100,000.

3. Except for purchases from employees and governing board members and purchases using federal grant monies, competitive purchasing is not required for purchases less than $10,000. Districts should use reasonable judgment in awarding contracts to ensure they are advantageous to the district. See page VI-G-11 for more information on purchasing from employees and governing board members. See 2 CFR §200.320(a) and (b) for purchases using federal grant monies.

4. In lieu of obtaining quotes as discussed above, districts may choose to follow the School District Procurement Rules for cooperative purchasing agreements (R7-2-1191 et seq.), sole-source procurements (R7-2-1053), and emergency procurements (R7-2-1056 and 1057) for purchases below the $100,000 threshold. Districts may also use current General Services Administration (GSA) contracts if authorized by the governing board. The governing board must determine in writing that all of the criteria listed in A.R.S. §15-213(J) apply to a GSA contract before authorizing purchases under the contract. Further, districts may purchase from Arizona Correctional Industries or a certified nonprofit agency that serves individuals with disabilities without competitive purchasing.

Districts should issue requests for quotes in sufficient time before the purchase is to be made and in adequate detail to allow vendors to effectively respond. If the contract will be awarded based on price and additional factors, such as quality of the product or work to be performed, those factors should be included in the request for quotes. The request for quotes may also include:

1. Offer submission requirements, including offer due date and time, where offers will be received, and offer acceptance period;
2. Any purchase description, specifications, delivery or performance schedule, and inspection and acceptance requirements;
3. The minimum information that the offer shall contain;
4. Whether negotiations may be held;
5. Any contract options, including renewal or extension;
6. Uniform terms and conditions by text or reference; and
7. Any other terms, conditions, or instructions specific to the procurement.

Districts should document and retain in a district procurement file or with the related requisition form or purchase order the vendor name, person(s) contacted, telephone number, and price quotes or results of the request. If three written quotes cannot be obtained, districts should document the vendors contacted and their reasons for not providing quotes and retain this with the procurement file or related documents. Districts should award the contract to the vendor determined to be most advantageous to the district in accordance with the factors identified in the request for quotes. If a vendor is selected because of factors other than lowest price, the reasons should be fully documented and retained with the quotes. If only one quote can be obtained, the district should document why the contract award is advantageous to the district before awarding a contract. After a contract is awarded, districts should issue a written contract or prepare and approve a purchase order before ordering goods or services.

Procurement files, including quotes received and the district's basis for contract award, are public records and must be made available for public inspection after the contract is awarded or procurement is canceled.

Analyzing Cumulative Purchases

When determining the level of competitive purchasing required (i.e., written quotes, or sealed bids or proposals), districts should consider not only the dollar amount of the current purchase but the total dollar amount of all like-item purchases that might occur during the fiscal year. If the amount of the good or service that will be needed during the year is uncertain, districts should analyze cumulative purchases of like items for the previous fiscal year and adjust the estimate for any changes (e.g., increased enrollment, new school) that might affect the amount of the good or service needed. An analysis of cumulative purchases should be based on like items rather than vendors. Specifically, if the district purchased like items from multiple vendors, the total of all like-item purchases from all vendors should be considered. Also, if the district made nonlike-item purchases from a vendor that provides multiple types of goods or services, nonlike-item purchases from the vendor should be considered separately.

Competitive purchasing requirements must be followed regardless of the purchasing method (purchase order, credit card, or purchasing card) used. Total like-item purchases from all purchasing methods should be considered in determining the appropriate level of competitive purchasing required.

Purchasing from Employees and Governing Board Members

Districts are required to follow the School District Procurement Rules for all purchases of goods or services from district employees regardless of dollar amount. A.R.S. §38-503(C) prohibits public **employees** from providing their employers with any **equipment, material, supplies, or services** unless provided under an award or contract let after public competitive bidding. Accordingly, Arizona Attorney General Opinion I06-002 states that districts must follow the School District Procurement Rules, regardless of the expenditure amount, when purchasing goods or services from district employees. This applies to any purchase using district monies, including extracurricular activities fees tax credit contributions and monies held in trust by the district, such as student activities monies. Although the School District Procurement Rules exempt expenditures of student activities monies from the Rules, that exemption does not apply to purchases in which a district employee acts as a vendor. Following the guidelines for written quotes is not sufficient to comply with the requirements of A.R.S. §38-503(C).

Similarly, districts are required to follow the School District Procurement Rules for all purchases of services from district board members regardless of dollar amount. A.R.S. §38-503(C) prohibits **governing board members** from providing their district with any **services**, unless provided under an award or contract let after public competitive bidding. However, for purchases of **supplies, materials, and equipment** from district board members, districts are required to follow the School District Procurement Rules only if the purchase exceeds $100,000. Purchases below the $100,000 threshold must comply with the guidelines for written quotes. For districts with 3,000 or more students, statutes limit purchases of goods or services from board members to $300 per transaction and $1,000 total within any 12-month period and require that the governing board adopt a policy authorizing such purchases within the preceding 12 months. Districts with fewer than 3,000 students may purchase goods or services from governing board members in any amount, provided each purchase is approved by the governing board and the amount of the purchase is included in the board's meeting minutes. Arizona Attorney General Opinions I87-035 and I06-002, and A.R.S. §§15-213, 15-323, and 38-503

Districts should establish procedures to ensure that all employees and board members comply with A.R.S. §38-503 related to conflict of interest. See page VI-G-13.

Multiple Year Purchases

Districts may enter into contracts for up to 5 years. When using multi-term contracts, the terms and conditions of renewal or extension, if any, must be included in the solicitation for bids, proposals, or quotes, and monies must be available for the first fiscal year at the time of contracting. Also, contracts for materials or services and contracts for job-order-contracting construction services may be entered into for more than 5 years if, before the procurement solicitation is issued, the governing board determines in writing that a contract of longer duration would be advantageous to the district. Payment and performance obligations for succeeding fiscal years are subject to the availability and appropriation of monies.

When determining the level of competitive purchasing required, a district must consider the total expenditures that will be made over the multiple years. For example, if a district wanted to obtain pricing for 3 years on an item, it could do so by written quotes if the total anticipated expenditures over the 3 years were not expected to be more than $100,000.

Before multi-term contracts are used for purchases over $100,000, the district's governing board must determine in writing that the estimated requirements cover the contract period and are reasonable and continuing, a multi-term contract will serve the district's best interests by encouraging competition or promoting economies in procurement, and if monies are not appropriated or available in future years, the contract will be canceled. If multiple-year quotes are used, districts should document the time period that the pricing is valid, that the vendor will honor the pricing for that time period, and that, while the district intends to purchase certain quantities, all purchases are subject to funds availability.

Multiple Awards

A multiple award is defined as an award of an indefinite quantity contract for one or more similar materials or services to more than one bidder or offeror. In general, districts should not use multiple awards allowing more than one vendor to supply the same goods or service. However, there are instances in which districts may make multiple awards. For example, multiple awards may be made if one vendor is unable to provide the total quantity of goods or services requested by the district, or if geographic distance precludes the use of one vendor throughout the district. In these instances, the request for proposals or invitation for bids should clearly state whether multiple awards may be used so that bidders can take that into consideration when pricing their proposals or bids.

Before making a multiple award, the district should determine and document in writing the specific reason(s) that a single award is not advantageous to the district. The district should also limit the contract awards to the least number of suppliers necessary to meet the district's requirements.

Due Diligence

Districts are responsible for ensuring that procurements, whether done independently or through a cooperative purchasing agreement, are done in accordance with the School District Procurement Rules. The appropriate amount and complexity of due diligence to be performed by a district will vary based on the procuring entity with which the district is participating. A.R.S. §15-213(F) requires school districts and school purchasing cooperatives, in connection with any audit conducted by a certified public accountant, to have a systematic review of purchasing practices. The Office of the Auditor General has prescribed the guidelines for performing these reviews as part of the Procurement Compliance Questionnaire for cooperatives and the Expenditures section of the USFR Compliance Questionnaire for districts. A cooperative or lead district (entity) that has had such a review within the past year and made the results of the review available may not warrant the same amount or complexity of due diligence as an entity that has not undergone a review or for which the results are unavailable. For example, if an entity had no findings as a result of its review, districts may need to do little or no additional due diligence beyond obtaining a copy of the compliance questionnaire as documentation for the results of the review. However, an entity that did not have a review or had a review with significant findings would require a greater amount and complexity of due diligence. Districts should also consider any other information available on the entity's procurement practices.

Districts may, but are not required to, perform due diligence for every contract procured through cooperative purchasing. If an entity had no findings as a result of the review discussed above, districts may not need to review a particular contract except to ensure that the specific good or service to be purchased from the vendor is part of that contract. For an entity where more due diligence is required, it may be adequate to perform due diligence on a sample of contracts procured by the entity if that sample provides reasonable assurance that the entity's procurement practices comply with the School District Procurement Rules. To perform due diligence, districts may want to consider using the procurement questions in the compliance questionnaires as a guide in reviewing cooperative purchases.

Districts must use their judgment in determining the appropriate amount and complexity of due diligence required for each procuring entity with which they participate. For audit purposes, districts should retain documentation of the due diligence performed and its results in a procurement file.

CONFLICT OF INTEREST

Districts should develop a conflict-of-interest policy to help ensure that all purchases are made at arm's length. A.R.S. §38-503 requires that governing board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. Districts should require governing board members, officers, or employees to complete or update conflict-of-interest statements annually, if applicable. Districts must maintain a conflict-of-interest file for governing board members and employees who have made such conflicts known to the district and make the file available for public inspection. See page VI-G-11 for more information on purchasing from employees and governing board members.

CREDIT CARDS AND PURCHASING CARDS (P-CARDS)

Credit cards allow authorized district employees to purchase goods or services that will be billed on a charge account and paid at a later date by the district. Examples would include bank credit cards that do not control where a purchase is made or what is purchased and vendor-specific credit cards, such as for home improvement stores or discount retail stores that can be used only at those vendors' locations, but do not control what is purchased. P-cards are credit cards that can be limited to specific vendor types using Merchant Category Codes and offer more control of card limits.

Prior to implementing a credit card or p-card program, districts should analyze their purchasing practices, including what is purchased, who is making the purchases, and vendors purchased from, to determine if a credit card or p-card program would benefit the district. Effective use of credit cards and p-cards can help districts streamline the acquisition process for obtaining goods or services directly from vendors and can provide a method for making purchases from vendors that do not accept purchase orders. Districts should consider whether certain purchases could be made more efficiently and cost effectively with a credit card or p-card. Cost analysis should include the cost of staff time to process traditional transactions versus card purchases and to effectively monitor credit card and p-card purchases due to the greater risk of unapproved and fraudulent transactions.

If the analysis indicates the implementation of a credit card or p-card program would be advantageous to the district and the district decides to implement such a program, the district should select a credit card or p-card vendor through a competitive selection process. The district should follow the School District Procurement Rules or guidelines for written quotes, as applicable. Otherwise, the district should evaluate programs offered by multiple vendors to ensure it receives the best value and the program that best fits its needs.

Some factors that should be considered in selecting a credit card or p-card vendor include:

- Does the program allow for online management? If so, what features and functions are available?
- Does the vendor charge annual fees or per-card issuance or replacement costs?
- Does the vendor provide automated approval and reconciliation software, and is it compatible with the district's accounting software?
- Is the program easy to use, including "user-friendly" reports that district management can use to monitor the program?
- Does the program have a comprehensive system of controls that can be managed on a per-card basis?
- Does the card provider offer training material and customer support?
- Does the program offer rebates, and how are the rebates administered?
- Does the program have the ability to create and manage multiple levels of online security and authority?

Once the vendor has been selected, the district should ensure policies and procedures are in place to manage the program.

General Policies and Procedures

The use of credit cards and p-cards can create a greater risk of unapproved and fraudulent transactions. Therefore, districts should implement effective internal control to help reduce that risk. District management should also monitor adherence to policies and procedures, including appropriate followup, investigation, and resolution of transactions that appear improper. Specific policies and procedures to account for and control cards should include:

- Clearly defined separation of responsibilities for issuing cards; requesting, authorizing, and executing purchases; and payment processing.
- An authorized employee to oversee the issuance and use of cards, usually an employee in the purchasing or business office.
- Outline the purposes for which the cards may be used. Cards should be used only for valid district purposes.
- Specific guidelines to be used in determining which employees should be issued cards and the specific restrictions and limits that should be placed on individual cards, including the maximum single transaction amount and monthly purchase limits that may be authorized. In setting these guidelines, management should consider how many individuals should be allowed to commit district resources through card transactions and the aggregate amount of district resources that could be committed by card users if they were to maximize their spending limits. Districts should limit the number of card users to the minimum necessary for effective purchasing to maintain adequate control of district resources, to minimize the oversight cost for card programs, and to reduce the risk of loss due to unapproved and fraudulent transactions.
- Procedures for canceling or inactivating a card.
- Procedures for handling disputed charges.
- A designated employee to coordinate card accountability for each school site or department that utilizes the cards.
- Prohibiting card users from splitting purchases into smaller transactions in order to circumvent procurement requirements or to avoid individual card user purchase limits.
- Specific procedures for card transactions and payments as discussed below.

Card Issuance

Limits—Based on the district policies and procedures, the employee authorized to issue cards should approve card users and set single transaction limits and monthly purchase limits for each card user. Cards should be issued only to district employees with a legitimate need and whose use of the card is necessary for effective purchasing. The purchase limits should be established based on the types of transactions for which the card is to be used, rather than an arbitrary amount. The employee issuing cards should not be an authorized card user.

Tracking—Cards should be issued in the district's name and, if applicable, the user's name. The employee issuing cards should maintain a complete list of card users to track possession of all cards. Physical security

of cards in the district's possession should be maintained at all times. Further, districts should cancel or inactivate cards—recovering the card, if possible—upon loss, theft, or misuse; when a card is no longer needed; and upon the card holder's separation from district employment.

For cards issued only in the district's name, such as fuel credit cards used for fleet vehicles, a specific employee should be designated to track who has the cards and account for all of the cards' transactions. The employee should ensure that all cards are signed out by employees when in use, returned in a timely manner with supporting documentation, and signed back in upon return.

Training—Districts should require training for card users and any other employees involved with the processing of transactions. Districts should keep training materials current and document when each employee was trained. The extent and type of training provided to employees should be appropriate in relation to individual authority and responsibility and the amount of transaction authorization given to the card user. Districts should also make card users aware of any laws, regulations, contractual agreements, and policies and procedures that require the card user to acquire goods and services from specific sources, such as contracts and blanket purchase orders.

Card User Agreement—All card users, including users of cards issued only in the district's name, should sign a card user agreement acknowledging receipt and understanding of the district's policies and procedures for the card's use. The agreement should authorize the district to withhold wages for the amount of any improper purchases if the card is misused.[1]

Card users should be held personally liable for card transactions that are contrary to any laws, rules, or policies and procedures, including applicable penalties and interest. The agreement should also outline other possible disciplinary actions for misuse of district cards, including loss of card use privileges or possible personnel actions.

Transaction Controls

The internal control procedures established for card usage should be designed to ensure purchases are properly authorized, for an appropriate district purpose, within budget for budget-controlled funds or available cash balance for cash-controlled funds, and made in accordance with the School District Procurement Rules and guidelines for written quotes, as applicable. Procedures should also be designed to help prevent or detect fraudulent and abusive transactions. This may be achieved through advance approval of purchases and review of supporting documentation during the payment process.

Advance Approval—To help prevent unauthorized transactions from occurring and ensure compliance with procurement requirements, district management may require purchases to be reviewed and approved by an authorized employee prior to ordering goods and services. Purchase requisitions or purchase orders can be used to facilitate advance approval; however, alternative procedures may provide a similar level of control.

[1] If wages are withheld for improper purchases from a nonexempt employee under the *Fair Labor Standards Act* (Act), districts must ensure that remaining wages are sufficient to comply with the Act's minimum wage and overtime compensation requirements.

If purchase requisitions or purchase orders are used, they should document the approval process, including verification that the purchase is for an appropriate district purpose; that the monies or budget capacity are available, as applicable; and that applicable procurement requirements have been met. Purchase orders may be issued for individual transactions, or blanket purchase orders may be used for frequent purchases such as maintenance supplies or food service items.

Alternatively, district management should:

- Ensure strong controls over review of supporting documentation are in place and operating effectively to quickly detect and address improper purchases.
- Monitor budget and cash balances, adjusting card limits as necessary, or use declining balance cards.
- Limit card users to purchases of items on existing contracts that have been properly procured or where competitive purchasing is not required (e.g., the district's total like-item purchases do not exceed the written price quotes threshold).

Supporting Documentation—Employees using cards should submit all supporting documentation to the district at least monthly. To allow for appropriate review of the purchase, supporting documentation should include:

- Purchase requisition, purchase order, invoice, packing slip, receiving report, and transaction receipt, as applicable. If original receipts are not available because they are lost or illegible, the card user should request a copy of the receipt from the vendor or complete an affidavit detailing the purchase date, vendor, product, cost, tax and other charges, and reason the receipt is not available.
- Description of item(s) purchased and the specific district purpose for the expenditure.
- The card user's signature and date the documentation was submitted to the district.
- The district vehicle license number and odometer reading for fuel or vehicle repair purchases.
- Transaction log that reconciles supporting documentation to the billing statement, signed by the card user or the employee designated to track transactions of cards issued only in the district's name.

Certain transactions, such as items purchased online, by phone, or fax, may result in card charges before goods or services are received. District procedures should address when such transactions are allowed, limiting them to items that are normally prepaid in order to procure them or to receive a discounted price. (See page **VI-G-8** for more information on items that may be prepaid.) Procedures should also be adequate to verify and document the receipt of any prepaid items.

Payment Process

Districts should ensure that approval, verification, and payment responsibilities are separated among different employees. A copy of billing statements should be sent directly to the district so the employee or department authorized to make payments on cards is aware of outstanding balances and payment due dates. Electronic statements may be accepted if provided by the financial institution.[2]

[2] Electronic statements must be retained in an accessible format in accordance with §X-E, Records Management.

A copy of the billing statement should also be provided to card users by the financial institution or the district. Upon receipt of the billing statement, the card user should complete the transaction log and submit the log, billing statement, and all other supporting documentation for review and approval. The reviewer should:

- Confirm that all supporting documentation is complete and was submitted in a timely manner.
- Verify that each purchase transaction appearing on the card user's billing statement is an appropriate, legitimate district purchase that was approved and within the individual's authorized purchase limits.
- For travel expenses, verify that expenses do not exceed allowable reimbursement amounts (see §VI-I, Travel) and are supported by a properly approved travel claim.
- Initial and date the reconciliation to document responsibility for and timing of review.
- Submit reconciled statements and supporting documentation to the employee or department authorized to make payments on cards.

If the financial institution provides electronic access to transaction detail throughout the billing cycle, districts may wish to review transactions on an ongoing basis rather than wait until a billing statement is received.

All receipts should be reconciled and reviewed at least monthly and, if possible, prior to payment of the monthly bill. Card balances should be paid in full each billing cycle and made in a timely manner to avoid late fees and finance charges. If the reconciliation or review identifies any items that were not a valid district charge, it should be disputed following the district's dispute-handling procedures.

Periodic Reviews

District management should periodically compare budget and actual expenditures to ensure purchases remain within budget or available cash balance, as applicable. Districts should also monitor types of purchases and vendor usage to ensure compliance with the School District Procurement Rules or guidelines for written quotes, particularly related to cumulative purchases and items that are not under existing contracts. (See page **VI-G-11** for more information on analyzing cumulative purchases.) If card users are not complying with budget restrictions, procurement requirements, or any other card policies and procedures, appropriate corrective action should be taken.

District management should ensure periodic compliance audits are conducted to test card transactions for adherence to district policies. These audits should test the entire transaction process from the card's issuance to payment of the monthly bill. The audits should be performed on a sample basis by an employee not involved in issuing cards or processing transactions to verify that card users and other employees involved with the processing of transactions are complying with all district card policies and procedures. The individual conducting these audits should document what was reviewed, any findings noted, and corrective action taken, if necessary. Documentation should be initialed and dated by district management and retained.

Transaction Red Flags

Authorized individuals reviewing card transactions and monthly statements should be aware of possible warning signs of improper or fraudulent transactions (red flags). The reviewer should investigate purchases that exhibit red flags or otherwise appear to be out of the norm. Possible red flags may include:

- Purchases that appear to be of a personal nature.
- Transactions that occur during nonwork hours.
- Purchase documents that appear to be altered.
- Purchases without detailed receipts, shipping documents, or receiving reports.
- Transactions consisting of unnecessary or unauthorized items, e.g., premium grade fuel, gift cards, lottery tickets, cash withdrawals, alcohol, or in-room movies and games.
- Charges for meals already reimbursed through a travel claim or purchased at local restaurants.
- Excessive fuel purchases based on the number of miles driven.
- Purchases from vendors with which the employee has a conflict of interest.
- Multiple same-day purchases with the same vendor, particularly purchases that are just below the user's transaction limit.
- Purchases inconsistent with the employee's job responsibilities.

District management should investigate red flags to conclusion; however, not every red flag is the result of fraud. Improper transactions can also indicate that an error has been made or further employee training is needed.

P-Card Specific Processes

Districts should use the Merchant Category Codes for p-cards to block unauthorized vendors and purchases, and apply the purchasing limits necessary to meet operating requirements.

Districts may also use p-cards to pay for previously acquired goods or services. A payment transaction satisfies an obligation to pay a vendor for goods and services already received and establishes a corresponding obligation to pay the p-card issuer. Employees who use the p-card to complete payment transactions are most likely those responsible for managing the district's accounts payable; therefore, higher spending limits may be appropriate for employees who make payment transactions.

District policies should specify whether p-cards may be used for payment transactions and establish separate maximum limits for p-card payment transactions. Supporting documentation and billing statements should be received and reconciled by someone other than the card user before payment is made to the card issuer.

Rebates and Incentives

Credit cards or p-cards may contain provisions for districts to receive cash rebates or incentives (rebates). When rebates are received, the district should treat the rebate as miscellaneous revenue or as a reduction of expenditures.

If the rebate is received in the same fiscal year as the original expenditure, including the encumbrance period, the rebate may be recorded as a reduction of the original expenditure. Otherwise, the district should record the rebate as miscellaneous revenue in the fund of the original expenditure or in the Auxiliary Operations Fund.

If the rebate is received after the close of the fiscal year in which the original expenditure was made, the rebate should be recorded as miscellaneous revenue in either the fund of the original expenditure or the Auxiliary Operations Fund.

When determining whether to record the rebate in the fund of the original expenditure or the Auxiliary Operations Fund, the district should consider how easily the rebate can be associated with the fund, program, function, and object code of the original expenditure and the dollar amount of the related rebate. For example, a rebate on fuel cards used solely for student transportation vehicles could be easily identified; however, a rebate for various types of transactions on a general use credit card may not be cost effective to identify with the original expenditure coding.

Rebates recorded as miscellaneous revenue in the Auxiliary Operations Fund may be used for any district purpose.

_____ **SCHOOL DISTRICT NO. _____**

PURCHASE REQUISITION

Req. No. (sequentially numbered)
Date _____

Department _____
Date Required _____
Requisitioner _____
Date Prepared _____

Fund _____
Program _____
Function _____
Object _____
Unit _____

			FOR DISTRICT OFFICE USE ONLY Price Quotes		
Quantity	Description	Unit	Vendor #1	Vendor #2	Vendor #3
			$	$	$

Estimated Cost $_____

Department Approval _____ Date _____
District Office Approval _____ Date _____

Selected Vendor _____ Cost _____
Vendor No. _____ P.O. No. _____ P.O. Date _____

FOR DISTRICT OFFICE USE ONLY

Rejected By _____ **Date** _____
Reason _____
_____

_____ **SCHOOL DISTRICT NO. _____**

PURCHASE ORDER

P.O. No. (sequentially numbered)
Req. No. _____
Prepared by _____
Date _____

TO: (Vendor)

FROM: (School District)

TERMS:_____
EXPECTED DELIVERY DATE: _____
PLACE OF DELIVERY: _____
DO NOT BACK ORDER—Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Units	Unit Price	Amount
					$

TOTAL $ _____

SUMMARY BY ACCOUNT CODE					
Fund	Program	Function	Object	Unit	Amount
					$

TOTAL $ _____

I certify that the expenditure described above is for a valid public purpose and that funds have been appropriated or are otherwise available for payment of any claims made against this encumbrance, and that if the available funds are from a federal grant, contract, or source, this purchase is authorized under the terms of such grant, contract, or source.

By _____

Vendor (Original)
District (Copy)

_____ **SCHOOL DISTRICT NO. _____**

PURCHASE ORDER

P.O. No. (sequentially numbered)
Req. No. _____
Prepared by _____
Date _____

TO: [ ] (Vendor)

FROM: [ ] (School District)

TERMS:_____
EXPECTED DELIVERY DATE: _____
PLACE OF DELIVERY: _____
DO NOT BACK ORDER—Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Units	Unit Price	Amount
				TOTAL	$

OTHER COMMENTS:

I certify that the items described above were received, counted, and inspected by me, and the condition was satisfactory except as otherwise noted.
Signed _____
Receiving Employee

_____ _____
Received by Requisitioner Date

Date (if more than one delivery, indicate dates by items above) _____

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Salaries, wages, and related payroll expenditures constitute a major portion of the expenditures of all school districts. Therefore, payroll preparation and processing are extremely important functions that require strict internal control and close supervision.

Internal control should be tailored to each district's specific needs. The recommended controls in this section are provided as examples of sound financial and administrative practices that can be used in either automated or manual systems to ensure that evidence of review, verification, and approval is maintained. Other controls may be used if they provide at least the same level of internal control. See §IX, Information Technology, for information regarding general and application controls for automated systems.

POLICIES

The following policies should be implemented to comply with statutory requirements and establish effective internal control over payroll:

1. Governing boards should establish written payroll policies and procedures and make them available to employees.
2. Governing boards should approve a salary and wage schedule. Governing boards should also designate the individual(s) authorized to approve pay or position changes, including pay for performing additional duties.
3. Adequate separation of responsibilities in payroll processing should be maintained. The same employee should not be assigned the responsibilities for preparing payroll, authorizing payroll, and distributing warrants.
4. Districts should establish a delayed payroll system. This type of system allows time for payroll adjustments to be made before payment to help ensure that employees receive the appropriate amount of compensation. Districts should determine how long to delay payment to allow adequate time for adjustments, but may not delay payments more than 7 business days during their normal 2-week payroll processing cycle. If an employee is discharged from district service, the district must pay the wages due to the employee within 10 calendar days from the date of discharge. Arizona Revised Statutes (A.R.S.) §§15-502(F) and 23-351
5. Districts participating in the Arizona State Retirement System (ASRS) must ensure that all employees who meet membership criteria are enrolled in ASRS. Districts must withhold employee contributions and remit employee and district contributions in accordance with the *ASRS Employer Manual*.
6. Districts should establish effective internal control over processing, storing, and issuing warrants.
7. Districts should establish policies and procedures for recording payroll expenditures in the correct fiscal year.

8. Districts should establish and maintain a system to account for the accrual and use of vacation, personal, sick, and compensatory leave for all employees. Policies governing leave should include prescribed accrual rates for specified years of service, maximum amounts allowed to be accrued, and disposition of accrued time upon termination of employment. Districts should also prescribe policies pertaining to the voluntary transfer of vacation, personal, sick, and compensatory leave between employees or to a sick leave bank.
9. Districts should establish procedures to determine whether an individual providing services to the district is considered an employee or an independent contractor pursuant to Internal Revenue Service (IRS) guidelines. An individual who is an employee under IRS guidelines should be paid through the district's payroll system to ensure payments are subject to applicable payroll withholding. An individual who is an independent contractor should be paid through the district's expenditure system. Districts should refer to IRS Publication 1779 *Independent Contractor or Employee* for guidance in determining whether an individual is considered an employee or independent contractor.
10. The governing board must adopt procedures for conducting background investigations on prospective employees, including standard forms to document background investigations. Background investigations must include a good faith effort to communicate with the applicant's former employers to obtain information and recommendations that may be relevant to the applicant's fitness for employment. A.R.S. §15-512(F)
11. Districts must establish procedures to ensure that all employees and governing board members comply with A.R.S. §38-503 related to conflicts of interest. Districts should annually inform employees and governing board members of the requirements to disclose conflicts of interest.

PROCEDURES

Payroll Records

Districts should maintain payroll records for all employees. Records should provide adequate support for payroll expenditures and account codes charged for payroll, and serve as a basis for preparing payroll vouchers and reports. In order to provide support and information for preparing payroll documents, individual employee files should include at least the following documents:

1. **Employment Contract or Personnel/Payroll Action Form**—An employment contract documents agreed-upon terms of employment, such as position, salary, benefits, and duration of employment.

   For employees not on contract, districts should prepare and retain a personnel/payroll action form to document employment terms. The form serves the same purpose as a contract, but does not bind employees to a specific length of service.

   All pay or position changes should be documented prior to the work being performed. For contract employees, either the original contract or a contract addendum should include agreements for extra pay received for performing additional duties (e.g., chairing a department or coaching). For employees not on contract, any changes to employment terms should be documented through a personnel/payroll action form. Proposed pay or position changes should be approved by an authorized official in the appropriate department before initiation of the new pay or position. Terminations should also be documented, including reason(s) for termination.

2. **Certification Records**—Districts should retain certification records for teachers, principals, and other certified administrators and staff. Certificates must be submitted to the county school superintendent when an employee is hired. Accounting Responsibility Program districts do not need to submit certificates to the county school superintendent. A.R.S. §§15-302(A)(9), 15-502(B), and 15-914.01(H)

3. **Employment Eligibility Verification (Form I-9)**—Districts must ensure that an Employment Eligibility Verification, Form I-9, provided by the U.S. Department of Homeland Security, U.S. Citizenship and Immigration Services, is completed for any person hired after November 6, 1986. Districts must retain the completed form and any supporting eligibility documentation. If employment eligibility documents carry an expiration date, districts are responsible for reverifying employment eligibility.

   In addition, for any person hired after December 31, 2007, districts must verify employment eligibility through the E-Verify program operated by the U.S. Department of Homeland Security and the Social Security Administration. Districts must either record the E-Verify case verification number on the Form I-9 or print the case details and keep it with the Form I-9.

4. **Federal and State Withholding Allowance Certificates (W-4 and A-4 forms)**—Districts should obtain completed W-4 and A-4 forms from employees before the first payroll payment is made. If a completed W-4 form has not been submitted before the end of the first payroll period, federal income tax should be withheld at the single rate with no withholding allowances. If a completed A-4 form has not been submitted, state income tax should be withheld at the rate prescribed by the Arizona Department of Revenue (ADOR). The W-4 and A-4 forms remain in effect until new forms are submitted.

5. **Voluntary Deduction Authorizations**—Voluntary deductions may be withheld at employees' request for items such as additional insurance or charitable contributions. Governing boards may also allow employees to participate in federal retirement or deferred compensation plans as provided in 26 United States Code §§401(a), 403(b), and 457(b). Districts must withhold the requested amount and transfer such contributions to the fund manager within 10 working days after each payroll date. Contributions transferred after that date must include a penalty of 6 percent a year for each day the contributions are late, which is to be paid by the district. A.R.S. §15-121

   A voluntary deduction authorization form should be retained to support each voluntary deduction and remain in effect until a new one is prepared or a written request canceling the deduction is received.

6. **Loyalty Oath**—Each employee must take and subscribe to the oath prescribed for public officers pursuant to A.R.S. §38-231, and a copy of the acknowledged oath must be retained.

7. **A.R.S. §15-512 Fingerprint Certification Form**—Personnel, whether paid or unpaid, as described in A.R.S. §15-512(A), must be fingerprinted and submit a notarized form, provided by the district, indicating whether they are awaiting trial on, have ever been convicted of, or have ever admitted to committing any of the criminal offenses listed in A.R.S. §15-512(D). Districts may release the information obtained as a result of the fingerprint check to any other district.

8. **Background Investigation Forms**—Districts should retain the completed forms developed by the governing board in accordance with A.R.S. §15-512(F). Districts may release the information obtained as a result of the background investigation to any other public school.

9. **Direct Deposit Authorizations**—Districts should retain direct deposit authorization forms, updated for any changes, to document authorization for the payroll department to process direct deposits to employees' bank accounts. The forms should be accompanied by a voided check, deposit slip, or other financial institution documents that provide the bank, routing, and account information.

Payroll Processing

1. Districts should document changes in payroll such as employment, terminations, and pay/position changes.
2. Attendance records, such as time sheets or timecards, should be prepared each pay period for each employee subject to the *Fair Labor Standards Act*, approved by the employee and the employee's supervisor, and retained to support the payroll. Attendance records should document regular and overtime hours worked, vacation, personal, and sick leave taken, leave without pay, and compensatory time taken or earned during the pay period. Leave records for employees not subject to the *Fair Labor Standards Act* may be completed on an exception basis for overtime hours worked and vacation, personal, sick, or compensatory leave taken, etc. The payroll department should use the attendance and leave records to update leave balances. Supervisors should approve overtime hours in advance.
3. Fringe benefits, including personal use of vehicles provided by districts, must be included in gross income and are subject to income and employment taxes. Fringe benefits should be budgeted for under the appropriate employee benefits expenditure object code. Refer to IRS *Employer's Tax Guide to Fringe Benefits* (Publication 15-B) for further information.
4. The prepayroll register (or prior period payroll list) should be updated from attendance records, contract addendums or personnel/payroll action forms, withholding allowance certificates, and voluntary deduction authorization forms. The register should be reviewed for reasonableness, and exceptions should be noted. A supervisor should review and approve the completed prepayroll register and list of exceptions.

Procedures 5, 6, and 7 below should be modified for Accounting Responsibility Program districts.

5. Districts should prepare a payroll register and submit it to the county school superintendent. The payroll register should be prepared from the prepayroll register and should include the period covered, names, identification and social security numbers, account codes charged for payroll, regular and overtime wage or salary rates, regular and overtime hours worked, gross pay, federal withholding taxes, state withholding taxes, social security taxes, Medicare taxes, retirement, authorized voluntary deductions listed individually by recipient, and net pay. The payroll register should also show totals for gross pay, net pay, and mandatory and voluntary deductions for all employees for the pay period and for the year-to-date.
6. Districts should submit to the county school superintendent a payroll voucher approved by the district governing board and supported by the payroll register, or prepayroll register if the county school superintendent prepares the payroll register, to authorize drawing payroll warrants. Districts should prepare payroll vouchers in a manner similar to expenditure vouchers (see §VI-G, Expenditures). The voucher should indicate the account codes charged for payroll. Total payroll charges should include the amounts the district is required to pay for social security taxes, Medicare taxes, and retirement contributions.
7. Districts should verify that payroll warrants, warrant registers, direct deposit amounts, and payroll registers received from the county school superintendent agree with the prepayroll register and voucher.

8. Employees participating in the various stages of processing payroll, preparing and approving vouchers, and distributing warrants should document what steps (preparation, review, approval) they performed.

Prorated Compensation Payments

In accordance with A.R.S. §23-351(C)(2) and Attorney General Opinion I04-007, employees may elect to have their compensation paid over the actual months worked or prorated in any number of payments. Employee contracts and personnel/payroll action forms should document the election. If compensation is prorated, the contract or form should specify whether compensation due at the end of the school year or fiscal year is paid in a lump sum or paid within 2 months after the end of the fiscal year, at the employee's option.

If employees elect to be paid over the actual months worked, compensation should not be prorated. Hourly employees should be paid based on actual hours worked each pay period. If employees elect to have their compensation prorated, the election must be made before any work is performed, usually at the beginning of the school year or contract period, and the election cannot be changed after work has begun. Before prorated payments begin, districts should determine the annual compensation amount that will be prorated and divide it by the selected number of pay periods. For hourly employees, districts should then compare the cumulative anticipated amount earned to the prorated amount paid as of each pay period. If at any point during the year the cumulative amount paid would exceed the cumulative amount earned, districts should adjust the hourly employees' prorated payment amounts to ensure prepayment of compensation does not occur. Districts should retain documentation to support the calculation of the anticipated annual compensation for hourly employees and the prorated amounts for all employees.

If pay is prorated for hourly employees, districts must have controls in place to ensure that employees are paid only for the hours actually worked. Attendance records should be prepared for all hourly employees, including those receiving prorated payments. At the end of each pay period, the payroll department should compare an employee's expected hours (i.e., the number of hours used to calculate the annual compensation amount that is being prorated) to the attendance records for any differences between expected and actual hours. If an employee has worked fewer hours than expected, the payroll department should adjust the employee's leave balances for the difference. However, if sufficient leave time is not available, the payroll department should reduce the employee's compensation to reflect the hours not worked. If an employee has worked more hours than expected, the payroll department should increase the employee's compensation to include the additional hours.

Districts should base compensation adjustments on the official rate of pay. The district's policies and procedures should specify how adjustments will be applied (i.e., one-time adjustment, allocate the adjustment to the remaining payments for the year, etc.). Regardless of the method chosen, districts must ensure that at no time during the year has the district paid an hourly employee for more than actual hours worked to date. The policies and procedures for applying adjustments should address both continuing employees and employees who terminate during the year. (Note: If additional hours worked entitles an employee to overtime compensation under the federal *Fair Labor Standards Act*, the amount of the adjustment must be calculated so as to comply with the Act's overtime requirements.) Employees entitled to overtime compensation must be paid for overtime hours worked no later than 16 days after the end of the most recent pay period.

Payroll-Related Expenditures and Reporting

Districts should develop policies and procedures for the payment of employer payroll-related expenditures, such as retirement contributions, social security taxes, Medicare taxes, and unemployment taxes. Required reports for each type should be prepared and reconciled to the payroll warrant registers and accounting records. Supporting schedules or other documents used to develop report information should be retained. Supervisors should periodically review reports to ensure that payments are correct and timely. Districts should also develop policies and procedures for the payment of voluntary deductions, such as health and life insurance, withheld from employees and ensure that reports related to such payments are reviewed and retained.

The IRS, ADOR, ASRS, and Arizona Department of Economic Security issue guidance pertaining to payroll-related deposit, filing, and reporting requirements for employers. Districts should refer to the most recent guidance for specific instructions.

Fiscal Year-End

Districts should establish policies and procedures to ensure that payroll and payroll-related expenditures are recorded in the correct fiscal year. If payments are made after June 30 that are related to services provided on or before June 30, payments should be processed on an encumbrance voucher for the correct fiscal year.

Bank Accounts

State Income Tax Withholdings Account—The governing board may establish a bank account in which to deposit and accumulate the monies it withholds from employees for state income tax until the monies must be deposited with ADOR. The bank account may be interest bearing, and at the end of each fiscal year, all interest earned must be remitted to the county treasurer for credit to the district's Maintenance and Operation (M&O) Fund. Disbursements from the account, except the interest remittance, must be made only to ADOR. A.R.S. §15-1222

Federal Payroll Tax Withholdings Account—The governing board may establish a bank account in which to deposit and accumulate the monies it withholds from employees for federal income tax and both the district and employee share of social security and Medicare taxes until the monies are electronically transferred to the United States Treasury. The bank account may be interest bearing, and at the end of each fiscal year, all interest earned should be remitted to the county treasurer for credit to the district's M&O Fund.

Disbursements from the account, except for the interest remittance, should be made only for the purpose of remitting tax payments to the United States Treasury.

Employee Insurance Programs Withholdings Accounts—The governing board may establish bank accounts in which to deposit and accumulate the monies it withholds for employee insurance programs, the monies contributed by the district for employee insurance programs, the monies received from board members for insurance programs, and the monies received for the extension of group health plan coverage under *The Consolidated Omnibus Budget Reconciliation Act of 1985* (COBRA) until premiums are paid. A.R.S. §15-1223

The bank accounts may be interest bearing, and at the end of each fiscal year, all interest earned must be remitted to the county treasurer for credit to the district's M&O Fund. Disbursements from the accounts, except

for the interest remittance to the county treasurer, must be made only to the insurance carriers or to individuals for refunds of insurance premiums.

Payroll Direct Deposits Clearing Account—The governing board may establish a bank account in which to deposit the monies to make payroll direct deposit payments to financial institutions designated by employees. The district shall fund the account with a warrant for an amount equal to the payroll direct deposit payment. The bank account must be a clearing account that maintains a zero balance and that does not accumulate monies except for interest earned on the account. At the end of each fiscal year, all interest earned on the account must be remitted to the county treasurer for credit to the district's M&O Fund. A.R.S. §15-1221

In accordance with Arizona Revised Statutes (A.R.S.), school district governing boards may permit a superintendent or principal or representatives of the superintendent or principal to travel for a school purpose, as determined by a majority vote of the governing board. Districts may also permit governing board members and members-elect to travel for school purposes and receive reimbursement. Districts are required by statute to prescribe procedures and amounts for reimbursing travel expenses. However, travel expenses, including reimbursements, must not exceed the maximum amounts established by the Arizona Department of Administration (ADOA) in accordance with A.R.S. §38-621 et seq. A.R.S. §15-342(5)

POLICIES

The ADOA Travel Policy is part of the ***State of Arizona Accounting Manual*** (SAAM). SAAM Topic 50-Travel provides detailed guidance and rate tables for the required mileage reimbursement per mile and the maximum lodging and meal reimbursements. Key provisions from ADOA's policies are listed below with policies that districts should implement to provide adequate internal control over travel expenditures:

1. Employee and governing board member travel should be approved in advance. To be eligible for lodging and meal expenses, employees and governing board members must be in authorized travel status and at least 50 miles from both their duty post and home. The duty post for governing board members is considered to be their home. A.R.S. §15-342(5)

2. Travel should be planned for the convenience of the district using the most reasonable and economic means.

3. All travel expenditures, including reimbursements to employees or governing board members, should be supported by a travel claim, receipts or invoices, if required, and other applicable documents. Travel claims must indicate the time and place travel begins and ends, include odometer readings or map mileage, and be approved by the employee and appropriate supervisor. Travel claims should be submitted in a timely manner to help ensure that related documents are not lost and travel expenditures are recorded in the proper fiscal year.

4. Reimbursements to employees and governing board members for mileage traveled in privately owned motor vehicles or aircraft must be reimbursed at the applicable rate established by ADOA, as approved by the Joint Legislative Budget Committee. A.R.S. §§15-342(5) and 38-623

5. Travel expenses, including reimbursements, for lodging, meals, and incidental expenses must not exceed the maximum amounts set by ADOA in accordance with A.R.S. §38-624(C). However, note the following:

    a. Lodging rates are exclusive of taxes; therefore, districts may reimburse actual lodging expenses up to the maximum amounts listed in ADOA's reimbursement rates table plus any applicable taxes.

    b. Lodging rates while attending a conference, training, or similar event may exceed ADOA's maximum amounts if the rate does not exceed the lowest listed single room rate negotiated by the conference/event sponsor. A copy of the event publication, such as a brochure, flyer, or other support, must be submitted with the travel claim to support the excess reimbursement.

    c. Meal reimbursements include the actual amount spent for a meal, including beverages (excluding alcohol), taxes, and tip, not to exceed the maximum meal reimbursement amounts. Meal

reimbursements cannot be claimed when meals are provided at no additional expense, such as complimentary meals provided at a conference or hotel.

d. A continental breakfast or similar repast served at a conference or other gathering or provided at a lodging establishment at no cost to the traveler constitutes a meal whether or not it contains protein and no reimbursement for breakfast will be allowed when such meals have been provided.

e. Meal reimbursements provided to employees or governing board members may be taxable. The Internal Revenue Service requires employees to be traveling "away from home" in order to exclude reimbursements for meals from their income. The phrase "away from home" means overnight travel or travel long enough to require substantial "sleep or rest" (further defined by IRS regulations). As a result, all meal reimbursements for travel with no overnight stay must be reported as a taxable employee benefit. For travel with an overnight stay, meal reimbursements for the day of and the day after the actual overnight stay should be excluded from income.

Refer to related School District FAQs

Refer to USFR Compliance Questionnaire

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GUIDELINES

Under the provisions of Arizona Revised Statutes (A.R.S.) §15-271(B), the Arizona Department of Education (ADE) and the Office of the Auditor General share responsibility for prescribing the method by which school districts should account for all state and federal revenues.

In accordance with A.R.S. §15-206(A), "The State Board of Education may accept on behalf of this state from any federal agency monies which have been appropriated by act of Congress for defense in education, reduction of illiteracy, teaching of immigrants, employment and training, educational support services or other educational purpose." The State Board of Education "shall be the chief educational authority for the administration and supervision of the expenditure of federal appropriations," pursuant to A.R.S. §15-206(C). A.R.S. §15-203(A)(7) authorizes the State Board of Education to delegate the execution of the Board's policies to ADE through the Superintendent of Public Instruction. This section applies to state and federal financial assistance passed through ADE to districts, rather than assistance applied for and received directly from the grantor agencies.

In order to apply for and receive grant funding, districts must have a signed General Statement of Assurance on file in ADE's Grants Management Unit and be in compliance with state and federal laws and regulations. Districts may then apply for the appropriated monies by submitting their applications to the responsible ADE program area in accordance with ADE and grant policies and regulations. Notice of fund availability is published on ADE's Grants Management Enterprise Web page under Fund Alerts. A *Grants Management Handbook* that explains ADE's online grant application and reporting processes can be downloaded from the same Web page or requested in hard copy from Grants Management Enterprise.

Project monies allocated to a district should be deposited directly with the county treasurer into an appropriate account to the credit of the district. Generally, these monies are disbursed by a warrant prepared by the county school superintendent on a district's behalf (See VI-G-2 through 5). However, districts operating independently of their county school superintendent through the Accounting Responsibility Program (ARP) issue their own warrants (See VI-G-5 through 7). ARP districts are those districts which have been approved by the State Board of Education to assume autonomous accounting responsibility, pursuant to A.R.S. §15-914.01(A).

If a district expends monies other than as provided by the federal or state grant regulations or other than as provided by ADE or program area guidelines, ADE may withhold future payments, request that monies be returned, and/or deobligate the project award (i.e., decrease or eliminate a previously committed fund balance). ADE may also withhold project or grant funding if a district fails to comply with the requirements of the USFR, as prescribed by A.R.S. §15-271(D) and (E) and Arizona Administrative Code (AAC) R7-2-804.

APPLICATIONS

Districts are eligible to apply for state or federal grants administered by ADE. Depending upon the particular program requirements, eligible applicants may apply for grant assistance each year.

Applications for grant funding must be submitted, in accordance with program area requirements, to ADE via the Internet. Applications containing unclear or inaccurate information will be returned to the applicant agency or clarified by telephone or e-mail. ADE's goal is to finalize all applications and obtain State Board approval within 90 days of the original submittal date. The approved project award will be entered into the Grants Management System, enabling warrants to be issued per the approved payment schedule. Approval notification will be sent to the district.

All state and federal grant awards are subject to the specific terms of the grant. State and federal grants are generally for 1 fiscal year beginning July 1 and ending June 30 of the following calendar year. All state grants end June 30. However, some federal projects may extend the project period beyond June 30 with program area approval to align with the federal fiscal year-end.

State-project payments to districts are made in accordance with the schedule identified on the approved project. Federal project cash advances are driven by the first payment request in the application, and then by data entered in the monthly cash management reports. Monies for projects on "hold" (i.e., monies withheld because of noncompliance) as of the project-end date will not be released until a completion report is approved, and the final payment will be released only to reimburse the project costs incurred or to bring the account to a zero balance, whichever is less.

Budgets

Budgets should be entered by line item. Budgetary line items should be detailed on the budget description page according to program guidelines. The budgeted indirect cost amount may not exceed the approved rate times the project budget subtotal. The subtotal of a budget is all line items, excluding the indirect cost and capital outlay line items. Some grants may restrict or disallow the use of indirect costs.

The purchase of any textbooks, library books, and instructional aids (e.g., instructional computer software, workbooks, films, kits) should be budgeted as supplies (object codes 6641 through 6643). While such supply purchases are considered capital expenditures by state statute when purchased from non-grant funds, for state and federal grant purposes they are not considered capital items.

Capital items must be itemized on the Capital Outlay Justification page of the grant application according to program guidelines, but may be restricted by statute or program guidelines for some projects. Districts can refer to the Capital Outlay Justification Page Matrix as a guideline. This document is updated annually and can be accessed from the Grants Management home page.

If there are questions regarding budgeting or capital outlay justifications, the respective ADE program area should be contacted for guidance.

INDIRECT COST RATE

Indirect cost rates apply ONLY to federally funded projects. The use of indirect cost rates is NOT allowed for some federal projects and may be restricted for others. 34 CFR §75.560 - .564 authorizes the payment to districts and counties for the indirect costs incurred in the handling of certain grants. The calculation of indirect cost rates follows a plan formulated by ADE based on the cost principles in the Office of Management and Budget (OMB) Circular A-87 and is approved by the U.S. Department of Education (USDOE).

District Indirect Cost Rates

Districts' indirect costs are those expenditures that are incurred for the joint benefit of more than one project and cannot be readily and specifically identified with a particular project without effort disproportionate to the results achieved. The approved rate for districts is a percentage calculated from their Annual Financial Report (AFR) and approved by ADE's Audit Unit. To receive an indirect cost rate calculation, the district should check the applicable box and supply the additional information requested on the AFR. The approved indirect cost rate appears as a separate line item on the project budget page.

Although indirect costs may be budgeted based on the subtotal amount of the application or amendment (which does not include amounts budgeted for capital items), the maximum indirect costs payable may not exceed the indirect cost rate times the actual subtotal expenditures reported in the completion report, rounded down to the nearest cent. Charging indirect costs to federal projects does not increase the award total. The indirect cost rate in effect at the project's starting date is to be used for the entire project period.

A request by the counties to allow the counties and the districts to combine their rates has been approved by the USDOE, so long as the combined totals by all recipients of the funds do not exceed the amount allowable under the program legislation/regulations. Effective July 1, 2007, each district (excluding ARP districts) can now use a combined indirect cost rate against their grant projects. For example, if a district has an approved indirect cost rate of 3.89 percent and the county has a rate of 0.25 percent, the combined rate would be 4.14 percent. If both the county and district have approved indirect cost rates, the combined rate will be reflected on the application, amendment, and completion report's maximum allowable indirect cost rate line item. It is the district's responsibility to include the county's indirect cost rate when budgeting their indirect cost amount. If the combined indirect cost rate for the district and the county would exceed the allowable indirect cost rate, the district should contact the program area to determine if some costs could be recorded in the Support Services Administration/Other Expenses line item instead of the indirect costs line item.

Each district requesting a rate receives a restricted indirect cost rate and a nonrestricted indirect cost rate. The restricted indirect cost rate is to be used for federal programs that must supplement and not supplant expenditures for existing programs (e.g., Title I, IDEA, Career and Technology Education, etc). The nonrestricted rate is used for all other programs, such as National School Lunch.

County Indirect Cost Rates

The county indirect cost rates must be calculated and approved by ADE's Audit Unit. Once ADE approves a county's indirect cost rate, the rate will be posted on the Grants Management home page under Indirect Costs and will also be input into the electronic grants management system. Districts should input the combined indirect cost rate as their restricted or nonrestricted indirect cost rate. If a county receives an approved indirect cost rate during the project period, it is a district's responsibility to include the county's indirect cost rate in their indirect cost amount through an amendment. Both the district's and county's approved indirect cost rates can also be found under Project Summary on the home page.

GRANTS MANAGEMENT ENTERPRISE

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Project Summary

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District	Amphitheater Unified District	County's ICR	0.4 %
CTDS	100210000	Entity's ICR	3.41 %
Grant Name	2008 – 21st Century Community Learning Centers	Index #	00000
CFDA Title	After School Learning Centers	Award Year	2003
Award Agency	US Department of Education	Award Name	After School
Project Number	08FSECCL-860943-05A	Project Start Date	07/01/2007
Amendment Approval	N/A	Amendment Number	0

AMENDMENTS

Approved state or federally funded projects may be amended to reflect changes in line item allocations, additional monies, and/or carryover monies, subject to program regulations. Amendments must be submitted to ADE via the Internet. The deadline for accepting amendment requests for an approved project is 90 days prior to the project-end date. Amendments can be fiscal or programmatic in nature, or a combination of both.

Fiscal Amendments

Fiscal amendments must be submitted and approved prior to increasing or decreasing line item budgets and/or allocations, and include but are not limited to the following:

- The carryover of prior-year monies and/or changes in allocation, which increases the total budget.
- Increasing a line item, excluding the indirect cost line item, when the anticipated expenditures will exceed the budgeted line item amount by 10 percent or $1,000, whichever is greater.

- Increasing or decreasing budgeted line item amounts to reflect changed budget priorities, with or without changing the budget total.
- Changing a detailed budgeted capital item or item description, even if the line item amount is unchanged.

Programmatic Amendments

Programmatic amendments must be submitted and approved prior to:

- Changing staff duties or responsibilities without changing the budgeted line item amount.
- Changing the type of contractual services from the approved budget without changing the budgeted line item amount.
- Modifying the project's intent, focus, goal(s), or objective(s). Any modifications must still be within the grant's overall purpose.
- Extending a federal project-end date beyond the original approved date. State projects must end no later than June 30 of a fiscal year.

CASH MANAGEMENT (FEDERAL PROJECTS)

The online cash management report is used for federal projects to indicate the current month's compliance and subsequent month's immediate need. Cash management reports are not required for state projects.

Procedures for minimizing the time elapsed between the transfer of monies from the U.S. Treasury and disbursement by districts must be followed whenever advance payment procedures are used, pursuant to 34 CFR §80.20(b)(7). Pass-through entities must ensure that districts substantially conform to the same timing requirements that apply to the pass-through entity.

To accomplish this, all cash advanced federal projects in the grants management system require cash management reporting.

Budgeting the First Cash Advance (online application process)

When a district initially applies for a grant, the district can schedule their initial payment under Payment Schedule from the online application. Subsequent payments should be scheduled based on the first disbursement and the amount in the Remaining Scheduled Payment (RSP). The district should budget the first disbursement month according to anticipated cash outlays for a period not to exceed 30-days' accumulation (30 day needs).

The first cash management report is due the month of the initial disbursement or when a local carryover is amended and approved in the project, whichever comes first.

Submission of a cash management report prior to the initial disbursement overrides the first cash advance payment indicated from the application.

Subsequent Monthly Cash Advances and Cash Management Reporting

Subsequent cash advances are based on electronic cash management reports due between the 1st and 18th of every month, beginning in the first month of project revenue (i.e., the first month a cash advance is made or local carryover is approved in the project, whichever comes first).

A district can submit cash management reports up to 18th of each month. If more than one cash management report is submitted for a project before the 18th of the month, the latest cash management report submitted will supersede any previously submitted reports.

The electronic system will accept a late report (after the 18th), but the project will be on Cash Management Report Non-submission Hold and no cash advance will be made in the upcoming payment period. This Cash Management Report Non-submission Hold will be released on the 1st of the following month. On the 1st of each month, the project status will change to Cash Management Report Due and will allow districts to submit a cash management report for the next accounting cycle.

On the 17th of each month, ADE will send out a Cash Management Report Due reminder e-mail to those districts that have not submitted a monthly cash management report. On the 19th of each month, ADE will send out a Cash Management Report Non-submission e-mail to inform districts of their cash management report non-submission status and that a late cash management report is due prior to the end of the month.

The cash management report requires the district to enter: (1) the project's cash balance and (2) encumbrances/estimated expenditures which include the project's unpaid invoices and estimated remaining expenditures to be paid in the reporting month and the estimated expenditures that will be paid in the following month. The cash balance is the total of all project revenue to date minus cash disbursements to date, which remains in the project account on the date of the report. For this report, encumbrances/estimated expenditures should include payroll and nonpayroll expenditures. Upon submission of this data, the grants management system will calculate the adjusted cash balance as the cash balance minus encumbrances/estimated expenditures.

Districts may not accumulate excess cash. In order to maintain ADE cash management compliance, districts must not accumulate a positive adjusted cash balance. If excess cash is indicated in the cash management report, no cash advance will be made. ADE may further request that excess cash reported be remitted back to the Department. However, districts should not remit project monies without first contacting ADE, or until directed to do so.

To prevent districts from having excess cash on hand, the cash management reporting system will only allow a maximum disbursement of 20 percent of a district's budget in any month. Any cash management report requesting more than the maximum disbursement allowable will receive a system message stating that the district is about to draw more than the maximum allowable disbursement. Districts will be required to submit an online cash management budget page indicating which line items the expenditures will involve. ADE will review that submitted cash management budget page. Upon approval, the system will process the payment.

Districts may cancel a cash management report and resubmit one that requests an amount under the maximum disbursement allowable.

The maximum disbursement allowable does not apply to the initial disbursement or completion report closeout payment. Any district that needs to purchase capital items with costs greater than 20 percent of the budget total may schedule this payment during the initial payment. If a district needs to purchase capital items at any other time during the project period, the district will need to submit a cash management report and cash management budget page to support its upcoming expenditure.

For projects ending June 30, the May cash management report will generate the final June payment and should therefore, include all estimated expenditures to be incurred by June 30 and paid by June 30, and during the 90 day encumbrance period following June 30. However, a June cash management report will be required for ADE to assess the district's compliance status. The June report will not generate a payment. For projects with end dates later than June 30, the reporting requirements described above apply to the last 2 months of the project period (e.g., for projects with a September 30 end date, the August cash management report will generate the final September payment, and the September cash management report will be required to assess compliance status).

Cash management reports are due monthly throughout the life of the project, or until such time that all project monies have been advanced and the project's reported cash balance equals zero. For example, even though a district submits a cash management report to draw down all of the project monies, the district is obligated to submit a cash management report each month until all of the project monies have been expended.

ADE will use the above cash management process as its standard method to process payments to districts. For noncompliant districts, ADE has a right to change the payment method from the above cash management process to a reimbursement basis that requires monthly expenditure reports prior to its disbursement for each cash management report, pursuant to 34 CFR §80.21(d).

Example 1 Initial Cash Management Report:

District A indicated its first disbursement month and its estimated expenditure amount in the application. Upon approval of its application, the District will receive $3,000 in August. This payment is to cover the District's projected 30-day needs.

District A
Application

Budget total (No local carryover)	*$40,000*
First disbursement month	*August*
Estimated August expenditure amount	*$3,000*
Budget balance	*$37,000*

District A should submit a cash management report in August, which is the first payment month. In this August cash management report, District A needs to indicate their current cash balance and unpaid encumbrances/estimated expenditures to be paid in the remainder of August and all of September.

District A
August Cash Management Report

Cash balance	*$1,000*	*Numeric entry: YTD revenue – YTD expenditures = cash balance* *e.g., $3,000 - $2,000 = $1,000*
Encumbrances/estimated expenditures to be paid by September 30	*$2,000*	*Numeric entry: Unpaid encumbrances and estimated expenditures for the remainder of August and the next 30 days (all of September)*
Adjusted cash balance	*($1,000)*	*System calculated: Negative adjusted cash balance places a project in cash management complaint status* *Cash balance – Encumbrances/estimated expenditures* *e.g., $1,000 - $2,000 = ($1,000)*
Disbursement to subrecipient in September	*$1,000*	*System calculated*
Budget balance	*$36,000*	*System calculated: Previous budget balance – disbursement to subrecipient* *e.g., $37,000 - $1,000 = $36,000*

If a negative adjusted cash balance is indicated in a cash management report, ADE will process a payment for that amount as long as no project holds exist and the payment amount does not exceed the amount of unreleased monies for that project. The exception is the final cash management report, which only assesses cash management compliance status and does not generate a payment.

Example 2 Maximum Disbursement Allowable:

The Cash Management Report Data below shows the calculation of the maximum disbursement allowable for District B based on 20 percent of the total project budget.

District B

Cash Management Report Data	
1. Total Budget	*100,000.00*
2. Project Revenue to Date	
Disbursement from ADE to Date	*10,000.00*
Approved Local Carryover	*1,000.00*
YTD Total Revenue	*11,000.00*

3. Max Disbursement Amt (sys)	*20,000*
4. YTD Expenditure *(Paid Invoices / Requisitions/ Payrolls)*	14,000
5. Cash Balance (Sys)	*-3,000*
6. Encumbrances/Requisitions	30,000
7. Adjusted Cash Balance (sys)	*-33,000*
8. Disbursement to subrecipient (sys)	*33,000*
9. Allocation Balance	*56,000*

District B is attempting to draw down $33,000, which exceeds the maximum disbursement amount of $20,000 for this project. The District will need to complete a cash management budget page in order for the system to allow this cash management report to be submitted, or the District could cancel the above cash management report and resubmit a cash management report that requests a payment that doesn't exceed its maximum disbursement amount. If a cash management budget page is submitted, ADE will review it and upon approval, the system will process the payment.

COMPLETION REPORTS

ADE requires project completion reports to satisfy the financial reporting requirements of each grant. The reports must be submitted for all state and federal grants/projects, as required by 34 CFR §80.20(b)(1), ADE, or state grant requirements.

Completion reports MUST be submitted to ADE via the Internet within 90 days after the project-end date, or sooner if required by specific program guidelines. There is no grace period. If a completion report and/or any required narrative data is NOT received by ADE within 90 days after the project-end date, further payments to the district on the current-year project will be suspended until ADE is in receipt of a valid report. If the county school superintendent's office handles a district's financial activities, it is the district's responsibility to allow the county ample time to approve the report within that 90-day period. Completion reports that are rejected must be corrected and resubmitted to ADE within 30 days after the rejection date or further payments to the district on the current-year project will be suspended until receipt of a valid report. Upon program area approval of a valid report, if there is negative cash on hand and the full allocation has not yet been released, monies will be released to reimburse the program costs incurred or to bring the balance to zero, whichever is less.

If a district can no longer substantially and meaningfully fulfill the requirements of a project because of school closure or inability to complete the term or intent of the grant/project, a completion report will be due to ADE within 90 days after the last day that the district substantially and meaningfully conducted business related to the grant/project and its intent.

The amount reported as cash on hand must be in agreement with the records of the county treasurer's office or banking institution. Discrepancies must be resolved before the completion report is submitted to ADE.

If the county school superintendent's office handles a district's financial activities, the county-level user I.D. (electronic signature in the form of a username and password) will be accepted as the valid county-level signature.

Actual expenditures or outlays must be reconciled with budgeted amounts for each grant, pursuant to 34 CFR §80.20(b)(4). A budgeted line item may not be exceeded by more than 10 percent or $1,000, whichever is greater. This allowance does not apply to indirect costs. Indirect costs may be recovered only to the extent that the indirect cost rate is applied to the amount expended (the allowable rate times the actual subtotal expenditures) or the amount allowed by individual program guidelines, whichever is less.

Actual expenditures reported should not exceed the total budget. A line item with a zero budget may not reflect any expenditures. If monies were used for unauthorized expenditures without a fiscal override, the district should make an adjusting journal entry to move the unauthorized expenditures out of the grant fund and into the Maintenance and Operation (M&O) Fund or other appropriate fund, preferably prior to submitting the completion report to ADE. Cash on deposit with the county treasurer may need to be adjusted depending on how the affected funds are accounted for (or pooled) by the treasurer.

If a completion report reflects an unauthorized expenditure, or an over-expenditure of a budgeted line item, the district has two options: (1) a fiscal override may be allowed by the program area at the time the completion report is submitted, or (2) the amount of the unauthorized expenditure or over-expenditure should be reversed in the grant fund and recorded in the M&O Fund or other appropriate fund within 60 days of being directed to do so after the completion report approval (a treasurer's transfer may be necessary to move the related cash between the funds), and the amount of the unauthorized expenditure or over-expenditure must be returned to ADE. Failure to comply within 60 days may result in the withholding of monies in accordance with 34 CFR 80.20, 34 CFR 80.43, or as provided by ADE or state grant requirements. If a district fails to comply within 60 days, the electronic system will place a Completion Report (CR) Adjustment Hold on the current-year project, and no payment will be made for the current or future projects. Upon receipt of the program area's consent or return of the misspent monies, the CR Adjustment Hold will be released. The district may appeal the hold following the procedures in AAC R7-2-805.

RETURN OF MONIES

Some program regulations require the return of any unspent monies to ADE's Accounting Office at the end of the project period. Additionally, unspent monies in a project that is not funded in a subsequent year should generally be returned to ADE. Also, if a completion report reflects unauthorized expenditures or an over-expenditure, the district will be required to repay the monies, unless a fiscal override is approved, as discussed in the last paragraph on Completion Reports above.

All returned or repaid monies must be clearly identified by project number and source of monies (interest, unspent project monies, disallowances, etc.) and remitted within 60 days of being directed to do so or after the completion report approval. If a district receives a completion report e-mail from ADE indicating the need to return monies, the district should print a copy of the e-mail and submit it along with a warrant for any monies due.

Expired monies from a federal grant or the interest earned from expired monies may not be carried over or amended into subsequent years. These monies must be returned to ADE's Accounting Office. Districts should avoid allowing federal monies to expire by amending the project or returning monies as soon as directed by the program area.

Expired and/or unidentified monies discovered through audits or other findings must be returned to ADE's Accounting Office along with the interest earned on those monies. Failure to return such monies within 60 days will result in the withholding of monies in accordance with 34 CFR 80.20, 34 CFR 80.43, or as provided by ADE or state grant requirements. If a district fails to comply within 60 days, the electronic system will place a Return Hold on the current-year project, and no payment will be made for the current or future projects. Upon receipt of the payment, the hold will be released.

CARRYOVER OF MONIES

The ability to carryover balances and/or interest remaining from a prior-year's project varies depending upon legislation and funding guidelines. If carryover is allowed, the unexpended state or federal project monies from the preceding year (local carryover money) may be used to meet the initial obligations of the current year's approved project where monies have not yet been distributed. The monies may be used ONLY in the same program as originally assigned unless allowed by the authorizing statute. Grant-specific information should be obtained through the appropriate program area.

Once a completion report is approved and the district is directed to amend prior-year monies, the carryover should be amended into the current-year project within 60 days. If the district fails to amend the carryover within 60 days after the completion report approval date, the electronic system will place an Amendment Hold on the current-year project and no payment will be made for the current or future projects. Upon submission of the amendment, the hold will be released. All amendments should be submitted electronically at least 90 days prior to the current-year project-end date. Failure to amend within the specified timelines may result in the loss of monies.

A Multi-Year Fund CarryOver Matrix is published on ADE's Grants Management Enterprise Web page under Memorandums/Announcements. This downloadable matrix identifies the requirements by grant related to the carryover or return of unexpended budget balance and interest.

INTEREST

The following rules and regulations apply to interest earned on federal and state projects:

- Interest earned from pooled investments should be apportioned, at least quarterly, to the fund earning the interest based on its average daily, weekly, or monthly cash balance in accordance with the Uniform Accounting Manual for Arizona County Treasurers.
- Interest earned on state and federal grants administered by ADE must remain with each fund that generated the interest subject to the limitations below.
- Interest earned on advances of federal monies in excess of $100 per grant during the fiscal year must be returned to ADE's Accounting Office at least quarterly, pursuant to 34 CFR §80.21(h)(2)(i). However, in accordance with the Intergovernmental Cooperation Act, the Bureau of Indian Affairs/Johnson O'Malley, Title VIII, program is currently exempt from the preceding rule.
- Interest earned on state grant monies may be retained by the district and expended for the same purpose as the original allocation in the next year, if reported on the grant completion report and approved as carryover. Interest must be returned to ADE's Accounting Office if the project is discontinued, program guidelines require it, or the approved completion report requires the interest to be returned.
- Interest earned on expired monies must be returned to ADE's Accounting Office.

AUDIT OF FEDERAL PROGRAMS

The Single Audit Report

The Uniform Guidance requires all subrecipients to contract for a single audit for any year in which the subrecipient expended $750,000 or more in federal awards, regardless of which federal agency provided the money. The single audit must be completed and submitted to ADE, the Office of the Auditor General, and other applicable agencies within the required time frame mentioned below, and include:

- An opinion as to whether the recipient's financial statements are presented fairly in all material respects in conformity with U.S. generally accepted accounting principles and an opinion as to whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
- A report on the recipient's internal control over financial reporting and on compliance and other matters based on an audit of the financial statements.
- A report on the recipient's compliance and internal control over compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on a major federal program.

- A schedule of findings and questioned costs.

If required to have a single audit, subrecipients have 9 months after the end of their fiscal year to submit the single audit results to ADE's Audit Unit. Subrecipients receive two notices from ADE's Audit Unit prior to the due date. If, by the due date, the subrecipient has not submitted the audit reporting package, nor provided substantiating evidence of an ongoing audit and a reasonable explanation for the lateness of such, the subrecipient will receive a 30-day notice to comply. Subrecipients that are not in compliance after the 30-day notice may be subject to an interruption of all federal project payments from ADE until the single audit has been performed and the results sent to ADE.

Audit Findings

To comply with ADE Guideline and Procedure AS-3, ADE will issue a Management Decision Letter within 6 months from the date the audit is received by ADE's Audit Unit. If all audit findings are not resolved within 6-months of ADE receiving the audit, current-year funding for the affected grants may be suspended. During the 6 months, ADE will take the following actions to notify districts of unresolved findings and any impact on current year funding:

- If there are unresolved findings 120 days after receipt of the audit by ADE's Audit Unit, the program area will send a notice of unresolved audit findings to the appropriate subrecipient finance director/business manager (or grants manager at a larger district). The notice will state what appropriate corrective action must be taken and the date by which it must be completed. It will also indicate that failure to respond in a timely manner may interrupt current-year funding for the project.
- If unresolved audit findings still remain after 150 days, a notice will be sent from the program area to the finance director/business manager (or grants manager at a larger district). The notice will state what audit findings are still not resolved with the appropriate corrective action and the due date for audit resolution before suspension of current-year funding. The letter will also state that the district has the right to request an audit resolution review within 15 days of receiving the letter. The Audit Resolution Review Panel will be composed of a Chief Auditor from ADE's Audit Unit, ADE Grants Management Manager, and an ADE staff member from each affected program area.
- If audit findings are not resolved within 180 days after the audit is received by ADE's Audit Unit, a notice will be issued citing the appropriate corrective action for the district and suspending current-year funding until the findings are resolved. The notice will also state that the district has the right to appeal the repayment of misspent or misapplied monies to the Superintendent of Public Instruction (State Superintendent) within 30 days of receipt of the notice under AAC R7-2-805.

  If an appeal is filed by certified mail, the State Superintendent shall select a hearing appeals panel from ADE staff. However, no panel member will be selected from the program area responsible for administering the federal program from which the appeal arose.

- A hearing shall be scheduled before the appeals panel within 30 days from the receipt of the request for appeal. The complainant will be given at least a 10-day notice before the hearing date. The complainant may waive this 10-day notice.
- No later than 5 days after the hearing, the appeals panel shall forward its recommendation to the State Superintendent, and within 10 days after the hearing, his or her ruling must be issued in writing.
  - If the State Superintendent determines that the Department's action was contrary to the statutes and regulations that govern the applicable program, the State Superintendent shall rescind the action.
  - If the State Superintendent does not rescind the action, the applicant may appeal to the USDOE within 20 days after being notified of the State Superintendent's decision.

Once all findings are resolved and any appeal process is completed, ADE will issue a Final Management Decision Letter.

PROGRAMMATIC WAIVERS

A district may submit to ADE, on its own behalf or for a school within the district, a request for a waiver of any statutory or regulatory requirements as permitted by federal statute or state and federal regulation, pursuant to 34 CFR §75.900 and A.R.S. §15-256. ADE will provide a Waiver Request Form to assist the district in applying for waivers. Federal waiver requests for the upcoming school year must be submitted to ADE's Audit Unit by March 1 of the current fiscal year. Contact the appropriate ADE program area regarding waivers governing program regulations.

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Refer to USFR Compliance Questionnaire

FINANCIAL REPORTING

INTRODUCTION

Financial reporting serves as an important link between a district's accounting system and potential users of its financial information. Financial statements are the means by which districts report financial position, and results of operations to legislative and oversight bodies, investors and creditors, and the public. Financial statements should disclose a district's total resources, obligations, and net resources; the effects of transactions; events and circumstances that change resources; and interests in those resources. Financial statements should show how a district obtains and spends cash or other liquid resources, and other factors that may affect the district's liquidity.

In order to effectively communicate information, financial statements should be understandable, reliable, relevant, timely, consistent, and comparable among districts. District financial statements should include adequate disclosures, explanations, and interpretations to help users understand the accounting principles employed in preparing them. Also, it is essential that the accounting and reporting treatments of similar transactions for an individual district over several time periods or among districts during a single time period be consistent for the district's financial statements to be reliable.

Districts are also required by Arizona Revised Statutes (A.R.S.) §15-904 to prepare an annual financial report to inform taxpayers of how well the district is meeting its stewardship responsibilities. Statutory requirements for audits of school district financial statements are discussed in §VIII, Audit Requirements.

FINANCIAL REPORTS

Refer to most recent AFR Packet

Annual Financial Report

The school district annual financial report (AFR) packet includes the School District Annual Financial Report and a form for reporting the Classroom Site Fund. The AFR packet is revised annually for legislative and other changes by the Office of the Auditor General and the Arizona Department of Education (ADE). Detailed instructions for preparation and distribution are included in the AFR packet.

Information presented in the annual financial report includes beginning and ending fund balances, revenues, expenditures (expenses), other financing sources and uses, and fund transfers. Additionally, the annual financial report makes budget to actual comparisons for the fiscal year and compares current year expenditure data to prior year amounts.

Basic Financial Statements and Required Supplementary Information

Most districts are required to have an annual or biennial audit (see §VIII, Audit Requirements, for specific requirements). These districts must prepare financial statements, while other districts may choose to prepare financial statements but are not required to do so. The financial statements must be presented in accordance with U.S. generally accepted accounting principles (GAAP), which require:

- Basic Financial Statements (BFS) consisting of government-wide financial statements, fund financial statements, and the notes to the financial statements, and
- Required Supplementary Information (RSI), including management's discussion and analysis (MD&A) and other information.

Reporting guidelines for school district financial statements are issued annually by the Office of the Auditor General.

Management's Discussion and Analysis—The MD&A is a component of the RSI. The MD&A should precede and introduce the BFS and should provide an objective and easily readable analysis of the district's financial activities based on currently known facts, decisions, or conditions. The MD&A should focus on the district and should distinguish between information pertaining to the district and that of its component units. The MD&A section should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year.

Government-wide Financial Statements—Government-wide statements display information about the district as a whole, except for its fiduciary funds and component units that are fiduciary in nature. The statements should include separate columns for the governmental and business-type activities of the district as well as for its component units. The government-wide financial statements consist of a statement of net position and a statement of activities, and are prepared using the economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position—The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the district as a whole without displaying individual funds or fund types.

Statement of Activities—The statement of activities reports the district's operations and presents them in a format that reports the net (expense) revenue of the district's individual functions. The net (expense) revenue format is designed to display the relative financial burden of each of the district's functions on the taxpayers. Districts should report all expenses by function except for those that meet the definition of special or extraordinary items. At a minimum, districts should report direct expenses for each function. Direct expenses are those that are specifically associated with a service, program, or department and therefore are clearly identifiable to a particular function.

Fund Financial Statements—The focus of governmental and proprietary fund financial statements is on major funds. A fund is determined to be a major fund based on specific size criteria, prescribed by GAAP. The General Fund is always considered a major fund. Any other governmental or enterprise fund may be reported as a major fund if district management believes that the fund is particularly important to financial statement users. Major fund reporting requirements do not apply to internal service funds.

Whether a fund is reported as major or nonmajor does not affect how it is accounted for in the district's accounting records. Major fund determination is used only when reporting fund information on the financial statements. Each major fund should be presented on the financial statements in a separate column while nonmajor funds are aggregated and displayed in a single column.

Governmental Funds—The governmental fund financial statements report additional and detailed information about the district. The governmental fund financial statements consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balances. These statements should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

Balance Sheet—The balance sheet reports information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances of each major governmental fund and for the nonmajor governmental funds in the aggregate. A total column should be presented. The assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances of governmental funds should be displayed in a balance sheet format.

A summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to reconcile total governmental fund balances to net position of governmental activities in the statement of net position.

Statement of Revenues, Expenditures, and Changes in Fund Balances—This statement reports information about the inflows, outflows, and balances of current financial resources for each of the district's major governmental funds and for the nonmajor governmental funds in the aggregate. A total column should be presented.

A summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to reconcile the total change in governmental fund balances to the change in net position of governmental activities in the statement of activities.

Proprietary Funds—The proprietary fund financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows. The statements should be presented using the economic resources measurement focus and the accrual basis of accounting.

Proprietary fund statements should present the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be aggregated and displayed in a single column, and a combined total column should be presented for all enterprise funds. The combined totals for all internal service funds should be reported in a separate column on the face of the proprietary fund statements to the right of the total enterprise fund column.

Statement of Net Position—Districts should present this statement in a classified format to distinguish between current and long-term assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position should be categorized as *net investment in capital assets, restricted*, distinguishing between major categories of restrictions; and *unrestricted*.

Statement of Revenues, Expenses, and Changes in Fund Net Position—This statement reports information on operating and nonoperating revenues and expenses, and includes a separate subtotal for operating revenues, operating expenses, and operating income. Nonoperating

revenues and expenses should be reported after operating income. Capital contributions, special and extraordinary items, and transfers should be reported separately after nonoperating revenues and expenses. Generally, the amounts reported as net position and changes in net position in the proprietary fund financial statements for total enterprise funds will be the same as net position and changes in net position of business-type activities in the government-wide statement of activities. If differences exist, a summary reconciliation should be included at the bottom of this statement or in an accompanying schedule to explain the differences.

Statement of Cash Flows—The statement of cash flows should categorize cash flows as cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The statement of cash flows should be accompanied by a reconciliation of operating income as reported on the statement of revenues, expenses, and changes in fund net position to cash flows from operating activities as reported on the statement of cash flows. This reconciliation must be presented either on the face of the statement of cash flows or on the next page.

In addition, the statement of cash flows should be accompanied by information in narrative or table form concerning noncash investing, capital, or financing activities of the period that affected recognized assets or liabilities. The required information must be presented either on the face of the statement of cash flows or on the next page. Also, when a single transaction involves both cash and noncash components, this schedule should clearly describe the cash and noncash aspects of the transaction.

The amount reported as cash and cash equivalents at the end of the period should agree to a similar account or accounts on the statement of net position. If not, the district should provide a reconciliation.

Fiduciary Funds—The fiduciary fund financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. Districts should include in the fiduciary fund financial statements information about all fiduciary funds, as well as component units that are fiduciary in nature. The statements should be presented using the economic resources measurement focus and the accrual basis of accounting.

Major fund reporting requirements do not apply to the fiduciary funds. Districts should present in the statement a separate column for each fund type—pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds, as applicable.

Statement of Fiduciary Net Position—The statement of fiduciary net position should include information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for each fiduciary fund type. In the statement of net position, agency fund assets should equal liabilities.

Statement of Changes in Fiduciary Net Position—The statement of changes in fiduciary net position should include information about the additions to, deductions from, and net increase or decrease for the year in net position for each fiduciary fund type. Because agency funds are

purely custodial in nature, they should not be reported in the statement of changes in fiduciary net position.

Notes to the Financial Statements—The BFS should be accompanied by explanatory notes, which are an integral part of the district's financial statements. Their purpose is to communicate information that is not readily apparent from or cannot be included in the BFS themselves but is necessary for a fair presentation. Districts should maintain detailed schedules and other documentation that support information reported in the notes.

Other Required Supplementary Information—In addition to MD&A, which is presented immediately before the BFS, districts must prepare other RSI for inclusion with the BFS. When applicable, the district must include budgetary comparison schedules for major funds. The budgetary comparison schedules should be presented for the general fund and for each major special revenue fund that has a legally adopted annual budget. This comparison should present both the adopted and the final budgets for the reporting period, as well as actual inflows, outflows, and balances stated on the district's budgetary basis. A separate column to report the variance between the final budget and actual amounts may be included to present more detailed information, but is not required.

Comprehensive Annual Financial Report

Districts may prepare and publish a comprehensive annual financial report (CAFR) that covers all activities of the primary government (including blended component units) and provides an overview of all discretely presented component units. The CAFR should include the independent auditor's report, MD&A, BFS, notes to the financial statements, other RSI, and individual fund statements. The CAFR should also include an introductory section, supplementary and statistical information, schedules, and narrative explanations necessary to demonstrate compliance with finance-related legal and contractual provisions. If the district prepares a CAFR, the letter of transmittal included in the introductory section should not duplicate information that is included in the MD&A.

Single Audit Reporting Package

Districts subject to the requirements of the Uniform Guidance are required to have a single audit that includes submission of a single audit reporting package. The package includes the independent auditor's reports on the financial statements, internal control, and compliance, and the MD&A, BFS, notes to the financial statements, other RSI, schedule of expenditures of federal awards, summary schedule of prior audit findings, data collection form, and corrective action plan. See §VIII, Audit Requirements, for more information on single audits.

FINANCIAL REPORTING ENTITY

When preparing financial statements, districts should include financial information on organizations and activities that, although legally separate, are still in substance part of the district as a reporting entity.

The district's reporting entity is defined as the primary government and organizations for which the district is financially accountable. In addition, the district may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the

financial accountability criteria is necessary in order to prevent the district's financial statements from being misleading. In such instances, that organization should be included as a component unit. There are two methods of combining component unit data within data of the district—blended and discrete presentation.

Blended presentation requires that the funds of that component unit be included with the district's funds in the appropriate fund financial statements and combining statements, if applicable. The general fund of a blended component unit should be reported as a special revenue fund since the district's general fund should be the only general fund for the district.

Discrete presentation requires that component unit financial data be reported in one or more columns separate and to the right of the district's financial data, distinguishing between the district's financial data and those of the discretely presented component units by providing descriptive column headings.

Districts should consult applicable Governmental Accounting Standards Board statements for specific guidance when determining the scope of the district's reporting entity and how to report component units.

CONSISTENT APPLICATION OF GAAP

To assist in providing maximum benefit to potential users, a district's BFS should be comparable between reporting periods. Comparability between periods may be affected by accounting changes, correction of errors in previously issued financial statements, changes in classification, or events or transactions substantially different from those accounted for in previously issued financial statements. Therefore, accounting changes can be classified as changes in an accounting principle, changes in an accounting estimate, and changes in the reporting entity.

Changes in the application of GAAP should be disclosed in the financial statements and may necessitate prior-period adjustments. Guidance provided by the Governmental Accounting Standards Board should be used in accounting for and reporting such changes.

INTERNAL REPORTS

The district should prepare internal reports to facilitate planning, controlling, and evaluating district operations. To be most effective, internal reports should be planned as a regular part of the accounting function. The form, frequency, distribution, and content of internal management reports should be developed to meet the district's needs. For example, budget reports are used to continually monitor budget capacity and performance, and are an integral part of the budget control process. See §IV, Budgeting, for details on budget reports and controls.

AUDIT REQUIREMENTS

Refer to related School District FAQs

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Refer to USFR Compliance Questionnaire

AUDIT REQUIREMENTS

INTRODUCTION

Arizona Revised Statutes (A.R.S.) requires most school districts to have an annual or biennial audit. In addition, districts expending $750,000 or more in federal awards in a fiscal year are subject to the requirements of the Uniform Guidance. Districts required to comply with the Single Audit Act must contract for a financial and compliance (single) audit annually. The audit must be performed by an independent auditor in accordance with U.S. generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance.

School districts not required to have a single audit that have an adopted expenditure budget of $700,000 or more for the Maintenance and Operation (M&O) Fund must have an annual or biennial financial statement audit as described below. The audit must be performed by an independent auditor in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*.

If a school district has an adopted expenditure budget of $2 million or more for the M&O Fund, the district must have an annual financial statement audit. However, a district may convert to a biennial audit schedule if the previous year's audit did not contain any significant negative findings. The statute defines "significant negative findings" as findings that result in the issuance of a letter of noncompliance from the Office of the Auditor General. If, after a district has converted to a biennial audit schedule, the Office of the Auditor General issues a letter of noncompliance based on the biennial audit, the district must convert back to an annual audit schedule. However, a district may again convert to a biennial audit schedule after receiving two annual audits that do not contain any significant negative findings.

If a school district has an adopted expenditure budget of less than $2 million but more than $700,000 for the M&O Fund, the district must contract for a biennial financial statement audit (e.g., an audit of fiscal year 2012 and fiscal year 2013 performed after the second year).

For both single audits and financial statement audits, the district's auditor must also complete the USFR Compliance Questionnaire.

Each year, the Office of the Auditor General issues reporting guidelines for school district financial statements and related notes. Periodically, the Office of the Auditor General and the Arizona Department of Education (ADE) issue a sample request for proposals (RFP) with instructions, a sample audit contract, and a USFR Compliance Questionnaire.

Districts not required to have a single or financial statement audit are subject to a procedural review performed by the Office of the Auditor General (see page **VIII-8**). The Office of the Auditor General also conducts performance audits of school districts (see page **VIII-8**). In addition, districts may be subject to compliance audits conducted by other federal and state agencies, including ADE, the Arizona State Retirement System, the Internal Revenue Service, and the Arizona Department of Revenue.

AUDIT PREPARATION

Obtaining Audit Services

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require that audit contracts and completed audit reports be approved by the Auditor General. A district contracting for an audit must follow the School District Procurement Rules or the Guidelines for Written Quotes, as applicable (see §VI-G, Expenditures). It is recommended that districts use an RFP when obtaining written quotes even if other requirements of the School District Procurement Rules are not followed. The nature of an audit requires that certain essential information about the district and the necessary elements of the audit requirements be communicated to interested audit firms to enable them to develop a proposed work plan and reasonably estimate the audit's cost.

After the contract is awarded to the selected audit firm, the district must send a copy of the proposed contract to the Office of the Auditor General for approval before the contract is signed and audit work commences. The Office of the Auditor General will notify the district of approval, disapproval, and any contract deficiencies requiring correction.

If a district contracts for a 1-year audit with the option to renew for additional years or contracts for a multi-year audit without an option to renew, the cost for each of the years should be clearly specified in the original contract. For contracts with an option to renew, each year that the renewal option is exercised, the district should notify the audit firm that the district will be renewing the audit contract. The renewal should be made by written notification (letter or email) addressed to the audit firm and include the type of audit to be performed, the year(s) being renewed, and the price(s) as stated in the audit firm's original proposal. A copy of the renewal notification must be submitted to the Office of the Auditor General before any audit work begins. If a district has an approved multi-year contract without an option-to-renew provision, no additional action is needed.

Districts in a multi-year contract that may end up above or below the single audit threshold in any of the remaining years under the contract may submit a contract amendment to the Office of the Auditor General to change the type of audit. Likewise, districts in a multi-year contract for multiple biennial financial statement audits that adopt an expenditure budget of $2 million or more in the later years of the contract must submit a contract amendment to change the frequency of the audits.

Changes in the work's scope, character, or complexity may be negotiated if the audit firm and district mutually agree that changes of this nature are desirable and necessary. Any changes in the work's scope, character, or complexity must be documented in a contract amendment. All proposed contract amendments must be authorized in writing by the school district and approved by the Office of the Auditor General prior to the performance of the work.

School District Role

District management has a significant role in the audit process and is responsible for providing supporting documents, detailed schedules, accounting records, and other information the audit firm requires. The accuracy and completeness of such information and of the financial reports prepared from it are an integral part of district management's responsibilities. District management is also responsible for

maintaining effective internal control that provides reasonable assurance of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

Districts having a single audit must issue single audit reports that include financial statements, a schedule of expenditures of federal awards, and a summary schedule of prior audit findings. If these documents are prepared by the audit firm from information provided by the district, district management remains ultimately responsible for them. In addition, at the completion of the audit, districts having a single audit must prepare a data collection form and a corrective action plan.

Schedule of Expenditures of Federal Awards—Districts must prepare a schedule of expenditures of federal awards. The schedule identifies each federal award received by the district and total expenditures for each program by federal awarding agency and pass-through agency (if applicable).

Summary Schedule of Prior Audit Findings—Districts are required to prepare a summary schedule of prior audit findings to report the status of all audit findings included in the schedule of findings and questioned costs for the previous audit period relative to federal awards. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected, or no longer valid or not warranting further action.

Data Collection Form—A data collection form approved by OMB must be completed and submitted along with the audit reports. The form provides information about the district, its federal programs, and the results of the audit.

Corrective Action Plan—If the current year's audit reports include audit findings, districts are required to prepare a corrective action plan to address each finding. The corrective action plan must include the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date. If the district does not agree with an audit finding or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

Audit Liaison

An important step in preparing for an audit is to assign an audit liaison between the district and the audit firm. The liaison may be the business manager, administrator, or a designated employee responsible for the financial statements and accounting records.

The audit firm will usually provide a list of documents, supporting schedules, and analyses required for the audit and will specify the date that such documentation must be available. The liaison should sign this list to acknowledge responsibility for collecting such documentation.

The liaison should review the list and begin preaudit preparation before the end of the fiscal year under audit. This review and preparation may include notifying appropriate individuals of the requirements for year-end reports and taking inventory counts of supplies and capital assets. The liaison should provide appropriate forms and instructions to employees to complete these tasks. The liaison should also ensure that files of contracts, agreements, leases, insurance policies, judgments, and other relevant documents are reviewed for completeness and accessibility before June 30 of the audit period. The liaison should also inform the audit firm of any changes in accounting principles made since the previous fiscal year.

AUDIT PROCESS

Engagement Letter

The audit engagement letter is official notice from the audit firm to the district that an audit of the district's financial statements will be performed. The letter describes the nature of the audit and any limitations on the audit scope, and gives scheduled dates for performing and completing the audit. It may also request cooperation of the district's management and staff in furnishing the accounting records and supporting documentation, and assistance in preparing certain audit schedules and analyses. Additionally, the letter should explain that a financial audit is directed to the expression of an opinion on the district's financial statements.

Audit Test Work

In order to form an opinion on the financial statements and prepare reports on internal control and compliance, the audit firm must obtain sufficient, appropriate audit evidence. The audit firm obtains this evidence by inspecting documents on a test basis, observing district policies and procedures, asking questions of district personnel, and confirming various transactions, account balances, and other information with district employees and outside entities such as banks, vendors, or the county school superintendent and treasurer.

Audit test work consists of two basic types: tests of controls and substantive tests. Tests of controls are directed toward the design or operation of a control to assess its effectiveness in preventing or detecting material misstatements in a financial statement assertion. These tests also determine whether the district has complied with applicable laws and regulations. Tests of controls are usually performed before the end of the fiscal year under audit, but may be performed later. It is during this test work phase that the audit firm usually completes the USFR Compliance Questionnaire. The audit firm uses the results of the tests of controls to determine the nature, timing, and extent of substantive tests.

The audit firm performs substantive tests to detect material misstatements and include tests of details to determine the validity and propriety of transactions and account balances. Substantive tests include confirmation of account balances, analytical procedures, and the review of litigation, claims, assessments, and subsequent events. Substantive tests are usually completed at or after the end of the fiscal year under audit.

The audit documentation contains the results of all test work, which the audit firm must retain for a period of 5 years after the date of the audit reports as a record of the work performed. The audit documentation is the audit firm's property.

Audit Reports

The financial statements are the responsibility of district management. The audit firm's responsibility is to express opinions on the financial statements based on the audit and to report on internal control and compliance. Audit firms performing a single audit must also report on the schedule of expenditures of federal awards. The audit firm is also required to complete a USFR Compliance Questionnaire.

AUDIT REQUIREMENTS

Independent Auditor's Report—The audit firm must issue a report to the governing board on the financial statements. The audit firm's report may express an unmodified opinion stating the opinion units reported in the financial statements are presented fairly in accordance with U.S. generally accepted accounting principles (GAAP); a qualified opinion that states "except for" certain conditions, the opinion units are presented in accordance with U.S. GAAP; or an adverse opinion that states the opinion units are not presented fairly in accordance with U.S. GAAP. Certain circumstances, although not affecting the audit firm's unmodified opinion, may require that the audit firm add an explanatory paragraph to the standard report. If the audit firm cannot examine sufficient, appropriate audit evidence to support the fairness of the financial statements, the audit firm will express a disclaimer of opinion. All substantive reasons for modifying or disclaiming an opinion are included in the audit firm's report on the financial statements in separate explanatory paragraphs.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*—The audit firm is required to report on the district's internal control that is relevant to the financial statements and compliance with certain provisions of laws, regulations, contracts, and grant agreements. This report describes the scope of testing of internal control over financial reporting and compliance and the results of that testing. When applicable, the report refers to the separate schedule of findings.

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance—The audit firm is required to report on the district's compliance and internal control over compliance with requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each major federal program. When applicable, the report refers to a separate schedule of findings and questioned costs.

Schedule of Findings and Questioned Costs—When applicable, the audit firm must report the following in a schedule of findings and questioned costs:

- The type of auditors' report issued on the financial statements (i.e., unmodified, qualified, adverse, or disclaimer of opinion).
- Whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.
- Whether the audit disclosed any noncompliance that is material to the financial statements of the district.
- Whether significant deficiencies or material weaknesses in the internal control over major federal programs were disclosed by the audit.
- The type of auditors' report issued on compliance for major federal programs (i.e., unmodified, qualified, adverse, or disclaimer of opinion).
- Whether the audit disclosed any audit findings that the audit firm is required to report under the Uniform Guidance §200.516.

- An identification of major federal programs.
- The dollar threshold used to distinguish between Type A and Type B federal programs.
- Whether the district qualified as a low-risk auditee under the Uniform Guidance §200.520.
- Findings related to the financial statements that include significant deficiencies and material weaknesses in internal control over financial reporting, material instances of fraud and noncompliance with provisions of laws or regulations, material noncompliance with provisions of contracts or grant agreements, and material abuse that are required to be reported in accordance with *Government Auditing Standards*.
- Findings and questioned costs for federal awards that include significant deficiencies and material weaknesses in internal control over major federal programs, material noncompliance, questioned costs, and fraud that are required to be reported in accordance with the Uniform Guidance §200.516.

Audit findings that relate to both the financial statements and federal awards should be reported in both sections. However, the reporting in one section may be in summary form with a reference to detailed reporting in the other section.

Report on the Schedule of Expenditures of Federal Awards—The audit firm is required to report on the schedule of expenditures of federal awards to provide assurance as to its fair presentation in all material respects in relation to the financial statements taken as a whole. This report may be issued separately or it may be added as a final paragraph of the Independent Auditor's Report.

USFR Compliance Questionnaire—The audit firm must complete the USFR Compliance Questionnaire. The Questionnaire assists the Office of the Auditor General in determining whether a district has attained an acceptable degree of compliance with the USFR.

District personnel should review the USFR Compliance Questionnaire before the audit begins. Districts may choose to complete a copy of the Questionnaire informally to aid in determining whether its internal controls are adequate for substantial compliance with the USFR. The USFR Compliance Questionnaire that is submitted to the Office of the Auditor General, however, must be completed by the audit firm.

Representation Letter

The audit firm should request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. The representation letter should be addressed to the audit firm and signed by the appropriate district official. The letter should be dated as of the date of the auditor's report on the financial statements.

The representation letter includes management's assertions regarding the preparation and fair presentation of the financial statements, the information and access provided to the audit firm, and completeness of transactions recorded and reflected in the financial statements. Other specific representations must be made related to fraud, laws and regulations, uncorrected misstatements, litigations and claims, estimates, related-party transactions, and subsequent events.

REPORT SUBMISSION AND REVIEW

District management should review drafts of the reports described above and resolve any errors before the audit firm issues the reports. Also, in response to the audit reports on compliance and internal control, the district must provide comments concerning deficiencies, significant deficiencies, and material weaknesses in the reports. The district's comments must include a plan for corrective action taken or planned and a statement on the status of corrective action taken on prior audit findings. The reports are then submitted to the district, Office of the Auditor General, ADE Grants Management Division, the federal audit clearinghouse, the district's county school superintendent's office, and become a matter of public record. A copy of the USFR Compliance Questionnaire and management letter, if one is issued, must be submitted to the Office of the Auditor General and ADE Grants Management Division along with the audit reporting package. Reports must be submitted within 9 months after fiscal year-end or 30 days after the reports are issued to the district, whichever is sooner.

Report Review, Suspension, and Debarment

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to ensure that completed audits are conducted in accordance with U.S. generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance, if applicable, and the minimum audit standards prescribed by the Auditor General. Accordingly, the Office of the Auditor General reviews the audit reports and selected audit documentation of audit firms performing school district audits to determine the quality of technical performance and adherence to the cited standards and the Uniform Guidance, and to determine whether the audit firms met the requirements prescribed by the Office of the Auditor General for completing the USFR Compliance Questionnaire.

If it is determined that an audit firm has not met the standards and requirements listed in the preceding paragraph, the Auditor General may disapprove audit contracts, or suspend or debar the audit firm from contracting with school districts for audit services, pursuant to *Arizona Administrative Code* R4-44-101 et seq. The Office of the Auditor General will notify districts if an audit firm has been suspended or debarred.

USFR Compliance Review and 90-Day Process

The Auditor General is also responsible for determining the district's level of compliance with the USFR. The Office of the Auditor General reviews all audit reports, USFR Compliance Questionnaires, and management letters submitted by the audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. Districts that have complied with the USFR at a satisfactory level may be determined to be compliant or marginally compliant. Marginally compliant districts are notified that the Auditor General's review noted deficiencies that did not cause substantial noncompliance but that must be addressed for the district to continue to comply with the USFR in future years. A.R.S. §15-271 requires the Auditor General to inform any district failing to comply with the USFR at a satisfactory level that it has 90 days to achieve compliance with the USFR. The district is sent a letter and is given 90 days to correct the cited deficiencies. A list of the most significant deficiencies and a corrective action plan template is provided to district management.

AUDIT REQUIREMENTS

During the 90-day statutory period, a district may contact staff from the Office of the Auditor General or ADE for assistance.

After the 90-day period, staff from the Office of the Auditor General will review the district's corrective action plan and may require revisions to ensure the plan fully addresses the district's deficiencies. An on-site review of the district's internal control to determine whether the district has attained substantial compliance with the USFR will generally take place 2-3 months after the district has implemented its corrective action plan. The review will cover the deficiencies communicated to management as well as any other internal control deficiencies noted at the time of the review. The district is notified in writing of the results of the review. If the district has not complied with the USFR at a satisfactory level, a letter of noncompliance is sent to the Arizona State Board of Education requesting the State Board take appropriate action as prescribed by A.R.S. §15-272. Upon request of the State Board, a follow-up review may be conducted on a district found in noncompliance by the State Board.

PROCEDURAL REVIEWS

School districts that have an adopted expenditure budget of less than $700,000 for the M&O Fund and are not required to comply with the *Single Audit Act Amendments of 1996* are subject to procedural reviews performed at the Office of the Auditor General's discretion.

The objective of a procedural review is to conduct a study and evaluation of the district's internal control to determine whether it complies with the USFR. A procedural review is substantially less in scope than an audit, and an audit opinion is not expressed on the district's internal control or financial statements.

As a result of the review, the Office of the Auditor General issues a procedural review report indicating whether the district is in compliance with the USFR. If a procedural review discloses that a district has not complied with the USFR, the 90-day process as described on page **VIII-7** is followed.

PERFORMANCE AUDITS

A.R.S. §41-1279.03 requires the Auditor General to conduct performance audits of school districts. Districts are selected randomly by the Office of the Auditor General for an audit. These audits focus on operational areas such as administration, plant operations and maintenance, food service, student transportation, and IT policies and controls that are designed to determine whether a district is managing its resources in an effective, economical, and efficient manner. These audits provide the Legislature, district decision makers, and the public with information on the use of public monies and identify best practices or make recommendations to the districts to improve operations.

Districts that receive a performance audit must notify the Auditor General in writing as to whether the district agrees or disagrees with the findings and will implement the audits recommendations. The district must also submit to the Office of the Auditor General a written status report on the implementation of the audit findings and recommendations every 6 months for 2 years after the audit is conducted. The Office of the Auditor General reviews the district's progress toward implementing the audit recommendations after receiving the district's status reports.

INFORMATION TECHNOLOGY

Refer to related School District FAQs

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Refer to USFR Compliance Questionnaire

INFORMATION TECHNOLOGY

INTRODUCTION

The information technology (IT) internal control guidelines presented in this section are provided to help school district officials and IT personnel develop and implement effective internal control for IT-based systems. These controls are intended to help provide reasonable assurance that the resulting data is accurate and reliable.

IT controls are a specialized application of basic accounting internal control. The basic concepts are expressed in terms of control objectives and, therefore, are independent of the data processing method used, whether manual or computer-based. IT controls are divided into two basic categories: (1) general controls, which are the policies and procedures that apply to all IT activities and help ensure their proper operation; and (2) application controls, which relate to specific applications, such as the accounting, student attendance, or payroll systems.

Given the wide range of computer systems and applications, each district should tailor IT internal control to effectively and efficiently address its specific environment and risks. For example, Internet accessibility and wireless networks present more opportunities for unauthorized users to gain access to the district's network, systems, and data. Documented and enforced policies and procedures regarding IT systems and specific risks, such as Internet use and wireless access, can protect the district from unintended exposure and consequences. Additionally, the district's IT policies and procedures should address prevention and detection of technology-related issues and should include guidelines on its response to specific incidents.

As used throughout this section, "user" refers to employees, students, and others who use the IT systems to carry out their assigned or authorized activities. "IT personnel" refers to employees who manage, design, program, or operate the IT system(s).

INTERNAL CONTROL

General Controls

General controls refer to controls embedded in IT processes and services and include areas such as systems development, change management, security, and computer operations. General controls are intended to ensure that IT resources are directed toward and support business requirements, business application programs are properly managed and maintained, data and systems are safeguarded, and computer operations provide for continuous and effective service.[1] There are four general control areas that management should consider:

1. Systems development helps ensure that computer systems and applications:
   - are acquired or designed in accordance with business needs,
   - address security and control requirements,

[1] As used in this section, "business" refers to the activity with which an organization is principally and seriously concerned. The context relates to the entity's broader operations, and the intent is that IT processes and services must be focused on the needs and requirements of the entire enterprise rather than on IT itself.

- are tested to ensure that they operate as designed, and
- are properly maintained throughout their life.

2. Change management:
   - addresses needed changes and prevents unauthorized changes to information system resources (for example, software programs and hardware configurations), and
   - provides reasonable assurance that systems are configured and operating securely and as intended.
3. Security provides a framework and continuing cycle of activity for:
   - managing risk,
   - developing and updating security policies, procedures, and training,
   - assigning responsibilities for security requirements, and
   - monitoring the adequacy of security-related controls.

   One particularly important security area that deserves management's special attention relates to access controls, which are designed to limit or detect access to computer resources (data, programs, equipment, and facilities) and protect them against unauthorized use, modification, loss, and disclosure.
4. Computer operations help ensure that critical operations:
   - continue effectively and without disruption, or
   - are promptly resumed when unexpected events occur.

Systems Development Controls—Districts should design controls for the acquisition and/or development of, and changes to, their computer systems and applications. IT systems should be developed or modified based on business needs defined by management and users. Policies and procedures for systems development should include:

1. A process to help ensure that systems are designed, or acquired, and implemented in accordance with business and security needs and requirements, and are maintained properly throughout their useful life.[2] Formal policies and procedures over the Systems Development Life Cycle (SDLC) should be considered. The SDLC begins as projects are initially planned and ends when they are finally retired.
2. Requirements that users and IT personnel test the system or changes for consistency with design specifications and user requirements. Testing is usually performed as critical phases of the system are finished and again after the entire system has been completed but before it is put into actual use.

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[2] Business requirements include those that may be both internally and externally mandated. For example, there are requirements that certain information be submitted to the Arizona Department of Education's Student Accountability Information System (SAIS). Related requirements, such as the length and makeup of SAIS IDs, need to be considered both in developing and maintaining local systems.

3. Requirements that IT personnel obtain formal approval from business users before placing a system or system modification into operation.
4. Requirements that IT personnel develop and retain system documentation, including documentation of changes from original design specifications.
5. Requirements that user documentation and training be provided to users of the system based upon their job role and function and the way they will be expected to interact with the system.

Change Management Controls—Districts should design controls to ensure that key components of their network and systems are kept up-to-date and secure. They can do this by:

1. Developing a plan, strategy, and guidelines to ensure that their computer and network infrastructure (i.e., computers, servers, routers, switches, etc.) are properly maintained and that changes to key equipment and settings are consistent with the district's policies and standards.
2. Establish procedures for monitoring available updates to IT systems and for testing and applying updates to ensure that systems run effectively and securely.

Security Controls—Districts should establish a framework and continuous cycle of assessing risk, develop and implement effective security procedures, design and provide security awareness training to staff and users of their computer systems, and monitor and report on the overall effectiveness of their security policies and procedures. In order to do this, districts should:

1. Assign responsibility for security of their IT systems and data, and require periodic reporting on security-related activities to management.
2. Develop and maintain up-to-date security-related policies and procedures, including those which address access to their IT systems and data, and user security awareness training.
3. Periodically assess risks to their IT systems and data, and develop policies and procedures to prioritize and address identified risks.
4. Manage information system security activities, such as installing security patches, anti-virus, and other anti-malware software and updates.
5. Develop policies and procedures that define requirements and actions needed when security incidents occur.
6. Monitor and periodically audit system activity and adherence to security-related policies, procedures, and guidelines.

Access Controls—Special attention should be paid to security-related controls over access to IT systems and data. Physical and logical access controls help ensure that only those individuals authorized by management to access and use IT systems and data are able to do so.

Physical access controls include those that restrict the entry and exit of personnel (and often equipment and media) from a physical area, such as an office building, suite, data center, or room containing critical computer-related equipment, such as network servers, routers, and switches. Controls over physical access include barriers that isolate areas and employ screening measures to restrict access. Some examples include:

1. Combination entry pads and card-key door locks.
2. Surveillance monitors.
3. Intrusion detectors and alarms.
4. Hardware locking mechanisms.

Logical access controls are protection mechanisms that limit users' access to information and restrict the types of access to only what is necessary for them to carry out their assigned duties. Logical access controls are often built into computer and/or network operating systems, or may be part of the "logic" of applications programs or major utilities, such as database management systems. They may also be implemented in add-on security packages that are installed onto computer systems. Some examples of logical security control techniques include the use of:

1. Individual user accounts and passwords, with defined password requirements such as length, characteristics (i.e., use of upper/lower case letters, numbers, symbols, etc.), frequency with which they must be reset, prohibitions against reuse, termination of access rights when a user no longer has a need for access to data, etc.
2. Different levels of access capabilities, such as read/write privileges, based on data classification and/or ownership.
3. Data encryption technologies.
4. Properly configured firewalls and intrusion detection/prevention systems.
5. Up-to-date anti-virus, anti-spyware, anti-spam, and other anti-malware programs, and signatures.
6. System access and exception reports and logs.

Access to program files and production data, including general ledger accounting structure, electronic signatures, vendor file information, and employee and student file data, should be controlled and limited where possible. Program documentation contains information regarding how the programs work, their data file structures, control mechanisms and criteria, and other sensitive information that could be manipulated or used to access or modify systems and data. Therefore, access to program documentation should be restricted to only those employees authorized to maintain computer programs.

Access controls should include maintaining an audit trail to enable tracing of electronic transactions from inception to final disposition. If appropriate electronic audit trails are not available, manual processes should be used to track and document changes made.

Computer Operations Controls—Districts should establish policies and procedures to ensure that IT systems are operating effectively and kept up-to-date, and that systems and data are protected from unintended loss or destruction. To do this, districts should:

1. Collect and analyze key system information, such as server processor and disk space utilization, error/incident logs, and capacity management reports, in order to be able to plan for system upgrades or replacements.
2. Establish system replacement guidelines and procedures, including requirements for the proper destruction of information contained on systems that are retired or taken out of service.

3. Maintain and regularly update network infrastructure and configuration information.
4. Implement environmental controls. The computer facility should be protected against safety hazards and environmental damage. Storage media, such as computer hard drives, disks, tapes, portable external storage devices such as flash drives, etc., should be protected from exposure to moisture, extreme temperatures, fire, powerful magnetic fields, and other environmental risks. Safeguards against fire might include smoke detectors and fire suppression equipment.
5. Implement backup controls. Backup controls help ensure that current copies of critical system and data files are maintained and easily retrievable. Files, programs, and documentation should be physically safeguarded by maintaining backup copies and regularly storing backups in an off-site storage facility. The frequency and timing of backup procedures or archival policies should be determined by the amount of effort to recreate the current system in the event of losses and legal requirements. Ordinarily, data files may be backed up daily or more frequently; software programs and the related documentation may be backed up when new program changes are made. Districts should develop and document policies and procedures for data recovery, such as the prioritization of programs and files necessary to resume normal operations.
6. Implement disaster recovery controls. Disaster recovery controls help ensure the continuity of operations should an event cause damage or loss to critical computer resources or facilities. Districts should develop and routinely update a documented disaster recovery plan, test the plan periodically, and ensure adequate insurance coverage to provide resources necessary for continuity of operations in the event of a disaster affecting IT systems and data. A disaster recovery plan should include:
   - Business impact analysis, including a risk assessment of critical business functions, risk mitigation, and disaster scenarios.
   - Business recovery strategies, including recovery tasks and procedures.
   - Computer equipment and software inventories.
   - Vital records required for resumption and recovery efforts.
   - List of supplies and equipment required for resumption and recovery efforts.
   - Crisis management plan.
   - Escalation procedures used to specify exactly how to respond to emergencies and how to tell when a “problem” has become a potential “disaster.” Disaster recovery plans should state the steps to follow for escalating unresolved problems to disaster status.
   - Notification procedures for recovery teams.
   - Contact lists of recovery team members, management personnel, vendors, and others as may be appropriate.
   - Plan maintenance and training requirements to ensure that the plan is kept up-to-date and all parties understand their roles and responsibilities during the plan’s execution.

Application Controls

Application controls are manual or programmed activities intended to ensure the completeness and accuracy of records and the validity of entries made into business computer systems. They are embedded in business process applications and include checks over completeness, accuracy, validity, authorization, and separation of duties.

1. Completeness checks help ensure all records were processed from initiation to completion (i.e., provide reasonable assurance that all transactions that occurred are input into the system), accepted for processing, processed in accordance with system requirements, and properly included in output. The most commonly encountered controls for completeness include the use of record counts and control totals, computer sequence checking, computer matching of transaction data with data in a master or suspense file, and checking of reports for transaction data.
2. Accuracy checks provide reasonable assurance that transactions are properly recorded with correct information, data elements are processed correctly by applications, reliable results are achieved, transactions detected with errors are controlled to ensure that they are corrected and reentered in a timely manner, and output is reviewed and control information is reconciled to determine whether errors occurred during processing.
3. Validity checks help ensure that a program operates on clean, correct, and useful data by checking for correctness, meaningfulness, and security of data that is input into the system. The simplest data validation verifies that the characters provided come from a valid set. For example, telephone numbers should include the digits and possibly the dash, and left and right parentheses. A more sophisticated data validation routine would check to see that the user had entered a valid country code (i.e., that the number of digits entered matched the convention for the country or area specified).
4. Authorization checks help ensure that only approved users have access to the application system and that data is properly authorized before it is entered or accepted into the system.
5. Separation of duties helps ensure that checks are in place to prevent fraud and errors by separating the tasks and associated privileges for a specific business process among multiple users. These controls include policies, procedures, and an organizational structure established so that one individual cannot control key aspects of computer-related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

The responsibility for application controls is a joint responsibility between the business and IT personnel. Business personnel are responsible for properly defining functional and control requirements and use of automated services. IT personnel are responsible for automating and implementing business functional and control requirements, and establishing controls to maintain the integrity of applications controls.

Application controls are commonly categorized into the following three phases of a processing cycle:

1. **Input**—Data is authorized, converted to an automated form, and entered into the application in an accurate, complete, and timely manner.

   Controls in this phase would include data validation and edit checks that enforce system requirements for data entering the application. For example, they would check for valid account codes, missing data elements, data reasonableness, proper formats, mathematical accuracy, or batch totals.

Districts should establish review and control policies and procedures for the prevention, detection, and correction of data input errors. Additionally, to minimize the risk of fraud and identity theft, error logs should not contain sensitive or confidential information, such as social security numbers or bank account numbers. Further, an employee who does not input data should review and approve error corrections and ensure that an adequate audit trail exists to document and record them.

2. **Processing**—Data is properly processed by the computer, and files are updated correctly. These controls would include requirements that users reconcile relevant input control totals with data processed by the application.

   To the extent possible, application processing should be standardized, and the manual and automated procedures used should be documented. Audit trails and output reports should be monitored on a regular basis to help ensure that transactions are processed as intended. Users should reconcile relevant input control totals with data processed by the application. For example, the ledger in an accounting system could provide total debits and credits to be calculated for the input transactions to ensure balancing.

   Further, the application should have controls to ensure that the correct file is processed, file processing errors are detected, and operator errors are identified. Errors may indicate control weaknesses or control processes that are being bypassed. Where possible, limit and reasonableness checks should be incorporated within programs to help detect clerical or processing errors. Districts should also implement sufficient controls to protect the confidentiality of data during processing.

3. **Output**—Files and reports generated by the application are created properly and accurately reflect the results of processing, and reports are controlled and distributed to the authorized users.

   Output controls provide assurance that data has been processed accurately and completely, and that the output is distributed correctly and in a timely manner. Output can be in hard copy form, electronic files that become input to other systems, or as information available for online viewing.

   A designated employee independent of processing responsibilities should prepare reconciliations, or automated controls may be incorporated into the application to ensure that correct processing has occurred. When feasible, an employee should compare processed information to original source documents.

   Output controls should ensure that the application's results are delivered only to the appropriate end users, output is restricted from unauthorized access, and record retention and backup schedules are established. In particular, districts should ensure that content and availability of output and data are consistent with end users' needs, data sensitivity, confidentiality requirements, and applicable laws and regulations. Further, critical documents and reports, such as blank check stock and reports containing confidential employee or student information, should be properly secured from unauthorized access and use.

Separation of Duties—As with non-IT internal control, districts should establish the structure in which operations function and determine their relationships to each other. Often, separation of duties is achieved by splitting responsibilities between two or more organizational groups. Dividing duties this way diminishes the likelihood that errors and inappropriate acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other. Separation of functions, duties,

and responsibilities is necessary so that no individual performs incompatible duties that may permit errors or fraud to occur and remain undetected.[3]

The extent to which duties are separated depends on the size of the organization and the risk associated with its activities. A large organization will have more flexibility in separating key duties than a small organization that must depend on only a few individuals to perform its operations. These smaller organizations may rely more extensively on supervisory review to control activities. Similarly, activities that involve extremely large dollar transactions, or are otherwise inherently risky, should be divided among several individuals and be subject to relatively extensive supervisory review.[4]

Additionally, to prevent the unauthorized or fraudulent manipulation of applications or data, districts should separate key responsibilities between IT personnel and users. To accomplish this, districts should designate specific users to initiate and authorize transactions, and prohibit IT personnel from initiating or authorizing transactions. In addition, users should not have system-level access to modify data or programs. When independence is not possible, such as when users also perform IT functions related to the system(s), management must periodically review transactions to help compensate for inadequate separation of duties.

Further, among the IT personnel, programming responsibilities should be separated from computer operation responsibilities. Unauthorized modifications to programs or files are more likely if an employee has the ability to perform both programming and operating functions. If separation of these duties is not feasible, districts should ensure that a supervisor reviews system logs, balancing reports, and other relevant indicators regularly.

DOCUMENTATION

Districts should establish and document policies and procedures for its IT operations. The amount of documentation necessary depends upon the circumstances and complexity of the district's IT systems. However, at a minimum, standards and procedures related to systems development, change management, security, and computer operations, as described above, should be developed and regularly maintained.

Documentation of application systems and the controls associated with them is also very important. System, program, operations, and user documentation should be prepared and maintained in a standardized, organized manner.

In designing and implementing IT systems, organized and thorough documentation can:

1. Provide an understanding of the system's objectives, concepts, processes, and output.
2. Provide a resource for systems analysts and programmers responsible for maintaining and revising existing systems.
3. Enable supervisory review of work performed on the system.

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[3] Based on the Federal Information System Controls Audit Manual (FISCAM), GAO-09-232G, February, 2009. Chapter 3, section 3.4.

[4] Ibid.

4. Serve as a reference for existing staff and as a basis for training new personnel.
5. Communicate system information to systems analysts, programmers, operators, and auditors.

System documentation should include a brief narrative description of the system's business purpose and provide both an overview of the system and an explanation of the integration, if any, with other systems. Information on system testing performed, user involvement, and sign-off should be maintained. Input, processing, output, file, security, and related controls for each system should be described. In addition, information regarding significant system changes, including their purpose, scope, authorization, and effective dates, should be preserved.

Program documentation should include a description of the program's purpose; a flowchart, decision table, or detailed logic narrative; a list of built-in control features such as error-detection routines; a detailed description of file formats and record layouts; and the program code itself. Operating instructions, input and output formats, users' request for any changes, change test results, and user's approval of the revised program, if applicable, should also be documented. The interrelationship between that program and other programs that make up the system should also be described.

Operations documentation should include setup instructions and on-going operational requirements, recovery and restart procedures in the event of hardware or software malfunctions, and error-correction procedures. The error correction procedures should include documentation of the problem, cause-analysis, identification of the individual assigned to correct it, and timely review by a supervisor to verify that the problem was resolved. Furthermore, this documentation should also include a list of control procedures and the personnel (positions) responsible for performing them.

User documentation should outline user instructions and provide information about how to use the application, including:

1. Input and output descriptions, including data entry screens and data display screens.
2. Applicable cut-off procedures for submitting data.
3. Balancing and reconciliation procedures.
4. Basic and common functionality.
5. Advanced functionality.
6. Instruction on using the Help functionality.
7. Explanation of error messages and appropriate responses.
8. Problem resolution procedures and/or technical support resources.

INTERNET AND E-MAIL

The Internet provides a mechanism for systems and users to connect to other systems and users outside of the organization's own network. While this provides opportunities, it also introduces potential threats. Therefore, the district's networks and the systems that reside on them need to be properly secured to ensure that its IT resources and data are not accessible and used by unauthorized individuals, or in unauthorized or inappropriate ways. Two important steps districts can take to increase security and ensure

proper use of electronic resources and information are to develop Internet and e-mail use and security policies, and to implement security and monitoring measures to ensure computer users' compliance with the policies. These policies should address:

1. Who is allowed to use the Internet and e-mail.
2. When they are allowed to use it.
3. What constitutes acceptable use of the Internet and e-mail.
4. What constitutes unacceptable use of the Internet and e-mail.
5. Monitoring procedures for Internet account activity.
6. Virus, spam, and other types of malware protection.
7. Requirements and guidelines over the use and configuration of firewalls and other network perimeter security devices, such as intrusion prevention systems, intrusion detection systems, network access control devices, etc.
8. Procedures for reporting and responding to suspected security and policy violations.

A written Internet and e-mail policy raises users' level of security awareness and serves as guidance for technical decisions affecting Internet and e-mail activity. Further, the policy may help strengthen the district's position in the event of legal prosecution of a security violation. This policy need not be technical; however, it should include a summary of the district's Internet and e-mail security concerns. Further, users should be required to acknowledge and document receipt of the policy and their intention to follow the policy before being granted access to the Internet and e-mail. Districts should also institute periodic security awareness training to remind users of their requirements and responsibilities.

WIRELESS NETWORKS

Wireless networks provide the ability to access network resources, such as files, printers, the Internet, e-mail, and data, without the use of the traditional cables and wires generally required to connect to a district or school site's network infrastructure. In general, wireless networks should be given special attention and need to be adequately controlled due to the risks inherent in using this type of technology. Specifically:

1. All of the vulnerabilities that exist in a wired network also apply to wireless networks (e.g., unauthorized access, viruses, denial-of-service attacks, etc.).
2. Unauthorized wireless connections can be set up without anyone's knowledge by either authorized (i.e. staff, students, or contractors) or unauthorized individuals and may affect network security and performance.
3. Wireless access points, particularly those set up on an ad hoc basis, are often implemented without attention to security and authentication issues, such as the use of default passwords, and may bypass existing network and firewall protections.
4. Sensitive information that is transmitted wirelessly between devices may be easily intercepted and used if not encrypted.

Reducing the risks and security issues related to wireless networks may require significant effort, resources, and vigilance. Actions needed to maintain a secure wireless network include:

1. Performing a risk assessment of the different threats and vulnerabilities introduced by wireless technology and regularly monitoring the network for unauthorized wireless access points.
2. Developing or expanding and disseminating the security policy to address the proper use and security requirements over wireless access networks.
3. Enabling encryption and authentication security features to mitigate unauthorized access and wireless eavesdropping.
4. Training users on how to properly use wireless access technologies to minimize risks to the district or school site's network.

APPENDIX A SUMMARY OF INFORMATION SOURCES

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ARIZONA REVISED STATUTES

Arizona Revised Statutes (A.R.S.) pertinent to school district accounting and financial reporting responsibilities are listed below.

TITLE 11 — COUNTIES

Chapter 3: County Officers

Article 4 — Treasurer

§11-494 Receipts for monies received; violation; classification

§11-497 Disbursement of forest reserve funds

§11-501 Monthly and annual reports to the board

§11-504 Correction of errors

Chapter 4: Fiscal Provisions

Article 1 — County Charges, Specific Funds, and Warrants for Current Expenses

§11-604.01 Revolving line of credit; uses; procedures; bids; application of revenues; exception

§11-605 Warrants drawn on fund

Article 2 — Claims and Warrants

§11-632 Issuance of duplicate warrant

§11-634 Payment of warrants

§11-635 Warrants unpaid for lack of funds; interest

Chapter 7: Intergovernmental Operations

Article 3 — Joint Exercise of Powers

§11-951 et seq

TITLE 15 — EDUCATION

(Management should be aware of all Title 15 provisions)

Chapter 1: General Provisions

Article 1 — General Provisions

§15-101 Definitions

Article 2 — Employee Annuity and Deferred Compensation Plans

§15-121 Permitting school employees to participate in federal annuity program and deferred compensation plans; prohibition against use of public funds; penalty

Article 8 — Charter Schools

§15-181 et seq

Chapter 2: State Governance of Schools

Article 1 — State Board of Education

§15-203 Powers and duties

§15-207 Apportionment and expenditure of federal grants for educational purposes

§15-208 Application by school district for apportionment of federal monies; hearing

§15-209 Disbursement of apportioned federal funds

§15-210 Unlawful expenditure of federal monies

§15-213 Procurement practices of school districts; adoption of rules; simplified construction procurement program; report; recovery of damages by contractor for delay; civil action; definition

§15-213.01 Procurement practices; guaranteed energy cost savings contracts; definitions

Article 2 — Department of Education

§15-234 Appropriations for adult education; eligibility; definition

§15-236 Cost study of special education programs; program and fiscal audits

Article 3 — Superintendent of Public Instruction

§15-251 Powers and duties

§15-253 Legal opinions relating to school matters

§15-255 Annual report; contents

Article 4 — Uniform System of Financial Records

§15-271 Duties of auditor general for uniform financial records system; annual report

§15-272 Duties of department of education for uniform system of financial records

Chapter 3: Local Governance of Schools

Article 1 — County School Superintendent

§15-302 Powers and duties

§15-303 Apportionment of funds

§15-304 Warrants; limitations; definition

§15-306 Register of warrants

TITLE 15 —EDUCATION (Cont'd)

Article 2 — Organizational Powers of School District Governing Boards

§15-321 Organization; election of officers of the board; meetings; execution of warrants; exemption

§15-323 Governing board member; voting eligibility; purchases from board member

Article 3 — Powers and Duties of School District Governing Boards

§15-341 General powers and duties; immunity; delegation

§15-342 Discretionary powers

§15-343 Employment of professional help

Article 4 — Establishment of Special Services

§15-364 Agreements and expenditure of public monies for recreational facilities on school properties; use of proceeds of bond issues

§15-365 Service programs operated through the office of a county school superinten-dent; reports; definitions

Article 5 — Provisions for Insurance Coverage

§15-381 et seq

Chapter 4: School Elections

Article 1 — General Provisions

§15-406 Cost of elections

Article 4 — School District Budget Override Elections

§15-481 et seq

Article 5 — Bond Elections

§15-491 et seq

Chapter 5: School Employees

Article 1 — General Provisions

§15-501 Definitions

§15-502 Employment of school district personnel; payment of wages of discharged employee

§15-503 Superintendents, principals, head teachers, and school psychologists; term of employment; evaluation; contract delivery; nonretention notice

§15-510 Authorization of leaves of absence; application; preservation of rights

§15-511 Use of school district resources or employees to influence elections; prohibition

§15-512 Noncertificated personnel; finger-printing personnel; affidavit

Article 3 — Certification and Employment of Teachers

§15-534 Fingerprinting; affidavit

§15-536 Offer of contract to certificated teacher who has not been employed more than three consecutive school years; acceptance; notice to teacher of intention not to reemploy

§15-538.01 Offer of contract to certificated teacher employed more than three consecutive school years

§15-544 Limitations on reduction of salaries or personnel

Chapter 7: Instruction

Article 1 — Curriculum

§15-715 Special academic assistance to pupils in kindergarten programs and grades one through three

Article 2 — Courses of Study and Textbooks

§15-723 Furnishing of free textbooks, subject matter materials and supplementary books

§15-724 Purchase of high school textbooks, subject matter materials and supplementary books; budget; rental

§15-729 Use of monies received for lost or damaged textbooks, subject matter materials, supplementary books or instructional computer software

Article 3.1 — Bilingual Programs and English as a Second Language Programs

§15-755 Reporting procedures; self-assessment; noncompliance

Article 4 — Special Education for Exceptional Children

§15-761 Definitions

§15-764 Powers of the school district governing board or county school superintendent

§15-769 Appropriation and apportionment; approval of program

§15-770 Gifted pupils; scope and sequence; annual financial report

§15-772 Additional assistance for gifted programs

TITLE 15 — EDUCATION (Concl'd)

Chapter 8: School Attendance

Article 1 — School Year and Attendance Requirements

§15-801 School year; school month; holidays

Article 2 — Admission Requirements

§15-824 Admission of pupils of other school districts; homeless children; tuition charges; definitions

§15-825 Certificate of educational convenience; issuance; effect on enrollment records

§15-825.01 Certificates of educational convenience; pupils attending out-of-state schools

§15-827 Presentation of withdrawal form

Article 4 — Part-Time Schools and Year-Round School Year Operation

§15-855 School or school district operation on a year-round school year basis; separate budget

Chapter 9: School District Budgeting and Financial Assistance

Article 1 — General Provisions for School District Budgets

§15-901 et seq

Article 1.1 — Career Ladder and Other Performance Incentive Programs

§15-918 et seq

Article 2 — Pupil Transportation

§15-921 et seq

Article 3 — School District Revenue Limitation for Maintenance and Operation

§15-941 et seq

Article 4 — Provisions for Capital Outlay and Capital Levy

§15-961 et seq

Article 5 — State and Local Assistance to School Districts and Accommodation Schools

§15-971 et seq

Article 6 — County Finance Responsibilities for School Districts

§15-991 et seq

Article 7 — Bond Issues and Bonded Indebtedness

§15-1021 et seq

Article 8 — State Board for School Capital Facilities

§15-1051 et seq

Article 9 — Assistance to Build Classrooms

§15-1061 et seq

Article 10 — School District Revenue Bonds

§15-1071 et seq

Chapter 10: School District Funds and Related Operations

Article 1 — Revolving Funds; School Plant, Insurance Proceeds, Unemployment Compensation, Civic Center School and Permanent Teacherage Funds

§15-1101 et seq

Article 2 — Student Activities and Auxiliary Operations Funds

§15-1121 et seq

Article 3 — Community School Program Fund

§15-1141 et seq

Article 4 — School Lunch Program Fund

§15-1151 et seq

Article 8 — Governing Board Bank Accounts

§15-1221 et seq

Article 9 — Vocational and Technical Education Projects Fund

§15-1231 Vocational and technical education projects fund

Article 10 — Academic Contests Fund

§15-1241 Academic contests fund; state board of education powers and duties; distribution of monies

TITLE 16 — ELECTIONS AND ELECTORS

Chapter 2: Election Dates

Article 1 — Primary Election

§16-204 Declaration of statewide concern; consolidated election dates

§16-205 Election dates; notice; administration

TITLE 23 — LABOR

Chapter 2: Employment Practices and Working Conditions

Article 6.1 — Equal Wages

§23-340 et seq

Article 7 — Payment of Wages

§23-350 Definitions

§23-351 Designation of paydays for employees; payment; exceptions; violation; classification

§23-352 Withholding of wages

§23-353 Payment of wages of discharged employee; violation; classification

Article 9 — Wages and Hours of Public Employees

§23-391 Overtime pay; work week

Chapter 4: Employment Security

Article 5 — Contributions

§23-726 et seq

Chapter 6: Workers' Compensation

Article 1 — Scope of Workers' Compensation

§23-902 et seq

Article 4 — Providing for Compensation

§23-961 et seq

TITLE 35 — PUBLIC FINANCES

Chapter 2: Handling Public Funds

Article 2.1 — Money Management

§35-323 Investment of public monies; bids; eligible depositories; surety bonds and collateral; restrictions

§35-328 Investment of sinking funds

Article 3 — Payment of Agency Accounts

§35-341 Definitions

§35-342 Payments of agency accounts; delinquency; interest

Chapter 3: Public Indebtedness

Article 2 — State Indebtedness Bonds

§35-429 Issuance of state bonds for county, municipal or school district indebtedness

Article 3 — County and Other Municipal Indebtedness

§35-451 et seq

Article 3.1 — Tax Anticipation Notes

§35-465 et seq

Article 4 — Refunding County and Other Municipal Indebtedness

§35-471 et seq

Article 5 — Registration and Payment of Bonds

§35-491 Registration of bonds; payment of principal and interest; paying agent; security for deposits; record date; definition

Article 6 — Recording State, County and Municipal Bonds

§35-502 Reports to department of revenue; omission or refusal to comply; classification

§35-503 Calculation of debt limits

Article 7 — Federal Income Tax Considerations

§35-511 et seq

TITLE 38 — PUBLIC OFFICERS AND EMPLOYEES

Chapter 2: Qualification and Tenure

Article 4 — Oath of Office

§38-231 Officers and employees required to take loyalty oath; form; classification

§38-233 Filing oaths of record

Chapter 3: Conduct of Office

Article 3.1 — Public Meetings and Proceedings

§38-431 et seq

Article 8 — Conflict of Interest of Officers and Employees

§38-501 et seq

Article 9 — Disclosure of Information by Public Employees

§38-531 et seq

TITLE 38 — PUBLIC OFFICERS AND EMPLOYEES (Concl'd)

Chapter 4: Compensation and Liability Insurance

Article 1 — Salaries

§38-608 Compensation or time off for legal holidays

§38-610 Leave of absence for military training; definition

Article 2 — Reimbursement for Expenses

§38-623 Means of travel; rates

§38-624 Lodging and per diem subsistence allowance; items covered by allowance payment; amount predetermined by department of administration

Chapter 5: Social Security and Retirement

Article 1 — Social Security for Public Officers and Employees

§38-701 et seq

Article 2 — Arizona State Retirement System

§38-711 et seq

Article 2.1 — Long-Term Disability Program

§38-797 et seq

TITLE 39 — PUBLIC RECORDS, PRINTING AND NOTICES

Chapter 1: Public Records

Article 1 — Requirements for Material Used

§39-101 et seq

Article 2 — Searches and Copies

§39-121 et seq

Article 4 — False Instruments and Records

39-161 Presentment of false instrument for filing; classification

TITLE 41 — STATE GOVERNMENT

Chapter 7: Legislature

Article 10.2 — Post Audit of Counties, Community College Districts and School Districts

§41-1279.21 Powers and duties of auditor general relating to counties, school districts and community colleges

§41-1279.22 Duty of local officers to make county, community college district and school district records available; failure to comply; classification; prosecution

Chapter 8: Agencies of the Legislative Department

Article 3 — Department of Library, Archives and Public Records

§41-1346 State and local public records management; definition; violation; classification

§41-1347 Preservation of public records

§41-1348 Production and reproduction of records by agencies of the state and political subdivisions; admissibility; violation; classification

§41-1350 Definition of records

§41-1351 Determination of value; disposition

TITLE 42 — TAXATION

Chapter 1: Administration

Article 4 — Classifications of Property

§42-162 Classification of property for taxation

Chapter 2: Real Property and Secured Personal Property Taxes

Article 1 — General Provisions

§42-201 Definitions

Article 4 — Budget and Levy

§42-304 Levy and assessment of tax levy

§42-306 Property tax oversight commission; membership; compensation; duties

§42-307 Hearing and appeals of commission findings; adjustments to levy

TITLE 43 — TAXATION OF INCOME

Chapter 4: Withholding

Article 1 — Withholding by Employer

§43-401 et seq

Article 2: Rights and Duties of Employers

§43-412 et seq

CONSTITUTION OF ARIZONA

Sections of the Constitution of Arizona pertinent to school district accounting and financial reporting responsibilities are listed below.

Article IX: Public Debt, Revenue, and Taxation

§7 Gift or loan of credit; subsidies; stock ownership; joint ownership

§8 Local debt limits; assent of taxpayers

§8.1 Unified school district debt limit

§18 Residential ad valorem tax limits; limit on increase in values

§21 Expenditure limitation; school districts and community college districts; adjustments; reporting

Article XI: Education

§1 Public school system; establishment and maintenance; elements; education of the deaf, dumb, and blind

§2 Conduct and supervision of school system

§6 Admission of students of both sexes to state educational institutions; tuition; common school system

§10 Source of revenue for maintenance of state educational institutions

Article XVIII: Labor

§1 Eight-hour day

§2 Child labor

§8 Workmen's compensation law

ARIZONA ADMINISTRATIVE CODE

Administrative rules and regulations pertinent to school district accounting and financial reporting responsibilities are listed below.

TITLE 2— ADMINISTRATION

Chapter 8: State Retirement System Board

Article 1 — Social Security Division

§R2-8-101et seq

Article 2 — Retirement System

§R2-8-122 Remittance of contributions

TITLE 4— COMMERCE, PROFESSIONS AND OCCUPATIONS

Chapter 44: Auditor General

Article 1 — Suspension and Debarment of Contractors Providing School District Audit Services; Disapproval of Contracts

§R4-44-101 et seq

TITLE 7— EDUCATION

Chapter 2: State Board of Education

Article 8 — Compliance

§R7-2-801 et seq

Article 9 — School District Budget and Accounting

§R7-2-901 et seq

Article 10 — School District Procurement Rules

§R7-2-1001 et seq

Article 11 — School District Procurement Continued

§R7-2-1101 et seq

OTHER SOURCES

Other sources pertinent to school district accounting and financial reporting responsibilities are listed below.

Audit and Accounting Guide, *Audit Sampling*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *The Auditor's Study and Evaluation of Internal Control in EDP Systems*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *Audits of State and Local Governmental Units*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *Not-For-Profit Organizations*, American Institute of Certified Public Accountants

Auditing Procedure Study, *Auditing in Common Computer Environments*, American Institute of Certified Public Accountants

Auditing Procedure Study, *Auditing with Computers*, American Institute of Certified Public Accountants

Audit Management Handbook, Stephen J. Gauthier, published by the Government Finance Officers Association

Catalog of Federal Domestic Assistance, Office of Management and Budget and the General Services Administration

Child Nutrition Programs Guidance Manual, Arizona Department of Education, Child Nutrition Office

Circular E—*Employer's Tax Guide*, Internal Revenue Service

Codification of Governmental Accounting and Financial Reporting Standards, Governmental Accounting Standards Board

Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants

Government Auditing Standards, Comptroller General of the United States

Governmental Accounting, Auditing and Financial Reporting (1988), Government Finance Officers Association

Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

Title 2 *U.S. Code of Federal Regulations* Part 225*, Cost Principles Applicable to State, Local, and Indian Tribal Governments*

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule*)*, Office of Management and Budget

Uniform Accounting Manual for Arizona County School Superintendents, Auditor General of the State of Arizona

Uniform Accounting Manual for Arizona County Treasurers, Auditor General of the State of Arizona

Uniform System of Financial Records for Arizona Charter Schools, Auditor General of the State of Arizona

Uniform System of Financial Records Memorandums, Arizona Department of Education and the Auditor General of the State of Arizona

Accounting Responsibility Program—Program allowing districts that meet certain requirements to assume responsibility for various accounting and administrative functions that are otherwise performed by the county school superintendent. These include preparing warrants; verifying certification records for teachers, principals, administrators and other certified staff; and reconciling revenues and expenditures to the county treasurer's records. A.R.S. §15-914.01

Accrued Liabilities—Amounts owed but not yet due (e.g., accrued wages payable is a liability for wages earned by employees between the last payment date and fiscal year-end but that are not yet due).

Adjusting Entry—An entry made in the general journal to correct an amount previously recorded in error or to present the accounts on the modified accrual or full accrual basis. These entries are usually made at the end of the month or year after all other journal entries have been posted.

Advice of Encumbrance—A form that indicates the amount for each levy fund that must be encumbered to pay for goods or services received on or before June 30, but not paid by that date. Warrants may be drawn to pay for such goods or services for a period of up to 60 days after the close of the fiscal year. A.R.S. §15-906

Appropriation—A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes, usually with specific limitations as to amount, purpose, and time.

Assessed Valuation—A valuation determined by the county on real and personal property as provided in A.R.S. §42-15010 to be used as a basis for setting the tax levy and calculating equalization assistance.

Bonded Indebtedness—That portion of debt represented by outstanding bonds.

Capital Expenditure—An expenditure intended to benefit future periods. Generally, the acquisition of or improvement to land, buildings, or equipment.

Capital Lease—An agreement that conveys the right to use land, buildings, or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 62. In substance, the periodic payments are similar to an installment purchase by the lessee for the rights to acquire the lessor's property in the future.

Cash-Controlled Funds—District funds other than the Maintenance and Operation (M&O), Unrestricted Capital Outlay (UCO), Adjacent Ways, and Classroom Site funds. Federal and state project funds are cash-controlled funds unless the county treasurer maintains only the minimum number of accounts as prescribed in A.R.S. §15-996.

Change Funds—Cash provided to a cashier to make change for cash transactions.

Charter School—A public school established by contract with the State Board of Education, the State Board for Charter Schools, a university under the jurisdiction of the Arizona Board of Regents, a community college district, or a group of community college districts pursuant to A.R.S. §15-181 et seq.

Clearing Account—An account used to accumulate debits or credits for the purpose of distributing them later among the accounts to which they are allocable.

Coding—A system of numbering or otherwise designating entries, invoices, vouchers, etc., for the purpose of identifying the amounts to be recorded and accounts affected.

Compensated Absences—Absences, such as vacation, sick, and personal leave for which it is expected employees will be paid.

Component Unit—Legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that its exclusion would cause the primary government's financial statements to be misleading or incomplete.

Contingent Liability—Potential obligation dependent on the outcome of one or more future events, such as accumulated unvested sick leave, a pending lawsuit, or an uncompleted contract.

Credit Memo—A notice to a purchaser that the seller has decreased an amount the purchaser owes, resulting in the reduction of a future invoice payment or a cash refund.

Cutoff Date—The date selected for separating transactions of one accounting period from those of the succeeding accounting period.

Database Management System—A system of storing interrelated data in a centralized location that can be accessed by multiple users and used in one or more applications.

Depreciation—Expiration of the service life of capital assets attributable to wear and tear, deterioration, environmental factors, inadequacy, and obsolescence. Also, the portion of the cost of a capital asset charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost.

Double Entry—A system of accounting whereby an entry made to the debit side of an account or accounts requires an entry or entries for a corresponding amount to the credit side of another account or accounts. The underlying premise for this system is that every financial transaction affects at least two accounts. Double entry accounting requires the maintenance of a balance between assets and the sum of liabilities and fund balance/net position (i.e., debits must equal credits).

Encumbrances—Commitments related to unperformed contracts for goods or services evidenced by purchase orders, contracts, or salary commitments.

Equalization Assistance—The difference between the equalization base and the local contribution (the qualifying tax levy). When the difference is positive, the district is eligible to receive state and county funding for a related portion of the equalization base. When the difference is negative, the district does not receive state or county funding for its equalization base. A.R.S. §15-971

Equalization Base—Amount used in the calculation of equalization assistance as described in A.R.S. §15-971(A). The total of the district additional assistance and the lesser of the district's revenue control limit or district support level.

Federal Impact Aid—Aid received by school districts that have a lower property tax base because the property base includes federal land and for costs incurred because of "federally connected" students, such as children of armed services personnel working at a nearby military base.

Financial Audit—An audit conducted to determine whether the district's financial statements are presented fairly in conformity with generally accepted accounting principles.

Financial Statements—Presentations of financial data that show the financial position and the results of financial operations of a fund, group of funds, or an entire entity for a particular accounting period.

Fiscal Year—A 12-month period to which the annual operating budget applies and at the end of which the district determines its financial position and the results of its operations. The fiscal year for Arizona school districts is July 1 through June 30. A.R.S. §15-101

Full-Time Equivalent—A number derived by dividing the amount of actual employed time in a position by the amount of employed time required in a corresponding full-time position.

Fund Balance—The difference between total fund assets and deferred outflows of resources and total fund liabilities and deferred inflows of resources of governmental funds.

Fund Type—Any 1 of 11 categories into which all funds are classified in governmental accounting. The 11 types are general, special revenue, capital projects, debt service, permanent, enterprise, internal service, pension (and other employee benefit) trust, investment trust, private-purpose trust, and agency funds.

Generally Accepted Accounting Principles (GAAP)—Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of a district's financial statements. GAAP encompass the conventions, rules, and procedures necessary to define generally accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP for districts is the Governmental Accounting Standards Board.

Generally Accepted Auditing Standards (GAAS)—Standards established by the American Institute of Certified Public Accountants (AICPA) for the conduct and reporting of financial audits.

Government Auditing Standards (GAS)—Standards issued by the Comptroller General of the United States in the publication *Government Auditing Standards* for the conduct and reporting of both financial and performance audits. GAS establish general standards applicable to both types of audits, and separate standards of fieldwork and reporting for financial and performance audits. The GAS standards of fieldwork and reporting for financial audits incorporate and build upon GAAS.

Imprest Basis—A method for handling minor disbursements whereby a fixed amount of money, such as petty cash or a revolving account, is set aside for this purpose. Disbursements are made from time to time as needed, a receipt and documentation being completed in each case. At certain intervals or when the monies are

expended below a designated amount, a report with supporting documentation is prepared and the petty cash or revolving account is replenished for the amount of disbursements by a check or warrant drawn on the appropriate fund. The total of unspent monies plus the amount of paid receipts or other charges against the account at any one time must equal the total amount of monies authorized.

Interfund Transfers—Flows of assets (such as cash or goods) from one fund to another without equivalent flows of assets in return and without a requirement for repayment. A list of authorized interfund transfers is provided beginning on page III-56.

Internal Control—A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the safeguarding of assets, reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Intrafund Transfers—Amounts transferred from one account to another within the same fund. Applies primarily to the Student Activities Fund.

Invoice—An itemized statement from a vendor for services or merchandise provided or sent to a district that shows quantities, prices, total charges, and applicable dates.

M&O Fund Budget Balance Carryforward—The amount of M&O Fund budget balance that can be carried forward to the next fiscal year. The carryforward may not exceed a statutorily specified percentage (currently 4 percent) of the current year's revenue control limit (RCL) and is specifically exempt from the RCL. A.R.S. §15-943.01

Notes to Financial Statements—The summary of significant accounting policies and other disclosures required for a fair presentation of the district's financial statements in conformity with GAAP. The notes to the financial statements are an integral part of the financial statements.

Operating Lease—A lease agreement that does not meet any of the criteria for capitalization set forth in GASB Statement No. 62. In substance, the periodic payments made by the lessee are simply rent for the use of the lessor's property.

Petty Cash—A sum of money set aside on an imprest basis to pay small obligations for which the issuance of a formal voucher and warrant would be too expensive and time consuming. Petty cash accounts are sometimes referred to as petty cash funds. However, they are not funds in the accounting sense. Examples of petty cash expenditures include postage, freight, express, parcel post, travel, or other minor disbursements.

Pooled Investments—Monies of various funds commingled for investment purposes. Monies may be pooled to obtain a higher yield on investments and to allow for improved investment management. Fund or district monies are individually accounted for in the pool.

Prepaid Items—The amount paid for a benefit not yet received, such as rent paid in advance and unexpired insurance premiums.

Purchase Order—A document for the authorization and control of expenditures, which should be sequentially numbered, authorizing the delivery of specified merchandise or the rendering of certain services and the related charges.

Refunding Bonds—Bonds issued to retire bonds already outstanding. The refunding bonds may be used to provide the resources for redeeming outstanding bonds, or the refunding bonds may be exchanged with the holders of the outstanding bonds. Cash received is usually invested in securities, and the securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds.

Registered Warrant—A warrant that is registered by the county treasurer for future payment because of insufficient monies and that is to be paid in the order of its registration. In some cases, such warrants are registered when issued, and in others, when first presented to the county treasurer by the holders. A.R.S. §11-635

Reporting Entity—The oversight unit and all of its component units, if any, that are combined in the comprehensive annual financial report (CAFR) or general purpose financial statements (GPFS).

Requisition—A written request, usually from one department or school, provided to the district purchasing agent or warehouse, requesting specified items or services.

Reversing Entry—An adjusting journal entry recorded to reverse adjusting entries previously recorded. In most instances, the entries to be reversed were originally made to establish the accounts on the modified accrual or full accrual basis for financial reporting purposes.

Revolving Account—An imprest basis account established to provide travel advances, establish petty cash or change funds, or for other minor disbursements in order to expedite district operations.

Revolving Line of Credit—A line of credit established by the county board of supervisors with a financial institution to allow the county treasurer to redeem warrants drawn on M&O, UCO, Adjacent Ways, and Classroom Site funds when monies are insufficient to pay the warrants. A.R.S. §11-604.01

Single Audit—An audit performed in accordance with the Single Audit Act Amendments and the Uniform Guidance.

State Equalization Assistance—An appropriation based on statutory formulas made by the Legislature for the support of public elementary and secondary education (commonly referred to as State Aid). Does not include payments made under A.R.S. §15-972 for additional State Aid, also referred to as the homeowners' rebate. A.R.S. §15-971

Surety Bond—A written promise to pay damages to or to indemnify the district against losses caused by the party or parties named in the document through nonperformance, misappropriation, or embezzlement.

Transportation Revenue Control Limit (TRCL)—The TRCL for the budget year is the TRCL for the current year plus any allowable portion of the increase in the transportation support level from the current year to the budget year. A.R.S. §15-946

Transportation Support Level (TSL)—The support level for pupil transportation computed as provided in A.R.S. §15-945.

Unencumbered Balance—That portion of a budget not yet expended or encumbered. The balance remaining after deducting expenditures and outstanding encumbrances from the budget.

Voucher—A document upon which the governing board authorizes the county school superintendent to draw a warrant. The accounts to be charged and payees are included on the document. Accounting Responsibility Program districts prepare their own warrants.

Warrant—A written order drawn by a county school superintendent on behalf of a governing board directing the county treasurer to pay a specified amount to a designated payee. Unlike checks, warrants are not necessarily payable on demand and may not be negotiable. Accounting Responsibility Program districts prepare their own warrants.

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Education Service Agencies (e.g., Regional Educational Service Agencies, Education Service Centers, Educational Cooperative Service Units, Educational Service Districts, etc.) have been formed in many states as a means of providing regional services to school districts. Through these cooperative efforts, school districts in other states have been able to save money and obtain services not otherwise available to them. Arizona school districts are authorized by Arizona Revised Statutes (A.R.S.) §15-342.13 to enter into contracts or agreements with one another or with other governing bodies for the joint exercise of any power common to the contracting parties pursuant to A.R.S. §11-952. Arizona Administrative Code (A.A.C.) R7-2-1191 specifically authorizes districts to participate in, sponsor, conduct, or administer a cooperative purchasing agreement for the procurement or disposal of materials, services, or construction.

Districts may also participate in county school superintendent (CSS) sponsored special service programs in accordance with A.R.S. §15-365. However, contracts or agreements entered into for such special service programs offered through the CSS are not subject to the following policies covering district contracting for joint or cooperative activities.

POLICIES

The following policies should be implemented to comply with statutory and administrative rule requirements and maintain effective internal control over district contracting for joint or cooperative activities that are identified in statutes as intergovernmental agreements and contracts.

1. Contracts involving two or more districts entered into pursuant to A.R.S. §11-952 must be approved by the State Board of Education (A.R.S. §11-952.A).

2. Contracts must specify the following information (A.R.S. §11-952.B).
   a. Duration
   b. Purpose
   c. Manner of financing the joint or cooperative undertaking and of establishing and maintaining a budget therefor
   d. Permissible method or methods to be employed in accomplishing the partial or complete termination of the agreement and for disposing of property upon such partial or complete termination
   e. Any other necessary and proper matters

3. Contracts must be submitted to the attorney for each party, who must determine whether the said agreement is in proper form and is within the powers and authority granted under the law (A.R.S. §11-952.D).

4. Contracts submitted to the Attorney General such as those involving a state agency must be filed with the Secretary of State. Any contract submitted to an attorney other than the Attorney General must be filed with the Secretary of State if the agreement affects more than one county or with the county recorder if only one county is affected. (A.R.S. §11-952.F and G)

5. Contracts must also state the following provisions (A.A.C. R7-2-1192).
   a. Payment for materials and services and inspection and acceptance of materials or services ordered by a district under a cooperative purchasing agreement are the exclusive obligation of such district
   b. The exercise of any rights or remedies by a district is the exclusive obligation of such district
   c. Any district may terminate without notice any cooperative purchasing agreement if another eligible procurement unit fails to comply with the terms of the contract
   d. Failure of an eligible procurement unit to secure performance from the contractor in accordance with the terms and conditions of its purchase order does not necessarily require any other district to exercise its own rights or remedies

6. A contract's duration may be extended by notifying the official with whom it is filed and the State Board of Education. Each extension may not exceed the duration of the previous contract. (A.R.S. §11-952.I)

7. Districts should enter into a cooperative state purchasing agreement to purchase materials or services from vendors at the prices and terms contained in various contracts between the State and those vendors.

PROCEDURES

Establishment of an Intergovernmental Agreement (IGA) or Contract

The governing board of a district participating in an IGA should designate one of its members to serve as the district's representative in the IGA. Officers and employees should be appointed or employed by the representatives of the IGA. Also, the district governing boards may authorize, by resolution, one representative to serve as fiscal agent for a year. The fiscal agent should establish a fund with the county treasurer to which all receipts are to be deposited. The fiscal agent has the authority to prepare vouchers on behalf of the IGA, and the responsibility to prepare monthly reports of receipts and disbursements and provide these reports to the IGA participants. All participants should recognize (i.e., record) their appropriate share of expenses in the fiscal year incurred and pay them in a timely manner.

A district entering into an agreement may appropriate funds, and may sell, lease, give, or otherwise supply for the benefit of the undertaking such services or personnel as is within its legal power to furnish. However, no district may exercise a power or engage in a business or enterprise that is not authorized by law. Likewise, an agreement does not relieve a district of obligations imposed on it by law, State Board of Education Rules, or the *Uniform System of Financial Records* (USFR).

The following are representative procedures for establishing an IGA. Specific procedures may vary depending on the participants.

Performed by	Procedure
Governing Board	1. Adopt a joint resolution of purpose and objectives with governing boards of other participating entities to form an IGA
	2. Prepare an **IGA** (X-C-5) and review it with the district's attorney
	3. Specify in the IGA which district is to act as fiscal agent
	4. Ratify the IGA
	5. Submit the IGA to the Arizona Department of Education (ADE) to be forwarded to the Attorney General and State Board of Education for approval, as applicable
	6. File the IGA with the Secretary of State or county recorder, as applicable
Fiscal Agent	7. Receive the approved IGA from ADE
	8. File the IGA with the CSS and maintain copy on file

Services Provided through IGA or Contract

A substantial number of services can be provided cooperatively through contracts or agreements, including the following activities:

Accounting
Adult education
Alternative schools
Curriculum development and implementation
Custodial
Data processing
Day care
Distance learning
Driver education
Equipment repair
Food service
Grant program writing and management
Health and safety management
Insurance
Media center
Preschool education
Print shop
Purchasing
Mobile learning centers
Research and planning
Shared staff
Special education
Staff development
Teacher pools
Technology
Testing
Transportation
Unemployment compensation
Vocational education
Workers' compensation

County Service Agreements

In accordance with A.R.S. §15-365, districts may contract with their respective CSS for service programs that can be more efficiently and economically operated by the CSS as a multidistrict operation. Service programs must be available to any local district that has officially requested the programs, and costs must be shared on a user basis. Costs include central administrative costs that are incurred by the CSS in administering the programs and general service costs that directly relate to the programs.

A.R.S.§15-365 also authorizes county school superintendents to establish special small district service programs to meet the special needs of districts with student counts of less than 600. Small district service programs may serve districts in a single county or multiple counties, depending on the number of small districts within the county. Program costs are paid in part by the county's small district service program fund. Costs in excess of the amount available in that fund must be shared on a user basis by the districts in the program.

The CSS is required to submit to participating districts a program progress report and a fiscal report, including actual expenditures through March 31 and estimates for the remainder of the fiscal year. These reports are due no later than May 31 of each year and should aid the district in the budgeting process for the following year.

Agreements or contracts entered into by districts and operated through the CSS are not subject to the statutes relating to IGAs.

INTERGOVERNMENTAL AGREEMENT
(A.R.S. §11-951 and A.A.C. R7-2-1191 et seq)

ITEM	
1.	This agreement is entered into on _____, 19___, pursuant to A.R.S. §11-951 et seq between the following public agencies for the joint exercise of their powers:
2.	_____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____
	[ ] Check here if additional parties are listed on a separate, attached page.
3.	RECITALS:
	School districts, including those which are parties to this agreement, are authorized by A.R.S. §15-341 et seq to carry on activities such as those included in this agreement. (Other recitals — cite authority of other parties to contract.)
4.	PURPOSE:
	The purpose of this agreement is to: _____ _____ _____ _____
	WHEREFORE, The parties agree:
	COVENANTS: I-XV
5.	I. The title of this agreement is: _____ _____ _____
6.	II. Duties of the parties: _____ _____ _____ _____
	Page 1 of 5

ITEM		
7.	III.	This agreement shall not be effective until the day it is approved by the State Board of Education. Notwithstanding that effective date, the parties are bound by the terms of this agreement beginning on _____, 19___, and this agreement shall continue to be binding upon the parties until _____, 19___.
8.	IV.	The source of funds for financing this agreement is: _____ _____ _____
9.	V.	The fiscal agent for this agreement shall be _____, and shall have the sole responsibility for all expenditures to be made under this agreement.
10.	VI.	All funds allocated in the budget shall be deposited with the county treasurer of _____ County for disbursal upon written direction of the fiscal agent. Audits may be conducted at any time by an appropriate political subdivision or agency of the State of Arizona, independent auditors of the parties to the agreement, and by representatives of the federal government when required by applicable federal regulations.
11.	VII.	Requisitions shall be submitted by _____, _____, Name Title to the fiscal agent for payment, based on the budget schedule.
	VIII.	Payment for materials and services and inspection and acceptance of materials or services ordered by a party under this agreement shall be the exclusive obligation of such party.
	IX.	The exercise of any rights or remedies by a party shall be the exclusive obligation of such party.
	X.	Any party may terminate this agreement without notice if another party fails to comply with the terms of the agreement.
	XI.	Failure of a party to secure performance from the contractor in accordance with the terms and conditions of its purchase order does not necessarily require any other party to exercise its own rights or remedies.
12.	XII.	Termination of this agreement, or partial termination, may be accomplished as follows: _____ _____ _____ _____

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ITEM	
13.	XIII. Property acquired solely for the purposes of this agreement shall be disposed of upon termination or completion as follows: _____
14.	XIV. The signatures of the authorized agents executing this agreement on behalf of each individual party to the agreement as stated in the resolutions attached as **Exhibit "A"** are:

Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____
Name _____ Signature _____

[ ] Check here if additional signatures are listed on a separate, attached page.

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ITEM

15. XV. CONDITIONS PRECEDENT TO THE EXECUTION OF THIS AGREEMENT

ATTORNEY(S) OF RECORD: To determine that the agreement is in proper form and is within the power and authority granted under the laws of Arizona. (The Attorney General will sign only when a state agency is a party to the agreement.)

Signature	Title
Signature	Title
Signature	Title
Signature	Title
Signature	Title

16. *APPROVED BY THE STATE BOARD OF EDUCATION*

by

Superintendent of Public Instruction, or other Designated Official

17. *OFFICIAL DATE FILED:* The effective date of the agreement cannot precede the filing date.

A. The agreement will be filed with the Secretary of State when involving more than one county and/or a state agency.

B. The agreement will be filed with the county recorder if all the political subdivisions in the agreement are within the county jurisdiction.

C. If a school district is a party to an agreement made pursuant to A.R.S. §11-952(A), the parties to such agreement may extend the duration of the agreement by notification to the proper officer with whom the agreement is filed and the State Board of Education. Such agreement may be extended as many times as is desirable, but each extension may not exceed the duration of the previous agreement.

(Space Reserved for Filing Date)

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ITEM	EXHIBIT "A"
	XVI. RESOLUTION
18.	The Governing Board of _____ (Legal Entity)
19.	hereby authorizes the future signing by _____ (Name of Authorized Agent) _____ of an Intergovernmental Agreement (Title of Agent)
20.	entitled _____ (Name of Project)
21.	for the purpose of _____ _____ _____
22.	This resolution was adopted by the Governing Board of _____ (Name of Legal Entity) on _____, 19_____. _____ Member of Governing Board
23.	_____ Member of Governing Board _____ AUTHORIZED SIGNATORY _____ Member of Governing Board _____ Member of Governing Board _____ Member of Governing Board
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Instructions for Completing the IGA Form

An intergovernmental agreement should be a precise legal document, but it can easily be inundated with trivia. Programmatic needs assessment, goals, objectives, and flow charts are normal application components that may be used as backup material if needed. Copies of the IGA should be filed with the Arizona Department of Education, the county school superintendent, the county recorder or the Secretary of State, and the parties involved.

Districts may add pages if the space provided in the pro forma form is inadequate.

Item 2 Enter the names of the parties to the agreement (e.g., Highland No. 23, an elementary school district; Devonshire No. 168, a unified school district; Tularosa No. 16, a high school district; and Phoenix, a chartered city). Although the majority of parties that use this form reflect a cooperative agreement between school districts, the agreement may involve other legal entities, such as state agencies, county agencies, or municipalities.

Item 4 Enter the specific purpose of the agreement (e.g., to provide special education services cooperatively wherein the cost-effectiveness and education feasibility are greatly enhanced).

Item 5 Enter the title of the agreement (e.g., Cochise County Special Education Consortium).

Item 6 List specifically the function of each of the parties and what they are expected to do.

Item 8 Enter the source of funding (e.g., ESEA Title I).

Item 9 The fiscal agent must be a legal entity (e.g., a participating school district).

Item 10 Enter the county of the fiscal agent.

Item 11 The project director can be anybody.

Item 12 Record specifically how a termination or partial termination of the agreement may be accomplished.

Item 13 The accountability and disposal of property should reflect considerations of state statutes and federal funding rules and regulations in any proration strategy.

Item 15 When more than one political subdivision is involved in the agreement, each attorney of record must sign (e.g., each city attorney if a city or cities are involved; each applicable county attorney if a school district or districts are involved; the Attorney General if a state agency is involved).

Item 16 After all of the attorneys of record have signed the agreement, the project officer should submit the agreement to the Arizona Department of Education for authorization.

Item 17 The recording date of the agreeement becomes the legal contractual date.

Exhibit A: Each entity party to the agreement must complete this resolution before the agreement is entered into and each resolution must be attached to the IGA as Exhibit A.

Item 19 Enter the name and title of the authorized agent assigned to execute the agreement for the district.

Item 20 Same as item 5.

Item 21 Same as item 4.

Item 22 Repeat name of legal entity and date of official board action plus the signatures of the board members (titles are not needed).

Item 23 The signature of the authorized agent executing the agreement in behalf of the district.

Districts should refer to the guidance issued by ADE for student enrollment and attendance accounting and reporting policies, procedures, and forms. These guidelines available at **www.azed.gov** **must** be followed as part of the *Uniform System of Financial Records for Arizona School Districts*. If you need assistance, please call ADE School Finance at (602) 542-5695 or 1-800-352-4558 or the Accounting Services Division of the Office of the Auditor General at (602) 553-0333.

Refer to USFR Compliance Questionnaire

For guidance on records management, districts should refer to the **Education K-12, General Retention Schedules** issued by the Arizona State Library, Archives and Public Records, Records Management Division and the **Permanent and Historical Records document** that describe historically significant records, and storage and handling requirements. For questions or assistance, please contact the Records Management Center at (602) 926-3815 or **www.azlibrary.gov**.

Refer to USFR Compliance Questionnaire

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Refer to USFR Compliance Questionnaire

INTRODUCTION

School districts are authorized by Arizona Revised Statutes (A.R.S.) to operate meal programs. Districts may also participate in child nutrition programs operated on a nonprofit basis and administered by the Arizona Department of Education (ADE) Child Nutrition Programs Office.

The Food Service Fund is used to account for monies raised by operating meal programs. Districts are permitted to account for the fund as an enterprise fund, but accounting for it as a special revenue fund is recommended. Definitions and accounting treatment for special revenue and enterprise funds can be found in § V, Fund Accounting.

Significant amounts of cash may be collected through food service operations, and because cash is more susceptible to manipulation than any other asset, it is essential that districts establish policies and procedures so that cash receipts are effectively safeguarded and accurately reported. Districts should establish internal control over recording, processing, summarizing, and reporting food service financial data in accordance with the requirements of A.R.S., the USFR, and federal child nutrition programs guidelines and regulations.

This section addresses specific policies and procedures for the Food Service Fund. If a district participates in federal child nutrition programs, the district should refer to the ***Child Nutrition Programs Guidance Manual*** published by the ADE Child Nutrition Programs Office for detailed program requirements.

STATE REQUIREMENTS

A.R.S. §§15-1151 through 15-1158 are the laws governing school meal programs. The more significant of which are as follows:

§15-1151 — Definition of School Meal Programs

In this article, unless the context otherwise requires, "school meal programs" means programs under which meals are served by a public or private school on a nonprofit basis to children in attendance, including a program under which federal assistance is received.

§15-1154 — Operation of School Meal Programs by Governing Boards; School Meal Program Fund; Revolving Fund

A. A governing board may operate school meal programs, and for that purpose may employ personnel, purchase equipment and food and incur other necessary expenses, making payment therefor through the use of gifts or donations, proceeds of sales of school meals, contributions made available by the federal government or monies obtained by school district levy, but no monies acquired by the levy of state, county or school district taxes shall be expended for food.

B. Any monies received in the operation of a school district school meal program shall be deposited with the county treasurer who shall credit the deposits to the school meal program fund of the respective school district. Monies deposited to the credit of a school meal program fund may be withdrawn by voucher as approved by the governing board for operation of the school district school meal program, except that a revolving fund of five hundred dollars may be established in the manner and for the purposes prescribed in subsection C of this section. The school meal program fund of a school district is a continuing fund not subject to reversion.

C. The governing board of any school district with the consent of the county school superintendent may establish for the operation of school meal programs a revolving fund of five hundred dollars which may be used for payment of freight on commodities, purchase of food required in emergencies, employment of temporary personnel for employment which does not exceed eight hours for any person or other minor disbursements. The revolving fund monies shall be deposited in a federal reserve bank in a designated account and shall be withdrawn by check signed by two bonded employees appointed by the governing board of the school district.

D. Upon approval of a revolving fund as prescribed by subsection C of this section, the county school superintendent shall draw a warrant to the order of the designated employees and charge the amount thereof against the school district school meal program fund, but no revolving fund shall be established unless the designated employees are bonded for an amount equal to twice the amount of the fund. The cost of the bond shall be a proper charge against the school district school meal program fund.

E. The designated employees shall periodically submit a voucher with supporting papers covering disbursements from the school meal revolving fund prescribed by subsection C of this section to the county school superintendent who shall issue a warrant for the voucher to reimburse the fund. If the school district is dissolved, consolidated, unified or subdivided, or if the governing board decides to terminate the revolving fund, the designated employees shall return the original amount of the revolving fund to the county treasurer by the date that the dissolution, consolidation, unification or subdivision becomes effective or within thirty days after the date that the governing board decides to terminate the revolving fund, whichever is appropriate, for deposit in the school meal program fund of the respective school district.

§15-1155 — Records, Reports, Regulations, Audits and Inspections by State Board of Education

The State Board of Education shall prescribe regulations for keeping accounts and records and making reports, under the supervision of governing boards. The accounts and records shall be available at all times for inspection and audit by authorized officials and shall be preserved for a period, not exceeding five years, as prescribed by the State Board. The State Board shall conduct or cause to be conducted audits, inspections and administrative reviews of accounts, records and operations as are necessary to determine whether the school meal programs are being administered according to the provisions of this article and the regulations made by the State Board.

§15-1158 — Agreements for Meals for Persons Sixty Years of Age or Older

A. The governing board of any school district may enter into an agreement with any individual, firm, partnership, corporation, association, or public agency whereby the school district agrees to prepare meals for persons sixty years of age or older and their spouses, or any group of such persons, by utilizing the systems and procedures already developed for use in the school meal programs of such school district.

B. An agreement entered into by a governing board of a school district, pursuant to the provisions of this section, shall not:

1. Involve the expenditure by the school district of any federal or state school meal monies or other school monies or the use of any school meal commodities or school district personnel, equipment or facilities unless the agreement includes a provision requiring full reimbursement for such expenditure.

2. Provide for payment to the school district of any amount in excess of the estimated cost of food, personnel, equipment, facilities and other necessary expenditures involved in the performance of the agreement.

3. Permit any program of meals for persons sixty years of age or older and their spouses to interfere in any way with the use of school meal facilities for school purposes.

C. The Department of Education may cooperate with any individual, firm, partnership, corporation, association or public agency in the planning of programs whereby school districts may prepare meals for persons sixty years of age or older and their spouses, or any group of such persons, by utilizing the systems and procedures already developed for use in the operation of school meal programs.

D. The Department of Education shall adopt regulations containing guidelines for governing boards of school districts entering into such agreements.

BUDGETING

Budget Preparation

Although not subject to legal budgetary restrictions, the Food Service Fund is included in the district's annual expenditure budget at the fund level. The fund is cash controlled, which means that cash must be available before expenditures are made. Therefore, to strengthen internal control over Food Service Fund cash, the district may also wish to prepare an internal budget at the object and unit code levels.

The district should consider the following factors in the budget preparation process.

1. Annual revenues from sales, federal meal programs, and other sources
2. The number of breakfasts, lunches, and extra milks expected to be served (this number may be based on projected enrollment and prior year's participation)

3. The number of free, reduced price, and paid meals to be served
4. Unit meal prices based on projected revenues and expenditures
5. Salaries and employee benefits
6. The cost of food, supplies, and capital equipment
7. Estimated expenditures from other funds in support of food service

See §IV, Budgeting, for more information on budget preparation.

Budget Review

The district should periodically compare actual revenues and expenditures with the estimated revenues and budgeted expenditures in order to provide control over expenditures, determine that cash is available to pay obligations as they become due, and otherwise facilitate financial planning.

At the end of the fiscal year, the district should prepare a report of estimated and actual revenues and budgeted and actual expenditures to evaluate operations. Schools should also prepare similar reports to evaluate operations at each school.

CASH

Cash requires a strong system of internal control because it is more susceptible to manipulation than any other asset. Therefore, the district should adopt the following policies and procedures to effectively safeguard and properly account for cash.

1. Cash should be effectively safeguarded, promptly recorded, and accurately classified.

2. Cash-handling and recordkeeping responsibilities should be separated among employees.

3. Cash receipts should be deposited intact daily, if significant, or at least weekly.

4. Checks should be prenumbered and numerically controlled, should be properly completed before issuance, and should not be made payable to cash or bearer. Void checks should be so stamped to prevent reuse and numerically filed with other canceled checks.

5. Checks drawn on the Food Service Fund clearing account must be made payable only to the county treasurer.

6. Unused checks should be physically safeguarded and access to them limited to authorized personnel who do not have access to the signature stamps, signature plates, or electronic signatures.

7. Employees authorized to sign checks, and those handling significant amounts of cash, must be adequately bonded.

8. Bank reconciliations should be prepared monthly on a timely basis. An employee not responsible for handling cash or issuing checks should prepare the bank reconciliations. In small districts where an employee performs both functions, reconciliations should be reviewed and approved by district management. Bank reconciliations should be signed and dated when reviews are completed.

9. Meal cards or tickets should be prenumbered, numerically controlled, and effectively safeguarded.

Food Service Fund Clearing Bank Accounts

Food Service Fund clearing bank accounts may be established by the governing board for the deposit of cash receipts. Cash receipts should be deposited daily, if practicable, or at least weekly. Monies in the bank accounts should be remitted to the county treasurer to the credit of the Food Service Fund weekly, or at least monthly. Amounts disbursed from the bank accounts should agree to the validated treasurer's receipts. No other disbursements should be made from these accounts.

Food Service Fund Revolving Bank Account

With the approval of the county school superintendent, the governing board may establish a Food Service Fund revolving bank account from cash on deposit with the county treasurer in the Food Service Fund. The amount of the revolving bank account must not exceed $500.

The revolving account should be operated on an imprest basis. Therefore, monies in the bank account plus the total of the paid invoices and bank service charges should equal the authorized revolving account imprest amount. All reimbursements for account disbursements for the current year should be made by June 30 so that expenditures are reported in the proper accounting period.

The revolving bank account may be used for the payment of freight on commodities, purchases of food required in emergencies, temporary employment not to exceed eight hours for any person, and other minor disbursements. The revolving bank account must be administered by two employees designated by the governing board. These employees must be bonded for an amount equal to twice the amount of the fund.

Districts should follow the revolving account procedures discussed in §VI-C, Cash, for establishing, processing disbursements from, and replenishing the revolving bank account.

If the revolving account is used to make refunds for unused meals at the end of the school year, an imprest petty cash account may be established in an amount equal to the total estimated refund amount based on previous years' refunds. Refunds should be supported by **prenumbered refund slips** (see X-F-21 and 22). The total refund amounts as recorded on the prenumbered refund slips plus remaining cash should equal the imprest petty cash amount. Remaining cash should be returned to the revolving account.

Change Funds

Districts may establish change funds from cash on deposit with the county treasurer in the Food Service Fund. The change funds should be established by obtaining a warrant made payable to the change fund custodian and should be returned to the Food Service Fund at the end of the year or when no longer needed. The change funds should not be established from the Food Service Fund bank accounts or from cash receipts, and disbursements from change funds should not be permitted.

Change fund procedures

1. District management should maintain a change fund log that indicates the amount of the food service change funds when established.
2. At the beginning of the school year, the cafeteria manager from each school should sign the change fund log to indicate responsibility for the amount received to establish the cafeteria change funds.
3. Cashiers should sign a cafeteria change fund log or receipt forms to indicate responsibility for the change funds in their cash registers.
4. At the end of the school year or when the change funds are no longer needed, cafeteria managers and district management should count the cash being returned, update the change fund log, and sign the updated log to indicate a transfer of accountability for the monies.
5. The counted cash should be deposited in the Food Service Fund clearing bank account.

INVENTORY

Inventory generally consists of commodities donated by the United States Department of Agriculture (USDA), and food and supplies purchased by the district. Purchased food and supplies should be recorded on the supplies inventory listing at cost. Donated commodities should be recorded on the listing at their estimated fair market value at the time of donation. Districts should obtain the estimated fair market value from ADE's Child Nutrition Programs Office.

Districts should follow the policies and procedures described in §VI-D, Supplies Inventory, for maintaining inventory systems, taking a physical inventory, and controlling and pricing Food Service Fund inventory.

EQUIPMENT

Equipment for meal programs may be purchased from the Food Service Fund or another allowable fund such as the Unrestricted Capital Outlay Fund. Districts should follow the policies and procedures described in §VI-E, Property Control for maintaining, controlling, and valuing equipment, and taking physical inventories.

REVENUES

Revenues are derived from meal program operations, and should be classified by fund and object codes prescribed by §III, Chart of Accounts. Food Service Fund revenues should be processed through the cafeteria at each school.

There are several different methods of accounting for Food Service Fund revenues. The most common methods are the use of meal cards or tickets. Meal cards or tickets should be prenumbered and numerically controlled, and may be issued for students, student workers, adults, and adult workers. Districts participating in child nutrition programs administered by ADE's Child Nutrition Programs Office may issue separate meal cards or tickets for full price, reduced price, and free meals; however, the meal cards or tickets must be identical in appearance.

Adults and students may also pay cash in lieu of presenting a meal card or ticket.

Charge Sales

Districts should not allow adults to charge food purchases. In addition, charge sales to students should be discouraged because subsequent collection procedures are required.

However, if school policy is to allow students to charge food purchases, the school should maintain a **Log of Charge Sales** (X-F-12). The cashier should record the student's name, date of the charge, meal type, meal card number, amount charged, and balance due for that student. The student should initial the charge log to indicate responsibility for the debt. Cafeteria managers should be responsible for collecting charges. Cashiers should record payments in the log by date and amount paid. If a student makes a partial payment, the date, amount paid, and balance due should be recorded. Additionally, the cashier posting the payment should initial the entry. Total cash received as charge payments should be recorded on the **Daily Cash Reconciliation Report** (X-F-18). Students should be billed at least every two weeks for outstanding balances.

If the district determines outstanding balances to be uncollectible, it should decrease sales revenue and the related receivable by the amount of the uncollectible.

Cash Collections

The following procedures and sample forms present one acceptable method of accounting for Food Service Fund revenues. This method presumes a multi-school district that uses cafeterias at each school. This method also assumes that meal cards are used to account for revenues. Districts using meal tickets should modify the procedures and sample forms to meet their needs, except that a **Daily Report of Tickets Issued and Sold** (X-F-20) should be completed in place of the **Daily Report of Meals Cards Issued and Sold**.

Additionally, the following method assumes that sample forms are prepared manually. Districts using more advanced computer systems capable of producing food service documents may modify these procedures appropriately.

Note: If a cashier performs more that one sales activity during the day (e.g., meal card sales and a la carte sales), the cashier may prepare one **Daily Cash Count** and **Daily Cash Reconciliation Report** for both activities.

Performed by		Procedure
	Meal Card Sales	
District Clerks I & II	1.	Inventory meal cards received from the printer and record beginning and ending card numbers and meal card type, if applicable, in **District Log of Meal Cards Received and Issued** (X-F-13). Initial and date log to indicate responsibility.
District Clerk I	2.	Issues blocks of meal cards to each cafeteria. Records appropriate numbers in District Log of Meal Cards Received and Issued by cafeteria and meal card type, if applicable. Issues meal cards in sequence and ensures that all meal cards are accounted for.
Cafeteria Manager	3.	Initials District Log of Meal Cards Received and Issued to verify receipt of meal cards from district office.
	4.	Records meal cards received from district office in **Cafeteria Log of Meal Cards Received and Issued** (X-F-14). Initials and dates log to indicate responsibility.
	5.	Issues meal cards to cashier, and records meal cards issued in Cafeteria Log of Meal Cards Received and Issued.
Cashier	6.	Initials Cafeteria Log of Meal Cards Received and Issued to verify receipt of meal cards from cafeteria manager.
	7.	Collects money from students and adults purchasing meals. Issues meal cards to individuals who have not already been assigned a card.
	8.	Records purchaser's name, meal card number, meal type, and amount paid on the **Daily Report of Meal Cards Issued and Sold** (X-F-15). For students, the grade level should also be recorded. Signs and dates form to indicate responsibility.
	9.	Prepares a **Daily Cash Count** (X-F-16). Signs and dates form to indicate responsibility.
	10.	Prepares a **Daily Cash Reconciliation Report** (X-F-18) to reconcile meal card sales to cash collections. Any differences should be resolved. Signs and dates form to indicate responsibility.
	11.	Submits Daily Report of Meal Cards Issued and Sold, Daily Cash Count, Daily Cash Reconciliation Report, cash, and unissued meal cards to the cafeteria manager.

Performed by		Procedure
Cafeteria Manager	12.	Records the date, beginning and ending meal card numbers remaining, and quantity returned in the **Cafeteria Log of Meal Cards Received and Issued**, initials it, and signs the Daily Report of Meal Cards Issued and Sold to indicate receipt of the unused meal cards and verify the number of meal cards issued.
	In Line Sales	
Cashier	1.	Collects cash paid in line for meals.
	2.	Collects meal cards for meals served.
	3.	Maintains a log of meals served by type.
	4.	Prepares **Daily Cash Count** (X-F-16). Signs and dates form to document responsibility.
	5.	Counts number of meals served and records amounts on the **Daily Report of Meals Served** (X-F-17).
	6.	Prepares a **Daily Cash Reconciliation Report** (X-F-18) to reconcile sales to cash collections. Any differences should be resolved. Signs and dates to indicate responsibility.
	7.	Sorts meal cards by classroom and returns meal cards to school office for distribution by the teacher prior to the next meal period.
	8.	Submits Daily Report of Meals Served, Daily Cash Count, Daily Cash Reconciliation Report, and cash to the cafeteria manager.
Cafeteria Manager	9.	If multiple copies of Daily Report of Meals Served forms are prepared, prepares a summary Daily Report of Meals Served.
	10.	Completes Edit Checks on Daily Report of Meals Served.
	A La Carte Sales	
Cafeteria Manager	1.	Takes beginning inventory of a la carte items and records count on the **Daily A La Carte Sales Report** (X-F-19).
Cashier	2.	Collects money for a la carte sales.
	3.	Prepares a **Daily Cash Count**. Signs and dates to indicate responsibility.
	4.	Takes ending inventory of a la carte items and records count on the Daily A La Carte Sales Report.
	5.	Computes and records a la carte sales.
	6.	Prepares a **Daily Cash Reconciliation Report** (X-F-18) to reconcile sales to cash collections. Any differences should be resolved. Signs and dates to indicate responsibility.

Performed by		Procedure
Cashier	7.	Submits Daily A La Carte Sales Report, Daily Cash Count, Daily Cash Reconciliation Report, and cash to cafeteria manager.
Cafeteria Manager	8.	Verifies the mathematical accuracy of the Daily A La Carte Sales Report.
	Cash Deposit Preparation and Recording	
Cafeteria Manager	1.	Verifies the cash counts and the **Daily Cash Reconciliation Reports** from each cashier, and secures the change funds. Signs and dates **Daily Cash Counts** and **Daily Cash Reconciliation Reports** to indicate review.
	2.	Prepares a deposit slip in duplicate.
	3.	Makes deposit daily if significant amounts of cash are received, or at least weekly.
	4.	Submits the validated bank deposit receipt, and copies of Daily Cash Reconciliation Reports and deposit slip to the recording clerk at the district office. Files original Daily Cash Reconciliation Reports and supporting documentation by deposit date.
District Recording Clerk	5.	Receives validated bank deposit receipt, and copies of the **Daily Cash Reconciliation Reports** and deposit slip from the cafeteria manager. Compares validated bank deposit receipt to the total amount of cash receipts on the Daily Cash Reconciliation Reports and bank deposit slip copy; resolves any differences.
	6.	Records bank deposit in check register and records the cash collections in the accounting records.
	7.	Files Daily Cash Reconciliation Reports and validated bank deposit receipt by deposit date.

Refunding Unused Meals

The unused portion of prepaid meals may be refunded; however, cashiers should be encouraged to reduce the number of refunds required by accepting prepayments only for amounts that can reasonably be used through the end of the school year. Refunds may be made from the Food Service Fund revolving bank account, or if necessary, from daily cash receipts.

Procedures for meal card refunds made from daily cash receipts

1. A prenumbered **Meal Card Refund Slip** should be completed in duplicate (X-F-21).
2. The refund slip should be signed by the parent or student receiving the refund, by the cashier who prepares the Meal Card Refund Slip, and by the cafeteria manager. The copy should be given to the student or parent.
3. The total amount of refunds should be recorded on the **Daily Cash Reconciliation Report**. This amount should agree with the sum of amounts recorded on the attached refund slips.
4. Returned meal cards should be voided, attached to the original refund slip, and retained with the Daily Cash Reconciliation Report.

EXPENDITURES

Expenditures from the Food Service Fund must be approved by the governing board. No expenditures may be made if cash is not available in the Food Service Fund.

Districts should follow the policies and expenditure processing procedures discussed in §VI-G, Expenditures, for processing Food Service Fund expenditures.

ACCOUNTING RECORDS

The basic accounting records that should be maintained for the Food Service Fund are described in detail in §VI-B, Accounting Records. Accounting records should be maintained in sufficient detail to allow the district to prepare financial reports as prescribed in §VII, Financial Reporting.

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

LOG OF CHARGE SALES

Student Name	Date Issued/ Paid	Full-Price Meal*	Reduced-Price Meal*	Meal Card Number	Amount Charged	Amount Paid**	Balance Due	Student's Initials	Cashier's Initials
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		

* Indicate meal type by placing an "x" in the appropriate column

** Total amount paid for the date should be recorded on the **Daily Cash Reconciliation Report**

_____ SCHOOL DISTRICT NO. ____
DISTRICT LOG OF MEAL CARDS RECEIVED AND ISSUED
Meal Card Type _____

Date		Beginning Card Number	Ending Card Number	Quantity Issued	District Employee's Initials	Cafeteria	Cafeteria Employee's Initials
Received	Issued						

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

CAFETERIA LOG OF MEAL CARDS RECEIVED AND ISSUED

Meal Card Type _____

RECEIVED FROM DISTRICT OFFICE				
DATE RECEIVED	BEGINNING CARD NUMBER	ENDING CARD NUMBER	QUANTITY RECEIVED	CUSTODIAN INITIALS

ISSUED TO CASHIER					UNISSUED CARDS RETURNED TO CUSTODIAN				
DATE ISSUED	BEGINNING CARD NUMBER	ENDING CARD NUMBER	QUANTITY ISSUED	CASHIER INITIALS	DATE RETURNED	BEGINNING CARD NUMBER	ENDING CARD NUMBER	QUANTITY RETURNED	CUSTODIAN INITIALS

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

DAILY REPORT OF MEAL CARDS ISSUED AND SOLD

Date: _____

NAME	GRADE	CARD NUMBER	MEAL TYPE	SALES AMOUNT
				$

_____ SCHOOL DISTRICT NO. ____

CAFETERIA: _____

DAILY CASH COUNT

DATE: _____

Checks:		
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
No.	_____	$ _____
TOTAL CHECKS		$ _____

Denomination	Amount
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
2.00	
1.00	
.50	
.25	
.10	
.05	
.01	
TOTAL	$

TOTAL CASH IN DRAWER	$ _____
LESS CHANGE FUND	(_____)
TOTAL DEPOSIT	$ _____ *

Prepared by: _____ Date: _____
(Cashier)

Reviewed by: _____ Date: _____

*** Enter amount on the Daily Cash Reconciliation Report**

_____ SCHOOL DISTRICT NO. ____
CAFETERIA _____
DAILY REPORT OF MEALS SERVED
DATE _____

BREAKFAST:

NUMBER OF MEALS SERVED

Students	Meal Cards	+	Workers	+	Charges	+	Cash	=	Total Meals Served
Full-Price		+		+		+		=	
Reduced-Price		+		+		+		=	
Free		+						=	
TOTAL STUDENT BREAKFASTS SERVED									
Adults		+				+		=	
TOTAL BREAKFASTS SERVED									

EDIT CHECKS

Students Eligible	x	Attendance Factor	=	Meals Eligible
	x		=	
	x		=	
	x		=	

LUNCH:

NUMBER OF MEALS SERVED

Students	Meal Cards	+	Workers	+	Charges	+	Cash	=	Total Meals Served
Full-Price		+		+		+		=	
Reduced-Price		+		+		+		=	
Free		+						=	
TOTAL STUDENT LUNCHES SERVED									
Adults		+				+		=	
TOTAL LUNCHES SERVED									

EDIT CHECKS

Students Eligible	x	Attendance Factor	=	Meals Eligible
	x		=	
	x		=	
	x		=	

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

DAILY CASH RECONCILIATION REPORT

DATE _____

CASH IN LINE SALES	MEALS SERVED*	X	PRICE	=	TOTAL CASH
BREAKFAST:					
Student Full-Price			$		$
Student Reduced-Price			$		$
Paying Adult			$		$
LUNCH:					
Student Full-Price			$		$
Student Reduced-Price			$		$
Paying Adult			$		$
A LA CARTE SALES (from Daily A La Carte Sales Reports)					$
TOTAL CASH IN LINE SALES					$
TOTAL MEAL CARD SALES (from Daily Reports of Meal Cards Issued and Sold)					$
CASH COLLECTED FROM CHARGES (from Log of Charge Sales)					$
TOTAL CASH COLLECTIONS					$
LESS CASH REFUNDS FOR UNUSED MEALS					($)
TOTAL CASH TO BE ACCOUNTED FOR					$
DEPOSIT (from Daily Cash Count Reports)					$
CASH DIFFERENCE					$

Reason for difference:

Cashier _____ Manager _____

(Signature) (Signature)

Date _____ Date _____

* From the Daily Report of Meals Served

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

DAILY A LA CARTE SALES REPORT

Date _____

ITEM	BEGINNING INVENTORY	-	ENDING INVENTORY	=	NUMBER SOLD	X	PRICE	=	SALES
		-		=		X	$	=	$
		-		=		X		=	
		-		=		X		=	
		-		=		X		=

_____ SCHOOL DISTRICT NO. ____
CAFETERIA: _____
DAILY REPORT OF TICKETS ISSUED AND SOLD
Date: _____

TICKET TYPE	NEXT TICKET NUMBER TO BE ISSUED	BEGINNING TICKET NUMBER	QUANTITY SOLD	TICKET PRICE	TOTAL SALES
STUDENT FULL-PRICE					
Breakfast				$	$
Breakfast, Worker					
Lunch				$	$
Lunch, Worker					
STUDENT REDUCED-PRICE					
Breakfast				$	$
Breakfast, Worker					
Lunch				$	$
Lunch, Worker					
STUDENT FREE					
Breakfast					
Breakfast, Worker					
Lunch					
Lunch, Worker					
ADULT					
Breakfast				$	$
Breakfast, Worker					
Lunch				$	$
Lunch, Worker					
		TOTALS			$ *

Cashier Signature _____ Custodian Signature _____

* Enter amount on Daily Cash Reconciliation Report

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

MEAL CARD REFUND SLIP

No._____
(prenumbered)

Date _____

Student Name _____

Meal Card No. _____

Meal Card Type _____

Account Balance $_____

Amount Refunded $_____

Refund Received By: _____
(Parent or Student)

_____
Cashier

_____
Cafeteria Manager

_____ SCHOOL DISTRICT NO. ____

CAFETERIA _____

TICKET REFUND SLIP

No._____
(prenumbered)

Date _____

Student Name _____

Ticket Type _____

Ticket Numbers _____ _____

_____ _____

_____ _____

_____ _____

_____ _____

Total Number of Tickets _____

Ticket Price X $_____

Refund Amount = $_____

Refund Received By: _____
(Parent or Student)

_____
Cashier

_____
Cafeteria Manager

Refer to related School District FAQs

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Refer to USFR Compliance Questionnaire

INTRODUCTION

The Auxiliary Operations Fund is used to account for monies raised in connection with bookstore and athletic activities. Districts are permitted to account for the fund as an enterprise fund, but accounting for it as a special revenue fund is recommended. Definitions and accounting treatment for special revenue funds and enterprise funds can be found in §V, Fund Accounting.

Significant amounts of cash may flow into a district through the Auxiliary Operations Fund. The high risk of loss associated with cash transactions requires that districts establish the necessary policies and procedures to effectively safeguard and accurately report cash receipts. Therefore, districts should establish effective internal control to record, process, summarize, and report Auxiliary Operations Fund financial data.

This section addresses specific internal control policies and procedures for Auxiliary Operations Fund budgets, cash, inventory, revenues, expenditures, and payroll. Because most districts elect to account for the Auxiliary Operations Fund as a special revenue fund, the remainder of this section is based on that assumption.

LEGAL REQUIREMENTS

Arizona Revised Statutes (A.R.S.) §§15-1125 and 15-1126 define and describe the operation of the Auxiliary Operations Fund.

§15-1125 — Auxiliary Operations Fund Defined

The Auxiliary Operations Fund shall consist of all monies raised with the approval of the school district governing board in pursuance of and in connection with all activities of school bookstores and athletic activities.

§15-1126 — Accounting; Deposit; Disposition of Monies

A. Auxiliary Operations Fund monies shall be accounted for in accordance with the requirements of the *Uniform System of Financial Records*.

B. Auxiliary Operations Fund monies shall be deposited after authorization by the governing board in a bank account designated as the Auxiliary Operations Fund. Disbursements from the fund shall be authorized by the governing board. Disbursements shall be made by check signed by two employees of the school district designated by the governing board. Persons authorized by the governing board to sign checks shall give a bond in an amount determined by the governing board, and the cost of bond premiums may be a charge against the fund.

C. Auxiliary Operations Fund monies may be invested and reinvested by the governing board of a school district. All monies earned by investment shall be credited to the Auxiliary Operations Fund of the school district.

D. The governing board may establish an imprest petty cash fund at each school within the school district for activities which require immediate cash outlays for postage, freight, express, parcel post, travel or other minor disbursements, but not including salaries or wages, which are proper as ultimate expenditures from the school district Auxiliary Operations Fund. Imprest petty cash funds established by the governing board shall be funded from the school district Auxiliary Operations Fund in an amount to be determined by the governing board.

E. The governing board may establish a revolving fund bank account for each school within the school district for necessary current expenditures in connection with school bookstore and athletic activities. The revolving funds shall be funded from the Auxiliary Operations Fund in an amount to be determined by the governing board. The school shall return the monies in the revolving fund bank account at the end of each fiscal year to the credit of the school district Auxiliary Operations Fund.

BUDGETING

Budget Preparation

The Auxiliary Operations Fund is not subject to legal budgetary restrictions. However, financial control is enhanced by the preparation and use of a budget. Therefore, the district should prepare a budget for the Auxiliary Operations Fund.

The district should consider the following factors in the budgeting process.

1. Estimate of revenues from all sources
2. Salaries and employee benefits
3. Cost of inventories for sale or rental
4. Cost of supplies and capital equipment
5. Estimate of other expenditures from the Auxiliary Operations Fund
6. Estimate of expenditures from other funds in support of auxiliary operations
7. District enrollment

See §IV, Budgeting, for more information on budget preparation.

Budget Review

The district should periodically compare actual revenues and expenditures with estimated revenues and budgeted expenditures in order to provide control over expenditures, determine that cash is available to pay obligations as they become due, and facilitate financial planning.

At the end of the fiscal year, the district should prepare a report of estimated and actual revenues and budgeted and actual expenditures to evaluate operations. Schools should also prepare similar reports to evaluate operations at each school.

CASH

Cash requires a strong system of internal control because it is more susceptible to manipulation than any other asset. Therefore, the district should adopt the following policies and procedures to effectively safeguard and properly account for it.

1. Bank accounts are prescribed by Arizona Revised Statutes and those accounts must be authorized by the governing board. Inactive bank accounts should be closed promptly.

2. Cash should be effectively safeguarded, promptly recorded, and accurately classified.

3. Separation of responsibilities between cash handling and recordkeeping should be maintained.

4. Cash receipts should be deposited intact daily, when significant, or intact at least weekly.

5. Validated bank deposit receipts should be retained for bank deposits.

6. Cash receipt forms and checks should be prenumbered and numerically controlled. Checks must be signed by two employees designated by the governing board. Each check should be marked "void after six months" to ensure prompt cashing by the payee.

7. Checks should be properly completed before issuance, and should not be made payable to cash or bearer. Void checks should be so stamped to prevent reuse and numerically filed with other canceled checks.

8. Unused checks should be physically safeguarded and access to them limited to authorized personnel who do not have access to the signature stamps, signature plates, or electronic signatures.

9. The signature plates should be physically safeguarded, and access to the plates limited to a minimum number of employees who do not have access to the blank checks.

10. Employees authorized by the governing board to sign checks or handle significant amounts of cash must be adequately bonded.

11. Written bank reconciliations should be prepared monthly on a timely basis. An employee who is not responsible for handling cash or issuing checks should prepare the bank reconciliations; but if one employee must perform both functions, district management should review and approve the reconciliations. Bank reconciliations should be signed and dated when reviews are completed.

12. Idle monies should be invested by the governing board. Monies earned from investments must be credited to the Auxiliary Operations Fund.

Auxiliary Operations Fund Bank Account

The governing board must establish an Auxiliary Operations Fund bank account to account for monies raised in connection with bookstore and athletic activities.

Auxiliary Operations Fund Revolving Bank Account

The governing board may establish an imprest revolving bank account at each school for necessary current expenditures arising from bookstore and athletic activities. The revolving bank accounts must be funded from the Auxiliary Operations Fund in an amount determined by the governing board. All monies must be returned to the Auxiliary Operations Fund at the end of the fiscal year. For Auxiliary Operations Fund revolving bank account disbursements and replenishment procedures, the district should follow the procedures discussed in §VI-C, Cash, except the replenishment voucher should not be sent to the county school superintendent.

Petty Cash Account

An imprest petty cash account may be established at each school in an amount determined by the governing board. Expenditures from the account must be limited to postage, freight, express, parcel post, travel, or other minor disbursements. Salaries and wages may not be paid out of the petty cash account. However, wages paid for game officials may be paid from the petty cash account if the official is considered an independent contractor.

The requisitioner should submit supporting documentation for every expenditure. The governing board should establish a maximum amount (e.g., $50) for any one expenditure. When a refund is made, a **Refund/Repurchase Form** (X-G-13) should be completed to document the cash disbursement. At the end of the school term, the governing board may authorize an increase in the account for refunds or repurchases.

Districts should follow the petty cash disbursement procedures discussed in §VI-C, Cash, for Auxiliary Operations Fund petty cash disbursements.

Change Funds

Change funds may be established at individual schools from the Auxiliary Operations Fund bank account or from the Auxiliary Operations Fund revolving bank account. Change funds should be established by a check made payable to the change fund custodian for bookstore and athletic activities and returned when no longer needed. The amount of the change fund should be reclassified within the Auxiliary Operations Fund (525) from Cash in Bank (0102) to Cash on Hand (0101). Since neither a transfer nor an expenditure has been made, none should be recorded. Change funds may not be established from cash receipts, and payment of expenditures from change funds should not be permitted.

Investment of Cash

The district should invest idle cash in relatively risk-free investments, such as savings accounts, interest-earning checking accounts, and certificates of deposit. Interest earned on investments must be credited to the Auxiliary Operations Fund. Accounts should be maintained in the general ledger for the investments and interest earnings.

INVENTORY

Auxiliary Operations Fund inventory consists of items such as books, supplies, and materials for sale or rental.

Some bookstores may maintain the district's inventory of required textbooks, which is not accounted for in the Auxiliary Operations Fund. Required textbooks and items for rent should be stamped with an identification number.

Districts should follow the policies and procedures described in §VI-D, Supplies Inventory, for maintaining inventory systems, taking a physical inventory, and controlling and pricing Auxiliary Operations Fund inventory.

EQUIPMENT

Equipment used for auxiliary operations may be purchased with monies derived from such operations.

Districts should follow the policies and procedures described in §VI-E, Property Control, for maintaining, controlling, and valuing equipment and taking physical inventories.

REVENUES

Auxiliary Operations Fund revenues are derived from bookstore operations, athletic operations, and miscellaneous district-related operations (e.g., deposits for use of district supplies, rental charges for books and materials, course fees), and should be classified by fund and object codes prescribed by the Chart of Accounts (§III). Auxiliary Operations Fund cash collections should be processed through a central location at each school. The location should be either the bookstore or principal's office.

Auxiliary Operations Fund revenues may include the following sources:

1. Sales of books, supplies, and materials
2. Fees for optional, noncredit, educational, or recreational activities that supplement the district's education program, whether offered before, during, or after regular school hours, or when school is not in session (A.R.S. §15-342)
3. Fees for fine arts and vocational education courses for high school students (A.R.S. §15-342)
4. Fees for optional services, equipment, and materials offered to high school students beyond those required to successfully complete any course (A.R.S. §15-342)
5. Deposits for the use of district supplies (e.g., locks, towels, and caps and gowns) by students

6. Rentals of nonrequired textbooks, nonrelated subject matter materials, and supplemental books to high school students (A.R.S. §15-724)
7. Gate receipts from athletic events
8. Class or student pictures (at discretion of governing board)
9. Reasonable fees for the student use of district-provided parking facilities (A.R.S. §15-342)
10. Interest on investments of Auxiliary Operations Fund monies
11. Miscellaneous

Scholarship donations for such items as supplies and materials and usage fees should be processed through the Gifts and Donations Fund, not the Auxiliary Operations Fund. The district should maintain the necessary records to account for these donations.

Sales or Rentals

The governing board may establish a reasonable price for sales or rental of books, supplies, and materials. The markup on cost should be an amount sufficient to recover bookstore operating costs.

Materials and Usage Fees

Districts may charge certain types of materials and usage fees to students (see list above).

The governing board should establish reasonable fees that recover costs but do not accumulate excess revenues, and should authorize principals to waive the assessment of all or part of a fee if it creates economic hardship for a student.

Deposits

Deposits may be collected for rented items, including towels, locks, and caps and gowns to defray costs of replacing lost or damaged property. If the property is returned in satisfactory condition, the deposit should be returned to the student.

Detailed records should be maintained to provide the necessary information, including student name, date, items rented, and amount of refundable deposits.

Credit Sales

The governing board may establish a policy to allow credit sales for necessary supplies to disadvantaged students. Students should be required to sign a **Student Charge Record form** (X-G-14) indicating a schedule of repayment. All charges should be collected by the end of the fiscal year. The governing board should establish policies and procedures for collecting outstanding charges and for writing off uncollectible charges after a reasonable period of time.

Cash Collections

The following procedures and sample forms present one acceptable method of accounting for revenues. This method presumes multischool districts that use bookstores to collect Auxiliary Operations Fund cash receipts. This method also assumes that bank deposits are made at the district level. However, districts may choose to use principals' offices to collect cash and allow the bank deposits to be made by the schools.

Bookstores — Revenues from bookstores include sales and rental of books, supplies, and materials, usage fees, and class or student pictures. Additionally, athletic event gate receipts and concession sales may be processed through the bookstores.

Schools may use a cash register or cash box and receipt forms for collecting bookstore receipts. The following example covers both methods.

Performed by	Procedure
Bookstore Manager or Designee	1. Completes a **Daily Sales Report** (X-G-15) in duplicate for the report number and change fund amount. Enters the beginning and ending receipt form numbers or beginning cash register reading.
	2. Prepares a prenumbered **Change Fund Receipt** (X-G-16), if applicable, in duplicate for the change fund amount and retains it on file until after the event.
	3. Issues the Daily Sales Report, change fund, and receipt book (if applicable) to the cashier.
Cashier	4. Signs for the change fund and receipt book (if applicable) on the Change Fund Receipt.
	5. Collects the cash or checks from sales and restrictively endorses checks "for deposit only" immediately.
	6. Prepares 2-part prenumbered cash receipt form or enters sales by type in the cash register, and deposits cash collections into the cash register or cash box.
	7. Gives the customer a copy of the cash receipt form or register receipt.
	8. Counts the change fund and cash collections to close out the cash box or register.
	9. Records the cash collections on the **Daily Sales Report**.
	10. Records the last receipt number used or ending cash register reading and adjustments (refunds, voids, etc.) on the Daily Sales Report.
	11. Reconciles sales to cash collections by completing the tape audit or receipt book summary, and investigates discrepancies.
	12. Attaches the cash receipt forms or cash register detail tape and supporting documentation for any adjustment of tape amounts to the **Daily Sales Report**.
	13. Signs and dates the Daily Sales Report.

Performed by	Procedure
Cashier	14. Submits the Daily Sales Report, cash collections, change fund, receipt book (if applicable), and supporting documentation to the bookstore manager or designee.
Bookstore Manager or Designee	15. Verifies cash and reviews the Daily Sales Report, cash receipt forms or cash register tape, and supporting documentation.
	16. Places the cash collected into a cash register or safeguards it in a locked cash box or safe, and secures change fund.
	17. Signs and dates the **Daily Sales Report**.
	18. Records and signs for the net cash collections and change fund on the **Change Fund Receipt** (if applicable).
	19. Records the Change Fund Receipt number on the Daily Sales Report, if applicable.
	20. Issues the original Change Fund Receipt to the cashier, if applicable.
	21. Files Daily Sales Report, cash receipt forms, or cash register detail tape and supporting documentation, and duplicate copy of the Change Fund Receipt, if applicable.

Athletics — Revenues from athletic activities include gate receipts from athletic events. The district should prepare an **Athletic Ticket Sales Report** for tickets sold at athletic events. The sales report format enables districts to calculate the number of tickets sold and extend this amount by the appropriate price. The amount calculated should then be compared to the actual cash collections and any differences promptly investigated.

Performed by	Procedure
District Clerk	1. Issues the prenumbered tickets to be used for athletic events to the school athletic director, bookstore manager, or other designee. Records the beginning and ending ticket numbers, date, school, and total number of tickets issued on the **Auxiliary Operations District Ticket Log** (X-G-17) and initials the log.
Athletic Director, Bookstore Manager, or Designee	2. Records the beginning and ending ticket numbers, date, event, and total number of tickets issued in the **Auxiliary Operations School Ticket Log** (X-G-18). Initials the log to document receipt of the tickets.
	3. Prepares a prenumbered **Change Fund Receipt** (X-G-16) in duplicate for the change fund amount and retains it on file until after the event.
	4. Indicates the report number, change fund number and amount, ticket type, and beginning and ending ticket numbers issued on the **Athletic Ticket Sales Report** (X-G-19).
	5. Issues the prenumbered tickets, change fund, and Athletic Ticket Sales Report to the ticket seller (or bookstore cashier).

Performed by	Procedure
Ticket Seller/Cashier	6. Signs for the change fund on the **Change Fund Receipt**.
	7. Reconciles sales to cash receipts on the Athletic Ticket Sales Report in duplicate after the event.
	8. Signs and dates the Athletic Ticket Sales Report.
	9. Returns the Athletic Ticket Sales Report, remaining tickets, change fund, and cash collections to the athletic director or bookstore manager.
Athletic Director, Bookstore Manager, or Designee	10. Verifies the cash and tickets returned, and mathematical accuracy of the Athletic Ticket Sales Report.
	11. Places the cash collected into a cash register or safeguards it in a locked cash box or safe, and secures change fund.
	12. Signs and dates the **Athletic Ticket Sales Report**.
	13. Records and signs for the net cash collections and change fund on the **Change Fund Receipt**.
	14. Issues the original Change Fund Receipt to the ticket seller/cashier.
	15. Files the Athletic Ticket Sales Report and duplicate copy of the Change Fund Receipt.

End of Day Procedures

At the end of each day, a **Daily Cash Collections Summary** should be prepared in order to reconcile cash collections to the **Daily Sales Reports** and Athletic Ticket Sales Reports. This will help ensure that all monies are accounted for and will be deposited.

If there has been only one Daily Sales Report or Athletic Ticket Sales Report for the day, districts may skip this section and follow the applicable steps in the **Deposit Preparation and Accounting Records section**.

Performed by	Procedure
Athletic Director, Bookstore Manager, or Designee	1. Removes the cash collected from the cash register, locked cash box, or safe, and retrieves the Daily Sales Reports and Athletic Ticket Sales Reports.
	2. Prepares a **Daily Cash Collections Summary** (X-G-20) to reconcile the amount of total cash collected for the day to the **Daily Sales Reports** and **Athletic Ticket Sales Reports**. Resolves any differences.
	3. Files the Summary, Daily Sales Reports, and Athletic Ticket Sales Reports by date, and places the cash collections in a locked cash box or safe until deposit.

Deposit Preparation and Accounting Records

For districts with multiple schools, each school should submit the Daily Cash Collection Summaries and supporting documentation to the district office where centralized records are updated and maintained.

Performed by	Procedure
Athletic Director, Bookstore Manager, or Designee	1. Removes the cash collections from the locked cash box or safe, counts cash, and prepares a deposit slip in duplicate for the cash collections.
	2. Compares the deposit amount to Part II — Cash Count recorded on the **Daily Cash Collections Summary**.
	3. Deposits the cash intact into the Auxiliary Operations Fund bank account.
	4. Attaches the deposit slip and validated bank deposit receipt to the Daily Cash Collections Summary.
	5. Submits the Daily Cash Collections Summary, **Daily Sales Reports**, and **Athletic Ticket Sales Reports** to the district office.
	6. Files the duplicate copies of the Daily Sales Reports and Athletic Ticket Sales Reports.
District Clerk	7. Reviews the Daily Cash Collections Summary for mathematical accuracy and correct account codes. Signs and dates the Summary to indicate review.
	8. Compares the cash count on the Summary to the deposit slip and validated bank deposit receipt.
	9. Records the cash collections in the Cash Receipts Journal from each report.
	10. Files all documents.

EXPENDITURES

Expenditure Processing

Expenditures from the Auxiliary Operations Fund bank account must be approved by the governing board. No expenditures may be made if cash is not available in the bank account.

An **Auxiliary Operations Fund Voucher** (X-G-21) should be used to submit expenditures to the governing board for approval. Alternatively, the governing board may, by resolution, ratify expenditures as reported monthly. The ratification must be documented in the governing board minutes. (A.R.S. §15-321.G)

Districts should follow the policies and expenditure processing procedures discussed in §VI-G, Expenditures, for processing Auxiliary Operations Fund expenditures except that vouchers should not be submitted to the county school superintendent. Instead, the following procedures should be followed for payment of vendor invoices.

Performed by	Procedure
District Clerk	1. Prepares a check for each vendor from the vendor invoice and approved **voucher**.
	2. Stamps voided checks to prevent reuse and files numerically with other canceled checks. Tears authorized signatures from voided checks.
	3. Records the check and voucher numbers on the vendor's invoice.
	4. Stamps the vendor's invoice "paid" or otherwise cancels the invoice.
	5. Records the expenditures in the Cash Disbursements Journal.
	6. Submits the supporting documentation along with the check to district management for signature.
District Manager	7. Signs the check. (Two authorized signatures are required.)
	8. Mails the check to the vendor.
District Clerk	9. Files the voucher in numerical sequence.
	10. Files the vendor's invoice, requisition, receiving report, packing slip, and Copy 2 of the purchase order in the vendor's closed file.

Cash Advances

Cash advances may be necessary for certain expenditures such as trips for athletic events away from home. To obtain a cash advance, a requisitioner should prepare and submit a **requisition and cash advance form** (X-G-22) to the athletic director or bookstore manager for approval. The requisition and cash advance form should be approved and initialed by the district clerk after it is determined that the budget and cash balances are

sufficient to cover the advance. The requisition and cash advance should be recorded on a **voucher** for approval by the governing board, or paid out of an Auxiliary Operations Fund revolving account if a more immediate cash outlay is required. Receipts for expenditures should be returned to the bookstore along with remaining cash promptly after the trip.

Expenditures from Other Funds

Expenditures from other funds in support of auxiliary operations may include salaries for bookstore employees, miscellaneous expenditures from the Maintenance and Operation Fund, or capital acquisitions from any allowable fund such as the Unrestricted Capital Outlay Fund.

Auxiliary operations expenditures made from other funds should be coded with auxiliary operations program and function codes to identify expenditures. Program code 100 and function code 3400 may be used to identify bookstore operations and program code 620 and function code 1000 for athletic operations.

PAYROLL

Districts should follow established payroll policies and procedures (see §VI-H, Payroll) for salaries or wages paid from auxiliary operations.

ACCOUNTING RECORDS

The basic accounting records that should be maintained for the Auxiliary Operations Fund are described in detail in §VI-B, Accounting Records. Accounting records that should be considered for use are the General Journal, Cash Receipts Journal, Cash Disbursements Journals, and the General Ledger.

Auxiliary operations should be separated into bookstore and athletic operations in the accounting records. By maintaining separate records, the district can determine the results of operations of each.

Accounting records should be maintained that will provide sufficient accounting information to allow the district to prepare financial reports as prescribed in §VII, Financial Reporting.

_____ SCHOOL DISTRICT NO. ____

REFUND/REPURCHASE FORM

Date _____

School _____

Student's Name _____

Reason for Refund:

Description	Account No.	Amount
		$

Total Amount Refunded $ _____

Received By: _____

Signature of Student

Refund Authorized By: _____

Signature of Bookstore Manager or Designee

_____ SCHOOL DISTRICT NO. ___

STUDENT CHARGE RECORD

School: _____
Student Name: _____
Student I.D. Number: _____
Grade: _____

Period	Teacher	Course	Rental No.	Rental	Sale	Fees	Rental Deposit	Other Deposits	Cashier's Initials	Student's Initials
				$	$	$	$	$		
TOTALS				$	$	$	$	$		

Grand Total $_____

SCHEDULE OF REPAYMENT:

DATE DUE	DATE PAID	SCHEDULED PAYMENT	AMOUNT PAID	CASHIER'S INITIALS	STUDENT'S INITIALS
		$	$		

Student Signature _____
Date _____
Parent/Guardian _____
Address _____
_____
Phone Number _____

REPORT NO. _____

_____SCHOOL DISTRICT NO. ____

DAILY SALES REPORT

SCHOOL _____

ACCOUNT NAME _____ ACCOUNT CODE _____

EVENT _____ DATE _____

CASHIER _____

CHANGE FUND RECEIPT NUMBER _____ AMOUNT $_____

CASH COLLECTIONS	
Denomination	**Cash Returned**
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
2.00	
1.00	
.50	
.25	
.10	
.05	
.01	
TOTALS	$
LESS CHANGE FUND ISSUED	( )
COLLECTIONS	$

TAPE AUDIT

1. Ending Cash Register Reading $_____
2. Beginning Cash Register Reading - _____
3. Tape Adjustment +/- _____
4. Total to Be Accounted For = _____
5. Less Collections - _____
6. Cash Overage (Shortage) = _____
7. Total Deposit $_____

Reason for Overage (Shortage):

_____

_____

RECEIPT BOOK SUMMARY

Beginning Number: _____ Ending Number: _____

Last Number Used: _____

Quantity Sold: _____ Price: $_____

Total Sales (Quantity X Price) $_____

Less Collections $_____

Cash Overage (Shortage) $_____

Total Deposit $_____

Reason for Overage (Shortage):

_____

_____

Reconciliation Completed By: _____

Cashier Signature and Date

Change Fund and Cash Collections Received By: _____

Bookstore Manager Signature and Date

NUMBER (Prenumbered)

_____ SCHOOL DISTRICT NO. ___

CHANGE FUND RECEIPT

COMPLETE WHEN CHANGE FUND ISSUED:

DATE _____
SCHOOL _____
ACCOUNT NAME _____
ACCOUNT CODE _____
CHANGE FUND AMOUNT ISSUED $_____

_____
TICKET SELLER/CASHIER SIGNATURE

_____
DATE

COMPLETE WHEN CHANGE FUND RETURNED:

CASH RECEIVED $_____
CHANGE FUND AMOUNT RETURNED (_____)
NET CASH COLLECTIONS $_____

CASH RECEIVED BY

_____
BOOKSTORE MANAGER OR DESIGNEE SIGNATURE

_____
DATE

_____ SCHOOL DISTRICT NO. ___

AUXILIARY OPERATIONS DISTRICT TICKET LOG

SCHOOL	TICKET NUMBERS				ISSUED BY
	DATE	FROM	TO	TOTAL	

_____ SCHOOL DISTRICT NO. ___

SCHOOL _____

AUXILIARY OPERATIONS SCHOOL TICKET LOG

EVENT	TICKET NUMBERS				RECEIVED BY
	DATE	FROM	TO	TOTAL	

REPORT NO. _____

_____SCHOOL DISTRICT NO. ___

ATHLETIC TICKET SALES REPORT

School _____

Account Name _____ Account Code _____ Date _____

Event _____

Ticket Seller _____

Change Fund Receipt Number _____ Amount $_____

Ticket Type	Ticket Numbers Issued From	To	Next No. To Be Issued	First Ticket Number Issued	Number Sold	Price	Total Sales
						$	$

Denomination	Cash Returned
Checks	$ _____
$100.00	_____
50.00	_____
20.00	_____
10.00	_____
5.00	_____
2.00	_____
1.00	_____
.50	_____
.25	_____
.10	_____
.05	_____
.01	_____
Total	$ _____
Less Change Fund	_____
Total Deposit	$ _____

Total Deposit $_____

Less Total Sales

Cash Overage (Shortage) $_____

Reason for Overage (Shortage)

_____

_____

Reconciliation Completed By:

_____

Ticket Seller Signature

_____

Date

Change, Tickets, and Cash Collections Received By:

_____

Athletic Director or Bookstore Manager Signature

_____

Date

_____SCHOOL DISTRICT NO. ___

SCHOOL _____

AUXILIARY OPERATIONS DAILY CASH COLLECTIONS SUMMARY

_____, 19_____
Month Day

Part I — Cash Collections Held for Deposit to the Auxiliary Operations Fund Account

Report Number	Account Code	Description (issued to)	Net Cash Collections
			$

Total Net Cash Collections (Part I) $_____

Part II — Cash Count	
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
2.00	
1.00	
.50	
.25	
.10	
.05	
.01	
TOTAL	$

Part III — Reconciliation

Total Net Cash Collections (Part I) $_____

Total Cash Count (Part II) $_____

Cash Overage (Shortage) $_____

Reason for Overage (Shortage)

_____

_____

_____

Summary Prepared By: _____
Date

Reviewed By: _____
Date

No. (Prenumbered)

_____SCHOOL DISTRICT NO. ___

AUXILIARY OPERATIONS FUND VOUCHER

DATE _____

The district superintendent is hereby authorized to issue check(s) against the Auxiliary Operations Fund for the sum of _____ dollars on account of obligations incurred for value received in goods and services as shown for (period)_____ to _____.

Check No.	Account Code	Vendor	Invoice No.	P.O. No.	Amount
					$

Total $_____

I certify that this claim is just and correct, and the goods and services herein represented have been received. All items are properly coded and not in excess of account balance. Itemized statements accompany this voucher.

_____

_____

_____

_____

_____

_____

_____

Governing Board Members' Signatures

Date Signed _____

No. _____

_____ SCHOOL DISTRICT NO. ____

AUXILIARY OPERATIONS FUND CASH ADVANCE

Purchase Req. No. _____

Check Issued To _____ **Amount $ _____**

Mailing Address _____

_____

_____

Purpose _____

_____

Authorizing Signatures:

Requisitioner	Date
Athletic Director/Bookstore Manager	Date
District Clerk	Date

Refer to related School District FAQs

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Refer to USFR Compliance Questionnaire

INTRODUCTION

Student activities are defined in Arizona Revised Statutes (A.R.S.) §15-1121 as student clubs, organizations, school plays, or other student entertainment (hereafter referred to as clubs). Student activities monies are raised by the efforts of students with the approval of the governing board. These monies must be accounted for in an agency fund titled Student Activities Fund, which is separate and distinct from district operating funds.

The governing board must establish the Student Activities Fund and appoint an employee as a student activities treasurer to be responsible for the fund. In districts with multiple schools, the governing board may designate an assistant student activities treasurer for each school and may authorize a Student Activities Fund bank account for each school.

Student Activities Fund accounting functions are governed by the following principles.

1. Monies should be expended in a manner beneficial to those students currently in school. Students must actively participate in the management of funds.

2. School management should participate in developing policies, procedures, and regulations for the supervision and administration of student body financial activities.

3. Disbursement of monies derived by the efforts of a specific student club must be approved by that group. Any monies generated by the student body as a whole should be administered by the student council, and may be expended for reasonable and necessary expenses under the supervision and guidance of the governing board.

4. In elementary schools, for certain grades, the student activities treasurer or assistant student activities treasurer may authorize the sponsor to approve club disbursements.

5. Sealed competitive bidding is recommended for purchases that meet or exceed the amount requiring sealed bids as calculated by the State Board of Education in accordance with A.R.S. §15-213. Procedures in the School District Procurement Rules for sealed competitive bidding are recommended.

6. Guidelines for competitive purchasing below the dollar limits required for sealed bids, as prescribed by the USFR in accordance with A.R.S. §15-271 (§VI-G, Expenditures), should be f ollowed for purchases costing less than the amount requiring sealed bids as calculated by the State Board of Education in accordance with A.R.S. §15-213.

7. The student council and each student club should have a sponsor.

8. Each club should prepare minutes of all of its meetings. Approval to make any disbursements should be documented in the minutes.

LEGAL REQUIREMENTS

A.R.S. §§15-1121 through 15-1124 define and describe the operation of the Student Activities Fund.

§15-1121 — Student Activities Monies Defined

All monies raised with the approval of the governing board of a school district by the efforts of students in pursuance of or in connection with all activities of student organizations, clubs, school plays, or other student entertainment other than funds specified in §§15-1125 and 15-1126 are student activities monies.

§15-1122 — Student Activities Treasurer; Assistant Student Activities Treasurer; Administration of Student Activities Monies

A. The governing board of any school district having student activities monies shall establish a Student Activities Fund and appoint a student activities treasurer. The student activities treasurer shall deposit the student activities monies in a bank account designated the student activities account. In school districts which have multiple schools, the governing board may designate an assistant student activities treasurer for each school. Each assistant student activities treasurer shall deposit student activities monies in the school district's student activities bank account or in student activities bank accounts established separately for each school. Disbursements from the student activities accounts shall be by check, signed by two persons, one of whom shall be either the student activities treasurer or an assistant student activities treasurer and one of whom shall be any other person authorized to sign by the governing board. The governing board may appoint more than one person to act as cosigner with the student activities treasurer or assistant student activities treasurer. Any disbursement shall be authorized by or on behalf of the student members of the particular club or organization as provided in the *Uniform System of Financial Records*. The student activities treasurer and assistant student activities treasurers shall give bonds in an amount determined by the governing board, and the cost of bond premiums shall be a charge against the school district.

B. Accounts showing the balances due the respective student organizations as provided in §15-1121 shall be kept by the student activities treasurer and assistant student activities treasurers and shall be open to inspection by officers of the student bodies concerned.

§15-1123 — Record of Revenues and Expenditures

A. The student activities treasurer or assistant student activities treasurer shall maintain an accurate detailed record of all revenues and expenditures of the Student Activities Fund. The record shall be made in such form as the governing board of the school district prescribes. Copies of the record shall be presented to the governing board of the school district not less than once during each calendar month.

B. Student Activities Fund monies may be invested and reinvested by the governing board of a school district. All monies earned by investment shall be credited to the Student Activities Fund of the school district.

§15-1124 — Student Activities Revolving Fund for Expenses

The governing board of a school district may, by resolution entered upon its minutes, establish a revolving fund for the purpose of meeting necessary current expenses connected with student activities as defined by this article. The amount of the revolving fund shall be determined by the governing board which establishes the fund and provision for its establishment shall be included in the budget. The amount of monies provided in the revolving fund shall, at the end of each fiscal school year, be returned to the credit of the school district and the fund reestablished as provided in this section.

CASH

Cash requires a strong system of internal control because it is more susceptible to manipulation than any other asset. Therefore, the student activities treasurer should ensure the following prescribed policies and procedures are followed consistently districtwide to effectively safeguard and properly account for Student Activities Fund cash.

1. Monies should be physically safeguarded.

2. Separation of responsibilities between cash handling and recordkeeping should be maintained.

3. The student activities treasurer, assistant student activities treasurers, and other employees who handle significant amounts of cash must be bonded and the expense charged to the district.

4. Monies received should be deposited intact daily, if material, or intact at least weekly.

5. Disbursements must be made by prenumbered and numerically controlled checks. Cash should be available in a student club's account before a disbursement is made.

6. Checks must be signed by the student activities treasurer or assistant student activities treasurer and by one other individual appointed by the governing board.

7. Void checks should be so stamped to prevent reuse and numerically filed with other canceled checks.

8. Written bank reconciliations should be prepared monthly, preferably by an employee not responsible for handling cash or issuing checks. In small districts where an employee performs both these functions, reconciliations should be reviewed and approved by district management. Bank reconciliations should be signed and dated when reviews are completed.

9. Student Activities Fund monies should not be used to defray any district expense.

Student Activities Fund Bank Account

A.R.S. §15-1122 requires the district to establish a Student Activities Fund bank account. In districts that have multiple schools and the governing board has designated an assistant student activities treasurer for each school, a bank account may be established for each school.

Monies should be deposited in the bank accounts promptly. Disbursements from the Student Activities Fund must be made by check signed by the student activities treasurer or assistant student activities treasurer and one other person appointed by the governing board.

The student activities treasurer or assistant student activities treasurer must maintain a current record of the balance due each club. The balance due each club should be maintained in the **Cash Receipts and Disbursements Journal** (X-H-25).

Student Activities Fund Revolving Bank Account

The governing board may establish an imprest revolving bank account from the Maintenance and Operation Fund for current expenditures of the Student Activities Fund (A.R.S. §15-1124).

At the end of each fiscal year, revolving account monies must be returned to the credit of the Maintenance and Operation Fund.

Change Funds

Change funds may be established from the Student Activities Fund bank account. Change funds should be established by a check made payable to the change fund custodian and returned at the end of the school year or when the change fund is no longer needed. Change funds may not be taken from cash collections, and disbursements from change funds are not permitted. The amount of the change fund should be reclassified within the Student Activities Fund from Cash in Bank to Cash on Hand. Since neither a transfer nor a disbursement has been made, none should be recorded.

Investments

The governing board should invest idle cash in relatively risk-free investments, such as savings accounts, interest-earning checking accounts, and certificates of deposit. Investments should be recorded in the **Cash/Investments Ledger** (X-H-26).

Interest earned on investments should be allocated on a pro rata basis to the appropriate clubs having monies on deposit. However, interest earned may be deposited into the Student Council Account to benefit the entire student body if all student clubs provide written consent.

RECEIPTS

Student activities monies are derived from a variety of sources including the following:

1. Dues
2. Concessions
3. Interest
4. Ticket sales
5. Publications
6. Salvage drives
7. Gifts (do not include gifts to the district)
8. Fund-raising events approved by the governing board
9. Class or student pictures (discretion of the governing board)

A student club may participate in a joint fund-raising project with an outside group such as a parent-teacher organization if the governing board has approved the project. The proceeds should be allocated proportionately between the two organizations based on the level of effort devoted by each group on the project. (Attorney General (AG) Opinion I84-032)

In general, a student club may not hold a raffle. AG Opinion I84-018 states that only clubs that are not school controlled (such as off-campus clubs, clubs sponsored by civic groups, or parent-teacher organizations) and fit within the tax exempt categories defined by A.R.S. §43-1201 may hold raffles if they also meet the requirements of A.R.S. §13-3302.B.

The student activities treasurer is ultimately responsible for all monies. Therefore, the student activities treasurer should establish internal control policies and procedures to ensure transmittal of all monies to the student activities treasurer or assistant student activities treasurers for deposit in the Student Activities Fund bank accounts.

The following policies and procedures and sample forms are derived from systems currently in use by districts and presume a multischool district that uses assistant student activities treasurers and a bank account for each school. These are sample policies and procedures, and documents, and they present only one of many methods for controlling student activities monies. Districts having high schools may use the bookstore in the collection of cash, while other districts may choose to collect and process cash by other means.

Ticket Sales

Sales may be accounted for with tickets. To reconcile sales to cash collections, an **Activity Report** should be completed.

The Activity Report should be prepared to reconcile cash collected to tickets sold at student activities, such as dances or plays. The Activity Report format enables the student activities treasurer or assistant student activities treasurers to calculate the number of tickets sold and multiply this amount by the appropriate price. The amount calculated should then be compared to the actual cash collections.

Performed by	Procedure
Student Activities Treasurer	1. Issues the prenumbered tickets to be used for club activities to each assistant student activities treasurer. Records the beginning and ending ticket numbers, school, date, and total number of tickets issued in the **Student Activities District Ticket Log** (X-H-16).
Assistant Student Activities Treasurer	2. Records the beginning and ending ticket numbers, club, date, and total number of tickets issued in the **Student Activities School Ticket Log** (X-H-17).
	3. Issues the tickets to the bookstore manager or designee.
Bookstore Manager or Designee	4. Prepares a prenumbered **Change Fund Receipt** (X-H-19) in duplicate for the change fund amount and retains it on file until after the event.
	5. Indicates the report number, change fund receipt number and amount, ticket type, and beginning and ending ticket numbers on the **Activity Report** (X-H-18).
	6. Issues the prenumbered tickets, change fund, and Activity Report to the club officer/sponsor.
Club Officer/Sponsor	7. Signs the **Change Fund Receipt** for receipt of the change fund.
	8. Completes the **Activity Report** in duplicate after the event.
	9. Signs the Activity Report.
	10. Returns the Activity Report, remaining tickets, change fund, and cash collections to the bookstore manager or designee.
Bookstore Manager or Designee	11. Verifies the cash and tickets returned, and the mathematical accuracy of the Activity Report. Reconciles differences between total ticket sales and actual cash collected.
	12. Places cash collected and change fund into a cash register or safeguards it in a locked cash box or safe.
	13. Signs the Activity Report.
	14. Records and signs for the net cash collections and change fund on the **Change Fund Receipt**.
	15. Issues the original Change Fund Receipt and Activity Report to the club officer/sponsor.
	16. Files the duplicate copies of the Activity Report and Change Fund Receipt.

Other Receipts

A **Cash Collection Report** should be prepared to account for cash collected when tickets are not sold (e.g., for such events as candy, T-shirt, and bake sales). In some instances, prenumbered cash receipts will be practicable and the Cash Collection Report may be used to reconcile cash receipts to cash collected. Receipt books used should contain duplicate, prenumbered receipt forms. When a sale is completed, the original receipt should be given to the buyer and the duplicate retained.

Performed by	Procedure
Bookstore Manager or Designee	1. Prepares a prenumbered **Change Fund Receipt** in duplicate for the change fund amount and retains it on file until after the event.
	2. Completes a **Cash Collection Report** (X-H-20) in duplicate for the report number and change fund receipt number and amount. Enters beginning and ending receipt numbers if a receipt book is used.
	3. Issues the Cash Collection Report, change fund, and receipt book to the club officer/sponsor.
Club Officer/Sponsor	4. Receives the Cash Collection Report and signs for the change fund and receipt book on the Change Fund Receipt and Cash Collection Report.
	5. Collects cash and completes Cash Collection Report.
	6. Records number of the last receipt used (if applicable) on the Cash Collection Report.
	7. Submits the cash collections, change fund, receipt book (if applicable) and Cash Collection Report to the bookstore manager or designee.
Bookstore Manager or Designee	8. Counts the cash collections and change fund and reconciles to the receipt book (if applicable) and to the **Cash Collection Report**.
	9. Verifies mathematical accuracy of the Cash Collection Report.
	10. Signs the Cash Collection Report.
	11. Places the cash collected and change fund into a cash register or safeguards in a locked cash box or safe.
	12. Records and signs for the net cash collections and change fund on the **Change Fund Receipt**.
	13. Issues the original Change Fund Receipt and Cash Collection Report to the club officer/sponsor.
	14. Files the duplicate copies of the Cash Collection Report, Change Fund Receipt, and receipt book (if applicable).

End of Day Procedures

If there has been only one **Activity Report** or **Cash Collection Report** prepared for the day, these steps may be omitted.

At the end of each day, a **Daily Cash Collections Summary** should be prepared in order to reconcile the amount of cash collected to Activity Reports and Cash Collection Reports issued. This will help ensure that all monies are accounted for and will be deposited.

Performed by	Procedure
Bookstore Manager or Designee	1. Removes the cash collected from the cash register, locked cash box, or safe, and retrieves the Activity Reports and Cash Collection Reports. 2. Prepares a **Daily Cash Collections Summary** (X-H-21) to reconcile the amount of total cash collected for the day to Activity Reports and Cash Collection Reports. Investigates and resolves any differences. 3. Files the Summary, **Activity Reports** and **Cash Collection Reports** by date and places the cash collections in a locked cash box or safe until deposit.

Deposit Preparation and District Accounting

Performed by	Procedure
Bookstore Manager or Designee	1. Removes the cash collections from the locked cash box or safe, counts cash, and prepares a deposit slip in duplicate for the cash collections. 2. Compares the deposit amount to Part II — Cash Count recorded on the **Daily Cash Collections Summary**. 3. Deposits the cash in the Student Activities Fund bank account. 4. Attaches the duplicate deposit slip, validated bank deposit receipt, and cash register detail tapes (if applicable) to the Daily Cash Collections Summary. 5. Submits the Daily Cash Collections Summary, Activity Reports, Cash Collection Reports, and supporting documentation to the assistant student activities treasurer.

Performed by	Procedure
Assistant Student Activities Treasurer	6. Reviews the **Summary** for mathematical accuracy and correct account codes. Signs and dates the Summary to indicate review.
	7. Compares the cash count on the Summary to the deposit slip and validated bank deposit receipt.
	8. Records the cash collections in the **Cash Receipts and Disbursements Journal** (X-H-25) of the appropriate club.
	9. Files the Summary, deposit slip, and validated bank deposit receipt by date and the other documents by student club.

DISBURSEMENTS

The Arizona Administrative Code R7-2-1002.E exempts Student Activities Fund purchases from the school district procurement rules prescribed by the State Board of Education, unless district monies are involved. However, to maximize purchasing power, districts should consider following the procurement rules or similar procedures for Student Activities Fund purchases that meet or exceed the amount requiring sealed bids, as calculated by the State Board of Education in accordance with A.R.S. §15-213. Additionally, districts should follow the purchasing guidelines in §VI-G, Expenditures, for Student Activities Fund purchases costing less than that amount.

The following procedures and sample forms are derived from systems currently in use by districts and presume a multischool district that uses assistant student activities treasurers. These are sample procedures and documents and present only one of many methods for controlling student activities disbursements.

Performed by	Procedure
Club Officer/Sponsor	1. Approves the disbursement and documents approval in the club's minutes.
	2. Prepares a **Student Activities Requisition form** in duplicate (X-H-22).
	3. Signs the requisition; files copy of requisition.
	4. Submits the original requisition to the bookstore manager or designee.
Bookstore Manager or Designee	5. Reviews the requisition for mathematical accuracy.
	6. Verifies that the club's cash balance is adequate to permit the disbursement and that the disbursement is appropriate. Accepts or rejects the requisition stating reason for rejection. Signs and dates requisition.
	7. Determines that bidding procedures are followed (if applicable).
	8. Prepares a prenumbered **Student Activities Purchase Order** (X-H-23 and 24) and records the purchase order number on the requisition. Student Activities Purchase Orders should be signed by the assistant student activities treasurer.

Performed by	Procedure
	Purchase orders are maintained by the student activities treasurer and issued in numerical blocks to the assistant student activities treasurers. Individual purchase orders are issued by the assistant student activities treasurer in numerical order.
Bookstore Manager or Designee (Cont'd)	9. Distributes the purchase order as follows: a. Original — Vendor b. Copy 1 — Vendor file (alphabetical with **requisition** attached) c. Copy 2 — Numerical file d. Copy 3 — Club receiving report with quantities blocked out
	10. Attaches the requisition to Copy 1 of the purchase order and files it in an open purchase order file.
Club Officer/Sponsor	11. Files the **receiving report** (X-H-24) and awaits delivery of goods.
	12. Signs, dates, and records the quantity on the receiving report (Copy 3 of purchase order) when delivery of the goods is made.
	13. Notes the delivery date on the requisition. Files it in a closed file.
	14. Submits the receiving report and packing slip to the bookstore manager or designee.
Bookstore Manager or Designee	15. Compares quantity on the receiving report to requisition and Copy 1 of the **purchase order**.
	16. Attaches the receiving report and packing slip to the requisition and Copy 1 of the purchase order.
	17. Receives the vendor's invoice and compares quantity and price to the packing slip, receiving report, and Copy 1 of the purchase order.
	18. Verifies the mathematical accuracy of the documents, and initials and dates the documents as evidence of the check.
	19. Attaches the vendor's invoice to the packing slip, receiving report, requisition, and Copy 1 of the purchase order.
	20. Prepares a check. Notes the purchase order number and student activity account code number and name on the check.
	21. Records the check number on the vendor's invoice.
	22. Stamps the vendor's invoice "paid" or otherwise cancels the invoice.
	23. Submits prepared check and supporting documentation to the assistant student activities treasurer.

Performed by		Procedure
Assistant Student Activities Treasurer	24.	Records the disbursement in the **Cash Receipts and Disbursements Journal** (X-H-25) of the appropriate club.
	25.	Signs the check and submits supporting documentation along with the check for cosignature.
Authorized Cosigner	26.	Reviews supporting documentation and cosigns the check.
	27.	Mails the check to the vendor.
Assistant Student Activities Treasurer	28.	Files the documents by student activities account.

CAPITAL ASSETS

Assets purchased with Student Activities Fund monies should not be included on the district's capital assets list since they are not district property; however, the district may choose to maintain a separate list for Student Activities Fund assets above a certain dollar amount. If a student club chooses to donate an asset to the district, the decision should be documented in the club's minutes and in a written statement signed by the club president and sponsor. At that time, the asset should be included on the district's capital assets list at acquisition value at the acquisition date.

ACCOUNTING RECORDS

The basic accounting records that should be maintained are the **Cash Receipts and Disbursements Journal** (X-H-25) and the **Cash/Investments Ledger** (X-H-26). Multischool districts using assistant student activities treasurers and a bank account for each school should maintain these basic accounting records at each school. Additionally, the student activities treasurer in a multischool district should compile accounting information from all schools to maintain the cash control for the fund.

The Cash Receipts and Disbursements Journal should be used to record cash, intrafund transfers, interclub transactions, and other entries for each student club. The cash balance of each club should be maintained separately. Individual clubs should also maintain their own cash balances to facilitate stewardship.

The Cash/Investments Ledger should be used to record totals of receipts and disbursements for all clubs that have been recorded in the Cash Receipts and Disbursements Journal. In addition, investments should be recorded in the ledger. Examples of entries to the ledger are presented on **X-H-26**.

The combined cash balances for all clubs recorded in the Cash Receipts and Disbursements Journal should equal the balances of cash and investments in the Cash/Investments Ledger at the end of the month.

Cash Receipts Entries

Cash receipts should be entered in the **Cash Receipts and Disbursements Journal** of the appropriate club. Each cash receipt is entered as a credit (increase) in the journal by the appropriate account code. The offsetting entry in the journal is a debit (increase) to the cash balance.

For example, if the Student Council receives cash from ticket sales, the amount is entered in the receipts column as a credit as shown on **X-H-25**. The offsetting entry is a debit (increase) to cash.

At the end of the month, the receipts should be totaled and the total of all clubs should equal the receipts in the **Cash/Investments Ledger**.

Cash Disbursements Entries

Cash disbursements should be entered for each transaction by account code in the **Cash Receipts and Disbursements Journal** of the appropriate club. Disbursements are entered as debits (increases) to the disbursements accounts while the offsetting credits (decreases) are to the club's cash balance.

For example, if the Student Council buys supplies, the amount spent is entered as a debit (increase) in the Cash Receipts and Disbursements Journal as shown on **X-H-25**. The offsetting credit (decrease) entry is made to cash.

At the end of the month, the disbursements should be totaled and the total of all clubs should equal the disbursements recorded in the **Cash/Investments Ledger**.

Intrafund Transfers

Intrafund transfers include the following types of transactions.

1. Transfer of a defunct club's cash balance to the general student body account.

2. Allocation of cash from one club to another club (e.g., cash collected for a joint venture recorded in one club's account).

Transfer of a defunct club's cash balance should be authorized by the student activities treasurer or assistant student activities treasurer and the Student Council. Other transfers may be authorized by the club sponsor and officer.

Intrafund transfers should be accounted for on the **Student Activities Fund Journal Entry** (X-H-13) by the student activities treasurer or assistant student activities treasurer. The entry should then be recorded in the **Cash Receipts and Disbursements Journal** of the appropriate clubs. Transfers may be made by entries to both accounts in the journal with no physical exchange of money.

An example of the transfer entry for an allocation of money to the Student Council Account (JE 1) is illustrated on **X-H-25**. For the receiving club, cash is debited (increased) and transfers are credited (decreased). The entry for the transferring club is a credit to cash and a debit to transfers.

The following entry demonstrates an example of cash allocation.

STUDENT ACTIVITIES FUND JOURNAL ENTRY

Club				Amount	
Name	**Code**	**Account**	**Transaction/Description**	**Debit**	**Credit**
Spanish Club	02	XXXX	Transfer — Out	$100	
Spanish Club	02	XXXX	Cash in bank		$100
Student Council	01	XXXX	Cash in bank	100	
Student Council	01	XXXX	Transfer — In		100

To transfer the remaining cash balance of a defunct club to the student council.

Note that while cash in the total fund is unaffected, cash in the individual accounts is redistributed and should be adjusted.

Intrafund transfers need not be posted to the **Cash/Investments Ledger** since the net effect to the fund's cash balance is zero.

Interclub Transactions

Interclub transactions include sales of supplies between clubs. The transactions should be accounted for on the Student Activities Fund Journal Entry and recorded in the **Cash Receipts and Disbursements Journal** of the appropriate clubs.

Examples of both an interclub sale (JE 2) and purchase of supplies (JE 3) are presented on **X-H-25**.

Other Entries

Journal entries to initiate, correct, or adjust an account are explained in §VI-B, Accounting Records. The student activities treasurer or assistant student activities treasurer should record the journal entry in the **Cash Receipts and Disbursements Journal**.

District Accounting

Student Activities Fund transactions should not be reported in the district's records. The district's records should include only the cash balance of the Student Activities Fund held by the district and a corresponding liability in accordance with the Chart of Accounts (§III). The district should use the monthly **Report of Cash Receipts, Disbursements, Transfers, and Cash Balances** (X-H-27) prepared by the student activities treasurer to adjust the district's records.

The following is a sample journal entry to adjust the district's accounting records.

Page 02 GENERAL JOURNAL					
Date 19XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
4/30	850-000-0000-0216	Due to Student Groups	X	$150	
	850-000-0000-0102	Cash in Bank	X		$150
To adjust the district's accounting records for student activities operations for the month of April.					

Account Codes

Except for the Student Activities Fund number and balance sheet account numbers, the account codes and structure prescribed by the Chart of Accounts are optional for the Student Activities Fund. The student activities treasurer may develop different account codes and structure. However, at a minimum, the account code structure should consist of the following elements:

1. **Fund** — Student Activities Fund

2. **Object** — The type of receipt, disbursement, or balance sheet account

3. **Unit** — A particular school of the district

4. **Club**

The Student Activities Fund account structure and codes adopted by the governing board should be used uniformly by all schools in the district.

FINANCIAL REPORTING

A **Report of Cash Receipts, Disbursements, Transfers, and Cash Balances** (X-H-27) must be prepared monthly by the student activities treasurer. In a multischool district, a report should be prepared monthly by the assistant student activities treasurer at each school, if separate bank accounts are maintained, and submitted to the student activities treasurer. The Report should be submitted to the governing board in a timely manner.

_____ SCHOOL DISTRICT NO. ____

STUDENT ACTIVITIES DISTRICT TICKET LOG

SCHOOL	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

_____ SCHOOL DISTRICT NO. ___

STUDENT ACTIVITIES SCHOOL TICKET LOG

SCHOOL _____

CLUB	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

REPORT NO. _____

_____ SCHOOL DISTRICT NO. ___

ACTIVITY REPORT

School _____
Account Name _____ Account Code_____ Date_____
Event _____
Club Officer/Sponsor _____
Change Fund Receipt Number _____ Amount $_____

Ticket Type	Ticket Numbers Issued From	To	Next Ticket Number to Be Issued	Beginning Ticket Number Used	Number Sold	Price	Total Sales
						$	$

Denomination	Cash Returned
Checks	$_____
$100.00	_____
50.00	_____
20.00	_____
10.00	_____
5.00	_____
2.00	_____
1.00	_____
.50	_____
.25	_____
.10	_____
.05	_____
.01	_____
Total	$_____
Less Change Fund	_____
Total Deposit	$_____

Total Deposit $_____
Less Total Sales _____
Cash Overage (Shortage) $_____
Reason for Overage (Shortage):
_____
_____
_____

Tickets and Change Fund Issued To:

_____
Club Officer/Sponsor Signature

_____
Date

Change Fund, Tickets, and Cash Collections Received By:

_____
Bookstore Manager or Designee

_____
Date

NUMBER
(Prenumbered)

_____ SCHOOL DISTRICT NO. ___

CHANGE FUND RECEIPT

COMPLETE WHEN CHANGE FUND ISSUED:

DATE _____
SCHOOL _____
ACCOUNT NAME _____
ACCOUNT CODE _____
CHANGE FUND AMOUNT ISSUED $ _____

_____
CLUB OFFICER/SPONSOR SIGNATURE

_____
DATE

COMPLETE WHEN CHANGE FUND RETURNED:

CASH RECEIVED $ _____
CHANGE FUND AMOUNT RETURNED (_____)
NET CASH COLLECTIONS $ _____

CASH RECEIVED BY

_____
BOOKSTORE MANAGER OR DESIGNEE SIGNATURE

_____
DATE

REPORT NO. _____

_____ SCHOOL DISTRICT NO. ____

CASH COLLECTION REPORT

School _____

Account Name _____ Account Code _____

Event _____ Date _____

Club Officer/Sponsor _____

Change Fund Receipt Number _____ Amount $_____

Denomination	Cash Returned
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
2.00	
1.00	
.50	
.25	
.10	
.05	
.01	
TOTALS	$
Less Change Issued	( )
Net Collections	$

Receipt Book Summary

Beginning Number _____	Ending Number _____
Last Number Used _____	
Quantity Sold _____	Price $_____
Total Sales (Quantity X Price)	$
Less Net Collections	$
Cash Overage (Shortage)	$
Total Deposit	$

Reason for Overage (Shortage):

_____

_____

_____

Receipts and Change Fund Issued To:

_____
Club Officer/Sponsor Signature

_____
Date

Change Fund, Receipts, and Cash Collections Received By:

_____
Bookstore Manager or Designee

_____
Date

_____ SCHOOL DISTRICT NO. ____

SCHOOL _____

STUDENT ACTIVITIES DAILY CASH COLLECTIONS SUMMARY

_____, 19___
Month Day

Part I — Cash Collected and Held for Deposit to the Student Activities Fund Account			
Change Fund Receipt Number	Club Account	Description (issued to)	Net Cash Collections
			$

Total Net Cash Collections (Part I) $_____

Part II — Cash Count	
Checks	$_____
$100.00	_____
50.00	_____
20.00	_____
10.00	_____
5.00	_____
2.00	_____
1.00	_____
.50	_____
.25	_____
.10	_____
.05	_____
.01	_____
TOTAL	$_____

Part III — Reconciliation	
Total Net Cash Collections (Part I)	$_____
Total Cash Count (Part II)	$_____
Cash Overage (Shortage)	$_____

Reason for Overage (Shortage):

_____

_____

_____

_____

_____

Summary Prepared By _____ Date _____

Summary Reviewed By _____ Date _____

REQUISITION NO. _____

_____ SCHOOL DISTRICT NO. ____

STUDENT ACTIVITIES REQUISITION

SCHOOL _____

ACCOUNT NAME_____ ACCOUNT CODE _____ DATE _____

AUTHORIZING SIGNATURES

CLUB OFFICER _____

SPONSOR_____

REQUEST FOR PURCHASE ORDER

ISSUE PURCHASE ORDER TO: _____ AMOUNT $_____

MAILING ADDRESS: _____

_____

DESCRIPTION OF SERVICES OR ITEMS

Quantity	Items	Amount
		$

Total $_____

Purpose (Event, Dates, Etc.)

_____

_____

_____

FOR OFFICE USE ONLY

Accepted: _____ Rejected: _____ Date: _____ P.O. No. _____

Reason for Rejection: _____

Signature: _____

Bookstore Manager or Designee

_____ **SCHOOL DISTRICT NO. ____**

STUDENT ACTIVITIES PURCHASE ORDER

SCHOOL _____

PURCHASE ORDER NO. (Prenumbered)

DATE _____

TO _____
(Vendor)

FROM _____

TERMS _____

EXPECTED DELIVERY DATE _____

PLACE OF DELIVERY_____

DO NOT BACK ORDER Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Units	Unit Price	Amount
					$

TOTAL $_____

SUMMARY BY ACCOUNT

Account	Amount
	$
TOTAL	$

This purchase order is a claim against the Student Activities Fund only. The district assumes no liability in the purchase transaction.

APPROVED BY:

_____

STUDENT ACTIVITIES TREASURER OR ASSISTANT STUDENT ACTIVITIES TREASURER

_____

(DATE APPROVED)

Vendor (Original)
District (Copies 1 and 2)

_____ **SCHOOL DISTRICT NO. ____**

STUDENT ACTIVITIES PURCHASE ORDER

SCHOOL _____

PURCHASE ORDER NO. (Prenumbered)

DATE _____

TO _____
(Vendor)

FROM _____

TERMS _____

EXPECTED DELIVERY DATE _____

PLACE OF DELIVERY_____

DO NOT BACK ORDER Unless otherwise indicated, all prices are FOB destination.

Quantity Ordered	Description	Quantity Received	Units	Unit Price	Amount

TOTAL $_____

SUMMARY BY ACCOUNT

Account	Amount
	$
TOTAL	$

This purchase order is a claim against the Student Activities Fund only. The district assumes no liability in the purchase transaction.

APPROVED BY:

_____

STUDENT ACTIVITIES TREASURER OR ASSISTANT STUDENT ACTIVITIES TREASURER

_____

(DATE APPROVED)

_____
RECEIVED BY

_____
DATE

Receiving Report (Copy 3)

CASH RECEIPTS AND DISBURSEMENTS JOURNAL

School: ABC School
Account Name: Student Council
Account Code: 01
Period: October 19XX

	Reference			Receipts		Disbursements		Transfers		Cash		
Date 19XX	**Ck. No.**	**Other**	**Transaction Description**	**Debit**	**Credit**	**Debit**	**Credit**	**Out**	**In**	**Debit**	**Credit**	**Balance**
10/01			Cash Balance Brought Forward									$100
10/08		No. 112	Ticket Sales		$75					$75		175
10/08	44		Supplies			$60					$60	115
10/12		JE 1	Cash Allocation						$50	50		165
10/12		JE 2	Supplies — Interclub				$10			10		175
10/12		JE 3	Supplies — Interclub			15					15	160
10/31		JE 4	Apportionment — Interest on Investments		10					10		170

CASH/INVESTMENTS LEDGER

Posting Date	Receipts	Disbursements	Description	Investments			Cash		
				Debit	Credit	Balance	Debit	Credit	Balance
Balance Forward									$2,500
10/31/XX	$340		Receipts for month of October				$340		2,840
10/31/XX		$250	Disbursements for month of October					$ 250	2,590
10/31/XX	50		Interest earned on investments for month of October				50		2,640
11/30/XX			Check #45 — TCD 108572	$1,000		$1,000		1,000	1,640

ABC SCHOOL DISTRICT

STUDENT ACTIVITIES

REPORT OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS, AND CASH BALANCES

MONTH ENDED APRIL 30, 19XX

Club/Organization	Cash Balance March 31, 19XX	Receipts	Disbursements	Transfers In	Transfers Out	Cash Balance April 30, 19XX
Student Council	$ 550	$ 700	$ 800	$50		$500
Hiking Club	50				$50	-0-
Dance Club	500	600	650			450
Total	$1,100	$1,300	$1,450	$50	$50	$950

Uniform System of Financial Records for Arizona School Districts (USFR) Compliance Questionnaire

Instructions

Addendum

Governing Board/management procedures

Budgeting

Accounting records

Cash and revenue

Supplies inventory

Property control

Expenditures

Travel

Credit cards and purchasing cards (p-card)

Procurement

Classroom Site Fund

Payroll

Financial reporting

Student attendance reporting

Information technology (IT)

Transportation support

Records management

General long-term debt

Uniform System of Financial Records for Arizona School Districts Compliance Questionnaire

*This questionnaire must be used for fiscal year (FY) 2020 audits and thereafter.

Instructions

Arizona Revised Statutes (A.R.S.) §15-271 requires the Auditor General's Office to inform any school district failing to establish and maintain the requirements prescribed by the *Uniform System of Financial Records for Arizona School Districts* (USFR) that it has 90 days to correct the cited deficiencies. To assist the Auditor General's Office in determining whether a district has attained an acceptable degree of compliance with the requirements of the USFR, the audit firm must complete this USFR Compliance Questionnaire (CQ).

In addition, A.R.S. §§15-213(F) and 15-914(G) require districts to have a systematic review of their purchasing practices and average daily membership (ADM), respectively, performed in conjunction with their annual or biennial financial audit to determine whether the District is in compliance with the applicable procurement and student attendance laws and rules of the State of Arizona. The Procurement and Student Attendance Reporting questions included in the USFR CQ help districts meet these requirements.

The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. Audit Firms must gain an understanding of the District's internal controls and obtain appropriate audit evidence to complete the USFR CQ in accordance with the requirements prescribed below. The Auditor General's Office may reject those CQs not meeting the minimum requirements.

- Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the District has implemented procedures to comply with the USFR. The evidence must be included in the audit documentation to support the comments. If the evidence was obtained and documented during the financial statement audit, that evidence may be referenced to answer related questions. Click the "tooltip" next to the CQ question to get more information about USFR requirements and review procedures that must be considered to address the question's objective.
- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers on the CQ. Sufficient evidence of approval includes signatures or initials and dates.
- Population size should be considered in determining the number of items to test, and the items selected should be representative of the population. Also, additional instructions in the Credit cards, Procurement, and Student attendance reporting sections prescribe minimum sample sizes that must be used for specific questions. Population and samples sizes used for test work should be entered in the fields provided next to the related question.
- The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing 1 transaction, record, or item is not sufficient.
- The sample size should be expanded if the Audit Firm cannot clearly determine whether the District complied with the USFR on that question.
- For questions related to the establishment of policies and procedures, the Audit Firm must gain an understanding of the District's internal controls and perform sufficient test work to determine that the procedures were implemented, followed, and systematically communicated to employees.
- For Governing Board/Management Procedures question 4, the Audit Firm should confirm management's appropriate action to resolve all allegations of theft, fraud, or misuse of District monies or assets by either examining copies of the incident reports or communicating with the agency involved in investigating the allegations. The Audit Firm should also consider if the District's internal controls failed to prevent or detect the theft, fraud, or misuse and include a deficiency in the USFR compliance area where the control failed.

- If the Audit Firm determines that District management was aware of allegations but did not appropriately resolve them in a timely manner (e.g., no action was taken; actions were not documented; actions were delayed, inadequate, or inappropriate to the circumstances), the Audit Firm should answer the question "No." This includes instances where an external investigation is underway for allegations but District Management did not request the investigation, was not fully cooperating with the investigators, or was not otherwise attempting to resolve the allegations.
- If the Audit Firm determines that District management was not aware of any allegations (based on inquiry, review of Governing Board minutes, search of local media coverage, and results of audit test work), the question should be answered "N/A."
- If the Audit Firm finds evidence of theft, fraud, or misuse of District assets but does not find evidence that District management was aware of the possible theft, fraud, or misuse, the Audit Firm should report the incident to the Auditor General's Office, and answer this question "N/A."

- A "Yes" answer indicates that the Audit Firm has determined that the District appears in compliance with the USFR on that question and a "No" answer indicates the District does not comply. However, the final determination of compliance on each question, as well as overall compliance with the USFR, is made by the Auditor General's Office based on the evidence presented in the questionnaire, audit reports, the audit documentation, and any other sources of information available.
- The Audit Firm must adequately explain all "No" answers in the comment box below the question. Deficiencies must be described in sufficient detail to enable the Auditor General's Office to determine the nature and significance of the deficiency for: (a) assessing compliance with the USFR, (b) appropriately describing the deficiency in a report, and (c) testing compliance during a status review. The description should include the number of items tested and the number of exceptions noted, or dollar amount of the error, and any other relevant information that would provide context for the deficiency.
- The Audit Firm must adequately explain all "N/A" answers in the comment box below the question, unless the reason for the N/A is obvious.
- Cash and Revenues questions apply to all the District's cash and revenue, including food service, auxiliary operations, extracurricular activities fees tax credit, and student activities receipts and bank accounts. Comments for "No" answers to these questions should indicate the type of receipt or bank account to which the deficiency applies.
- The questions in the CQ do not address all requirements of the USFR. If the Audit Firm is aware of noncompliance with a requirement of the USFR that is not addressed in the CQ, including the School District Procurement Rules and the Arizona Department of Education's (ADE) membership and attendance guidelines, the Audit Firm should include the compliance findings in its reports issued in accordance with *Governmental Auditing Standards* and *Title 2 U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*), as applicable.

The Audit Firm must make the resulting audit documentation supporting the Audit Firm's answers on the CQ available on request for the Auditor General's Office and the ADE's review. To facilitate this review, the Audit Firm may wish to include in the audit documentation a copy of the CQ with references to the audit procedures performed for each question.

As required by A.R.S. §§15-914(D), Audit Firms must submit the completed USFR CQ with the audit reporting package to the Auditor General's Office and the District's county school superintendent's office, and ADE Grants Management, as applicable. Once the Audit Firm has completed, reviewed, and signed the CQ, it must submit it electronically to the Auditor General's Office by following the instructions at the end of the CQ. Audit Firms should print the file to PDF to create the CQ document to distribute to the District, the county school superintendent's office, and ADE Grants Management.

Uniform System of Financial Records for Arizona School Districts (USFR)
Compliance Questionnaire—FY 2020 Addendum

We understand school districts and audit firms were faced with complex accounting related issues resulting from the COVID-19 pandemic and the State-wide school closure announced on March 15, 2020, and extended through the remainder of the school year by the Governor and Superintendent of Public Instruction. The Arizona Department of Education (ADE) guidance stated that the school closure was not a complete shutdown of school operations and that districts provided continuity in education and critical services during this time. Although the methods of performing district operations may have changed to comply with social distancing recommendations, the *Uniform System of Financial Records for Arizona School Districts* (USFR) and statutory requirements still applied.

Because of the challenges districts faced in all aspects of operations to comply with the State's COVID-19 Executive Orders, we know there may be instances of noncompliance that occurred, and we will take that into consideration when we evaluate districts' fiscal year (FY) 2020 USFR compliance questionnaires. As such, if a district modified its existing internal controls because critical tasks could not be accomplished following the district's typical business process, at a minimum, those modified processes and decisions made should have been documented even if it was after the district had resumed normal operations. This documentation will assist your audit firm as they audit your district.

We want to assure you that we are sensitive to these issues and understand there will need to be some flexibility regarding responses to the FY 2020 USFR compliance questionnaire. Audit firms should consider adding additional information for cited deficiencies to provide detail and context. If a district's previously established processes were not practical in the COVID-19 environment, here are some areas for audit firms to consider when performing audit test work:

- Payroll—In accordance with Laws 2020, Ch. 47, public schools were required to continue to pay all its employees, including hourly employees, for the duration of the State-wide school closure as long as employees committed to being available during work hours and were able to perform tasks remotely. If an employee was unable to work remotely, schools were to re-assign the employee to other tasks they could perform. Therefore, timesheets might not be available to support all payroll payments during the school closure and auditors should consider other support the district maintained for the payment.

- Governing Board meetings and expenditure approvals—The Attorney General issued an Opinion, I20-002 regarding public meetings to comply with social distancing recommendations. Further, to comply with A.R.S. §15-321, districts may have already had procedures in place for Governing Board members to approve expenditure vouchers in-between meetings using an electronic approval process, such as electronic signatures, or implemented similar procedures to comply with the State's social distancing recommendations and Executive Orders.

- Reconciliations—If required reconciliations were not completed timely after March 15, 2020, auditors should consider if the district documented why reconciliations could not be performed and if the district developed a timeline that prioritized the reconciliation of accounts to ensure all reconciliations were completed.

- Cash receipts and deposits—If the established cash receipt and revenue deposit procedures were not practical after March 15, 2020, auditors should consider if the temporary modifications to those operating procedures were necessary, reasonable, and documented and included management's review of those procedures.

- Capital asset inventory—if a capital asset inventory was planned for the Summer of 2020 and inventory testing/observation could not be completed due to limited access to school sites, district management should have rescheduled the physical inventory for the earliest possible date. If a physical inventory was performed with modified procedures, those procedures should maintain the same level of internal control as reasonably possible and those procedures should be documented.

- Procurement—Districts should have continued to follow the procurement rules, as described in the Attorney General's issued Opinion I20-003 and Procurement Guidance during school closures.

- Student attendance—Auditors should verify that the district maintained documentation to demonstrate it provided general educational opportunities to meet the requirements for instructional days and hours as described in ADE's guidance. Further, the State Board of Education approved ADE's waiver for the requirement in A.R.S. 15-901(A)(1), which requires districts to submit absence data at least once every 60 days to ADE, during the school closures.

- Transportation—In FY 2020, ADE did not modify the transportation reporting requirements for miles and student riders. Auditors should verify the District's FY 2020 transportation reporting. ADE will calculate the district's FY 2021 Transportation Support Limit based on the higher of FY 2019 or FY 2020 route miles.

FY20 #	Question	Review procedure
	Governing Board/management procedures–Arizona Revised Statutes (A.R.S.) §38-503	
	Objective: To determine whether the governing board and District management have established and implemented certain procedures as required by statute.	
GBMP01	The District held governing board meetings in accordance with A.R.S. §§38-431 through 38-431.09, and prepared and retained written minutes and/or recordings.	
GBMP02	The District annually provided guidance to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees.	• Review and determine if the District provided guidance to all governing board members and employees on what constitutes a substantial interest. • Review District management's guidance to determine if the District notified all employees that disclosing their substantial interests is required as a part of their employment.
GBMP03	The District annually obtained conflict-of-interest (COI) forms that adequately allowed governing board members and employees to fully disclose a conflict of interest in any contract, sale, purchase, or service, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information.	Review the COI forms and management's review of the forms to determine if information was adequately disclosed and considered for decision making.
GBMP04	The District maintained, for public inspection, a special file with all documents necessary to memorialize all conflict-of-interest disclosures.	Ensure file is maintained and available electronically or hard copy.
GBMP05	Employees or governing board members with reported conflicts, except as provided in A.R.S. §15-323, refrained from voting upon or otherwise participating in any manner in that purchase. A.R.S. §§ 38-502(11) and 38-503(B)	If a conflict was disclosed, consider if the governing board member or employee refrained from participating in any decision-making processes related to that conflict.
GBMP06	The District's management notified the Auditor General's Office and appropriately resolved all allegations of theft, fraud, or misuse of District monies and assets in a timely manner.	Make inquiries of District staff for any known fraud and address internal control deficiencies that created the opportunity to commit fraud. If the answer is other than "N/A," the auditor comment field should include a summary of the allegation and action taken by District management.
GBMP07	The governing board established written personnel and payroll policies and approved employee contracts that included salary and wage schedules, and any other agreed-upon terms of employment.	Ensure employee pay rate forms or contract documents included, as applicable: • number of paid holidays provided to hourly employees, • all agreed-upon terms of employment that included the number of workdays, number of paid holidays, and the number of hours to be worked per day. Verify the District's employees had access to personnel and payroll policies and procedures.

FY20 #	Question	Review procedure
GBMP08	The governing board annually appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	Review the governing board minutes to verify the required appointments were completed annually.
GBMP09	The governing board received monthly Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances that were accurately prepared. A.R.S. §15-1123	Sample the Student Activities reports to determine if they were accurately prepared and presented monthly to the governing board.
GBMP10	The governing board obtained voter approval to construct buildings and purchase or lease school sites, unless otherwise exempted by A.R.S. §15-342(25).	
	Budgeting–USFR IV	
	Objective: To determine whether the District's budget preparation processes ensure that the District properly allocates the monies it receives, stays within those budgets, and accurately informs the public about the use of those monies.	
BUD01	The budget included all funds as required by A.R.S. §15-905 and followed the form's Submission and Publication Instructions.	If no, list the budget requirements that were not complied with.
BUD02	Total budgeted expenditures on the adopted budget for the Maintenance and Operation (M&O) and Unrestricted Capital Outlay Funds (UCO) were less than or equal to the budgeted amounts on the published proposed budget. A.R.S. §15-905(E)	
BUD03	Total budgeted expenditures on the adopted budget for the M&O Fund and UCO Fund were within the general budget limit and the total budgeted expenditures. If not, and ADE notified the District, the District followed the requirements of A.R.S. §15-905(E).	This question applies to those districts that ADE had notified as needing a December budget revision in the BUDG-25 Budget Verification letter.
BUD04	The District completed its revised expenditure budget before May 15 and filed it electronically with the county school superintendent (CSS) and the Superintendent of Public Instruction by May 18. A.R.S. §15-905(I)	This question should be answered if the District chose to revise its expenditure budget, as a revised budget is not required.
BUD05	The District reduced the budget by the prior year's overexpenditure (or a portion of the prior year's overexpenditure, as approved by the Superintendent of Public Instruction) or the District committed to correcting its prior year's data. A.R.S. §§15-905(M) and 15-915	
	Accounting records–USFR VI-B	
	Objective: To determine whether the District accurately maintains accounting records to provide support for financial information. Test work should indicate the procedures performed to document what processes and controls the District has in place to reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies, such as tracing detailed source documents to the District's trial balance that agree to the financial statements.	

FY20 #	Question	Review procedure
AR01	The District coded transactions in accordance with the USFR Chart of Accounts.	Transactions auditors select for test work from accounting records, expenditures, travel, credit cards, journal entries, property control, payroll, and Classroom Site Fund (CSF) should be reviewed to determine transactions were coded properly.
AR02	The District separated responsibilities to initiate, approve, and record journal entries and transfers so that 1 individual did not have complete authority over a transaction.	• Determine that the procedures used to initiate, authorize, record, and process journal entries in the general ledger were properly separated among the staff. • If adequate separation was not possible due to the District's limited staff size, determine that adequate management review procedures were in place to compensate for employees performing incompatible functions. • Describe management's review procedures in place to compensate for employees performing incompatible functions. • Determine that the reconciliations to the CSS/county treasurer were completed by someone other than the employee who prepared the deposits.
AR03	The District sequentially numbered journal entries and retained supporting documentation and evidence the journal entry was signed, dated, and approved by someone other than the preparer.	• Scan the journal entry report to verify the journal entries are sequentially numbered. • Verify journal entries were approved, signed, and dated by someone other than the preparer. • Provide the total number of **adjusting journal entries** that were posted during the fiscal year in the comment field.
AR04	The District transferred monies only between funds listed in the USFR §III Chart of Accounts–Authorized Transfers.	
AR05	The District documented and dated a monthly review of financial transactions the CSS initiated (i.e., revenue or journal entries) for propriety and researched and resolved any differences.	Verify differences were researched, resolved, documented, and dated.
AR06	The District reconciled cash balances by fund monthly with the CSS or county treasurer's records, and properly supported, documented, and dated the reconciliations.	Verify differences were researched, resolved, documented, and dated. Accounting Responsibility Districts would also need to ensure their funds were properly reconciled.
AR07	The District reconciled revenues, expenditures, expenses, and cash balances (as applicable) by fund, program, function, and object code at least at fiscal year-end with the CSS or county treasurer's records, and the reconciliation was reviewed and properly supported.	Verify reconciling differences were researched, resolved, documented, and dated.

FY20 #	Question	Review procedure
AR08	The District prepared reports that reconciled sales to cash collected at student activities events.	Confirm reconciliations of sales to cash collected were completed using: • documented tickets, • sequentially numbered cash receipts, • a cash register, or • a count of items on hand before and after a sale.
	Cash and revenue–USFR VI-C and F	
	Objective: To determine whether the District maintained controls over cash transactions to safeguard monies, protect employees involved in handling monies from accusations of misuse, and reduce the risk of theft or loss. Test work for cash and revenue should document how the processes work, employees involved in those processes, and how the processes were verified.	
CR01	The District closed any bank accounts that were inactive or not authorized by statute.	List any unauthorized or inactive accounts, including the account name, amount, purpose, and status.
CR02	The District used an M&O Fund revolving bank account in accordance with A.R.S. §15-1101.	• Determine the M&O Fund revolving bank account was established from the M&O Fund in an amount approved by the governing board and operated on an imprest basis. • Confirm all reimbursements for revolving bank account expenditures were made by June 30 so that expenditures were reported in the proper accounting period. • Determine the expenditures were only for immediate cash outlay. • Confirm the District refrained from paying taxable travel reimbursements, salaries, and wages from the account.
CR03	The District used miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	Confirm disbursements were made only by electronic payment or check payable to the county treasurer at least monthly.
CR04	The District used a Food Service Fund clearing bank account(s) in accordance with Arizona Attorney General Opinion I60-35.	Confirm disbursements were made only by electronic payment or check payable to the county treasurer at least monthly.
CR05	The District used a Food Service Fund revolving bank account in accordance with A.R.S. §15-1154.	Confirm the Food Service Fund revolving account was established from the Food Service Fund in an amount approved by the governing board that did not exceed $500 and operated on an imprest basis.
CR06	The District used an Auxiliary Operations Fund bank account in accordance with A.R.S. §15-1126.	• Determine petty cash funds were established from the Auxiliary Operations Fund in amounts approved by the governing board and operated on an imprest basis. • Confirm Auxiliary Operations Fund bank account checks were signed by 2 employees designated by the governing board.

FY20 #	Question	Review procedure
CR07	The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics and were supported by appropriate documentation.	Determine: • Prenumbered cash receipt forms or tickets were issued to document cash collected, • Daily cash collection summaries were prepared and reconciled to sales reports/tickets issued, and • Cash was deposited intact daily, or at least weekly.
CR08	The extracurricular activities fees tax credit monies were included in the Auxiliary Operations Fund and/or separately accounted for in an Extracurricular Activities Fees Tax Credit Fund.	Verify extracurricular activities fees tax credit monies were deposited in the Auxiliary Operations bank account or Treasurer's account.
CR09	The District used the Auxiliary Operations Fund revolving bank account(s) in accordance with A.R.S. §15-1126.	Confirm Auxiliary Operations Fund revolving bank accounts were established from the Auxiliary Operations Fund in amounts approved by the governing board and operated on an imprest basis.
CR10	The District used the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	Confirm checks written from the Student Activities Fund bank account were signed by the student activities treasurer or assistant treasurer and 1 other person authorized by the governing board.
CR11	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	
CR12	The Student Activities Fund deposits were properly supported and included only student clubs' and organizations' monies that were raised through the efforts of students with the approval of the governing board.	Determine student activities monies were approved by the governing board and the student clubs and did not include any raffles, bingo, or other forms of gambling, which are not legal events for student clubs.
CR13	The District used the Student Activities Fund revolving bank account in accordance with A.R.S. §15-1124.	• Confirm the Student Activities Fund revolving bank account was established from the M&O Fund in an amount approved by the governing board and operated on an imprest basis. • Verify revolving account monies were returned to the credit of the M&O Fund at the end of the fiscal year.
CR14	The District used the federal payroll tax withholdings bank account in accordance with USFR page VI-H-6.	
CR15	The District used the State income tax withholdings bank account in accordance with A.R.S. §15-1222.	
CR16	The District used the employee insurance programs withholdings bank account(s) in accordance with A.R.S. §15-1223.	
CR17	The District used the payroll direct deposits clearing bank account in accordance with A.R.S. §15-1221.	Determine the account was used only for direct deposit payments to employees' banks, which would include amounts withheld for federal savings bond plans and should be maintained at a $0 balance.

FY20 #	Question	Review procedure
CR18	The District used the electronic payments clearing bank account in accordance with A.R.S. §15-1221.	Determine the account was used only for making electronic payments to vendors, including the Arizona State Retirement System (ASRS), and should be maintained at a $0 balance.
CR19	The District used the grants and gifts to teachers bank account in accordance with A.R.S. §15-1224.	
CR20	The District used the principals' supplies bank account(s) in accordance with A.R.S. §15-354.	
CR21	The use of debit cards was prohibited as a payment method associated with any District bank account.	Determine debit cards were not used as a payment method. List all bank accounts with debit cards.
CR22	The District paid bank charges from only the M&O Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.	Scan the bank statements to identify any bank charges and ensure the charges were appropriate for the account or were reimbursed to the appropriate fund or bank account.
CR23	The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.	Determine responsibilities for cash-handling and recordkeeping were separated among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies. • If adequate separation was not possible due to the District's limited staff size, determine adequate management review procedures were in place for handling monies related to bookstores, auxiliary operations, food service, student activities, and miscellaneous receipts to compensate for employees performing incompatible functions. • Describe management's review procedures in place to compensate for employees performing incompatible functions. • Confirm cash received was safeguarded in a locked cash drawer, cash register, or other secure location immediately upon receipt, and access was limited to only those employees who required access.
CR24	The District adequately supported deposits with issued receipts, cash receipt summary reports, mail logs, etc., and reconciled sales to amounts collected with summary reports or ticket logs.	Determine all sampled cash receipt types (i.e. miscellaneous, student activities, auxiliary operations, food service, etc.) were adequately supported. The term "cash" includes currency on hand, such as petty cash funds and cash receipts not yet deposited; and negotiable instruments, such as drafts, checks, warrants, credit card transactions, and money orders.

FY20 #	Question	Review procedure
CR25	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal supporting documentation.	For all deposits tested confirm: • Cash received was deposited intact daily, when significant, or at least weekly. • Validated deposit slips or other evidence indicating the amount and date of deposit were retained for deposits in District bank accounts or with the county treasurer and were agreed to applicable bank deposit slips or other deposit transmittal supporting documentation. • Monies deposited were accompanied by a deposit transmittal form or a treasurer's receipt. Scan deposits to ensure deposit slips are sequentially numbered.
CR26	The District's deposits and cash balances with the county treasurer were reconciled.	• Confirm all validated treasurer's receipts or revenue posting reports were reconciled to the accounting records and to copies of deposit transmittals or treasurer's receipts. • Determine cash balances were reconciled to the county treasurer's records at least monthly either by the CSS or the District.
CR27	The District retained supporting documentation for disbursements from bank accounts.	Confirm all disbursements from bank accounts were made with sequentially numbered checks or electronic fund transfers and supporting documentation was retained.
CR28	The District safeguarded unused checks.	• Observe if unused checks were stored in a secure location and access to them limited to only authorized personnel who were not check signers. (Not applicable to revolving funds as the revolving fund custodian should maintain the checks.) • Verify the District refrained from pre-signing blank or incomplete checks and writing checks payable to cash or bearer.
CR29	The District safeguarded signature stamps, signature plates, and electronic or digital signatures used for approving accounting transactions, checks, and other District documents to ensure that access was limited to only the employee whose signature they represented.	
CR30	All District bank accounts were reconciled monthly by an employee not involved with cash handling or issuing checks, or reconciliations were reviewed, signed, and dated by an employee independent of the cash-handling process.	• Determine District bank accounts were reconciled monthly by an employee not involved with cash handling or issuing checks, or reconciliations were reviewed, signed, and dated by an employee independent of the cash-handling process. • If adequate separation was not possible due to the District's limited staff size, describe management's review procedures to determine that adequate management review procedures were in place to compensate for employees performing incompatible functions. • Describe management's review procedures in place to compensate for employees performing incompatible functions.

FY20 #	Question	Review procedure
CR31	The District tracked and reconciled the number of meals sold to the total cash collected per day.	• Verify that a method, such as prepayment accounts, student ID, or meal tickets was implemented to track the number of meals sold and the total cash collected per day. • Confirm cash overages and shortages were researched, resolved, documented, and dated.
	Supplies inventory–USFR VI-D	
	Objective: To determine whether the District has controls in place to help physically safeguard and report inventories to prevent theft, overstocking, understocking, spoilage, and obsolescence.	
SI01	The District physically safeguarded supply inventories to prevent unauthorized use, theft, damage, and obsolescence and enable accurate financial reporting.	• Review the District's process for maintaining supply inventories, such as office supplies, food service supplies and food, auto parts, and fuel as applicable, and determine if the process is adequate to safeguard District resources. • If a perpetual inventory was maintained, determine supplies inventory records were investigated and adjusted to account for significant physical count differences when an actual physical inventory was performed. • Confirm supplies inventory list(s) were maintained that included item and unit descriptions, purchase document numbers, quantities, unit costs, extended costs, page totals, and a grand total prepared at the end of each fiscal year for all supplies, including donated items.
	Property control–USFR VI-E	
	Objective: To determine whether the District has effective controls to safeguard property from theft and misuse since significant resources are invested in acquiring and maintaining District property. Test work should be completed on a sample basis annually and documented to ensure that land, buildings, and equipment are properly valued, classified, and reported on the stewardship and capital assets lists.	
PC01	The District maintained a capital assets list that included all required information listed in the USFR for all land, land improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold. USFR page VI-E-3	• Indicate the method/program the District used to maintain the capital assets list (i.e., Visions, Excel, etc.). • Confirm the District had a method to track depreciation information that conformed to Generally Accepted Accounting Principles for all depreciable capital assets.
PC02	The District had security controls in place to help prevent theft, loss, unauthorized use, or damage to District property.	Determine security controls were in place based on test work and physical observation of the District's premises.
PC03	The District recorded additions on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	Based on test work, review supporting documentation to determine all capital acquisitions were added to the capital assets list (after all encumbrances had been included in the accounting records). The District should retain all related documentation for the life of the asset.

FY20 #	Question	Review procedure
PC04	The District's stewardship list for items costing at least $1,000 but less than the District's capitalization threshold included the location, identification number, and description, and was updated for any acquisition, transfer, or disposal.	• Review the stewardship list to determine if it contained all the required information. • Indicate the method/program used to maintain the stewardship list (i.e., Visions, Excel, etc.).
PC05	The District properly tagged assets and updated asset lists.	Select at least 5 equipment items from the stewardship and capital assets lists and at least 5 items from the premises to determine the location and identifying number affixed to the asset agreed to the information recorded on the corresponding list.
PC06	The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.	Determine that the capital assets lists were updated for acquisitions, transfers, or disposals.
PC07	The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.	Determine that a physical inventory of all equipment was completed and reconciled in the last 3 years. • Confirm the District developed physical inventory instructions. • Verify the inventory was conducted by an employee independent of capital asset purchasing, custodial, and recordkeeping responsibilities. • The District's last physical inventory was performed on _____. • The date the reconciliation was completed_____.
PC08	The governing board approved stewardship and capital asset items disposed of during the fiscal year, and the assets were removed from the corresponding list and disposed of in accordance with Arizona Administrative Code (A.A.C.) R7-2-1131(C).	Date(s) disposals were approved by the governing board: _____.
	Expenditures–USFR VI-G	
	Objective: To determine whether the District has effective controls for expenditures in place to ensure expenditures are for an allowable District purpose. Test work should document processes and controls that demonstrate expenditure transactions are properly approved, are for an amount within budget capacity or available cash, and protect employees from allegations of misuse.	
EXP01	The District separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).	• Determine responsibilities were separated for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization). • If adequate separation was not possible due to the District's limited staff size, determine that adequate management review procedures were in place to compensate for employees performing incompatible functions.

FY20 #	Question	Review procedure
EXP02	The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in A.R.S. §§15-207, 15-304, 15-907, and 15-916.	• Review the District's procedures to determine, as applicable, if encumbrance amounts are in place prior to releasing a PO. • Determine that the District has controls over POs, such as sequentially numbered POs and blanket POs that include a definite time period and specific dollar limit. • Confirm POs were approved by authorized district personnel.
EXP03	The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent, and were adequately supported by documentation required by the USFR.	• Select expenditures from a variety of District funds and determine the expenditures were allowable and supported by required documentation, such as receiving reports that documented the date of receipt, quantity received, and signature of the recipient for all goods and services received, vendor invoices, and purchase orders to confirm prices and quantities were verified before payments were issued to vendors. • Verify invoices were stamped "paid" or otherwise marked to help prevent duplicate payments.
EXP04	The District's extracurricular activities fees tax credit monies were expended only for eligible activities that qualified under A.R.S. §§43-1089.01 and 15-342(24).	Based on the sample, determine tax credit monies were spent only on activities that qualified under A.R.S. §§43-1089.01 and 15-342(24). (See the Arizona Department of Revenue's website for guidance at: www.azdor.gov/ReportsResearch/SchoolTaxCredit.aspx.)
EXP05	The District's Student Activities Fund disbursements and transfers of monies among student clubs were issued only when cash was available in the student club account and properly authorized by or on behalf of the student members of a particular club and documented in the club minutes.	
EXP06	The District's invoices were periodically compared to awarded contracts, including cooperative contracts, to verify billing amounts were correct and the contract terms and conditions were being met.	Determine the District had implemented and followed a procedure/system to verify invoice pricing to contract pricing agreed. If pricing did not agree, documentation should include an authorized reason for the difference or what action was taken to remedy the difference.
EXP07	The District prepared an Advice of Encumbrance for levy funds with the list of liabilities for goods or services received but not paid for by June 30, including payroll, and filed it with the CSS by July 18. A.R.S. §15-906 (Districts authorized by A.R.S. §15-914.01 to participate in the accounting responsibility program should perform the duties as described in A.R.S. §15-304.)	Review documentation that supported the amounts on the Advice of Encumbrance and confirm it was filed with the CSS as required.

FY20 #	Question	Review procedure
EXP08	The District properly prepared the Career Technical Education District (CTED) Supplanting worksheet and adequately supported that monies received from a CTED were used only for vocational education and to supplement, rather than supplant, the District's base year vocational education spending.	
EXP09	The District retained fully executed copies of each intergovernmental agreement (IGA) and payments for services were made or received, as applicable. A.R.S. §11-952	If the District was a fiscal agent, confirm the IGA monies were maintained in the appropriate fund at the County Treasurer, and a monthly financial report of receipts and disbursements was provided to participants.
	Travel–USFR VI-I	
	Objective: To determine whether the District implemented effective controls to ensure employees were traveling for District purposes and appropriately compensated.	
TRA01	The District's travel expenditures (lodging, meals, and incidentals) and mileage reimbursements were for District purposes and reimbursed within the maximum reimbursement amounts established by the Director of the Arizona Department of Administration. Amounts were reimbursed or reported as a taxable employee benefit if no overnight stay or no substantial sleep/rest occurred, in accordance with governing board prescribed policies and procedures.	Review a sample of travel expenditures to determine if they were properly supported by receipts or conference brochures and rates were confirmed by the District prior to reimbursement. Ensure amounts were within allowable maximums and indicate the amount of any overpayments.
	Credit cards and purchasing cards (p-card)–USFR pages VI-G-15 through 20	
	Objective: To determine whether the District has implemented effective controls over credit card and p-card purchases to help reduce the risk of misuse and unapproved or fraudulent transactions.	
CPC01	The District used credit cards.	List the number and type of credit cards including store cards and fuel cards.
CPC02	The District used p-cards.	List the number and type of p-cards.
CPC03	The District ensured different employees were responsible for issuing cards; requesting, authorizing, and executing purchases; and payment processing.	
CPC04	The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.	Determine: • District maintained a complete list/log of card users to track card possession. • Cards were issued with defined dollar limits based on the card or transaction type. • Annual training and signed card user agreements were required and retained for all users that outlined card use policies and procedures, including possible disciplinary actions for misuse.

FY20 #	Question	Review procedure
CPC05	The District recovered cards immediately from terminated employees.	Verify the District had recovered any cards from card users who had terminated employment with the District.
CPC06	The District's management periodically reviewed purchases for unauthorized vendors and purchases over approved limits and/or purchases that circumvent the procurement rules and District policies.	Confirm management periodically reviewed credit card purchases and vendor usage as a fraud risk prevention measure to confirm procurement rules and District policies were not circumvented.
CPC07	The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.	• Confirm billing statements were received at the District office. • Review the reconciliation for completeness/accuracy and confirm they were completed by someone who was not a card user.
CPC08	The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.	Scan the statements for any unusual or inappropriate purchases on the statements selected. • Determine the District verified the quantity and quality of goods received that were prepaid, such as items purchased online or by phone or fax, before payment was issued.
CPC09	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	Based on credit card statements reviewed, determine if there were any finance charges or late fees paid.
	Procurement–USFR VI-G and A.A.C. R7-2-1001 et seq	
	Objective: To determine whether the District followed the School District Procurement Rules and USFR purchasing guidelines to promote fair and open competition among vendors that helps ensure the District is getting the best value for the public monies it spends.	
	The Audit Firm must select and test a specified number of procurements performed during the fiscal year based on the District's ADM: <1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15) The listed sample sizes represent the minimum level of required test work. The Audit Firm should use their judgment in determining whether a larger sample is needed. Of the total awarded contracts selected for testing, at least 40 percent must be for competitive sealed bids (IFB) and at least 40 percent must be for competitive sealed proposals (RFP). If these 40 percent thresholds cannot be met due to an inadequate population size, the audit firm must test all contracts made through IFBs or RFPs, as applicable. Of the contracts selected, at least 1 awarded contract should be for traditional construction (design-bid-build), and at least 1 for qualified select bidders list, or construction-manager-at-risk, design-build, job-order-contracting (question 11), and specified professional services (question 15), as applicable. If the District acted as a lead district in a cooperative purchase, at least 2 of these contracts should be included in the sample selected (question 21). In the parentheses provided below, indicate the actual number of contracts tested: Based upon review of (___) contracts, (___) IFBs and (___) RFPs from the (____) total contracts awarded during the fiscal year, determined the following:	
PRO01	The District obtained at least 3 written quotes for purchases costing at least $10,000 but less than $100,000 and followed the guidelines prescribed by the USFR.	

FY20 #	Question	Review procedure
PRO02	The District properly procured expenditures that individually or cumulatively totaled over $100,000.	Examine expenditures over $100,000, by vendor or like-items (vendor total list), and discuss with District the procurement performed. Auditors should determine the population for current year procurements based on this analysis and discussion. Auditors should also consider the procurement for School Facilities Board projects, if any. If District did not properly procure an expenditure, document the deficiency here.
PRO03	The District maintained a list of prospective bidders. R7-2-1023	Determine if the District compiled and maintained a list of persons who requested to be added to a list of prospective bidders, if any, and furnished those bidders with notice of available bids.
PRO04	The District issued solicitations for invitation for bids (IFB) or request for proposals (RFP) during the fiscal year.	• Test work should be performed only on solicitations issued during the FY audited. If the District did not issue any solicitations during the year, answer this question No and questions PRO05 – PRO14 will automatically populate as N/A. • For all procurement questions, the audit firm must refer to the School District Procurement Rule(s) cited in the question to confirm the District complied with the specific requirement(s). • If an answer is "No," specifically indicate which requirements were not complied with.
PRO05	The District published and, as applicable, provided other adequate notice of the issuance of solicitations. R7-2-1022, R7-1024(C) or R7-2-1042(C)	
PRO06	The District issued solicitations at least 14 days before the time and date set for bid opening or the closing date and time for receipt of proposals, R7-2-1024(A) or R7-2-1042(B)	
PRO07	The District included all required content in the solicitation, as applicable. R7-2-1024(B) or R7-2-1042(A)	Review the solicitation documentation and the uniform general terms and conditions and special terms and conditions, and determine they contained all the required content, and the requirement that bidders/offerors have taken steps to ensure no violation of A.R.S. §15-213(O) has occurred.
PRO08	The District recorded the time and date that sealed bids or proposals were received and stored bids or proposals unopened until the time and date set for opening. R7-2-1029 or R7-2-1045	

FY20 #	Question	Review procedure
PRO09	If the District awarded multiple contracts, it established and followed procedures for the use and award of multiple contracts. R7-2-1031(D) and R7-2-1050(C)	Ensure: • The District included in the solicitation(s) notification that multiple contracts may be awarded, the District's basis for determining whether to award multiple contracts, and the criteria for selecting vendors for the multiple contracts. R7-2-1031(C) and R7-2-1050(B) • The District determined, with the specific reason(s) in writing, that a single award was not advantageous to the District and retained documentation that supported the basis for a multiple award. R7-2-1031(D) and R7-2-1050(C) • The District limited contract awards to the least number of suppliers necessary to meet the requirements of the District. R7-2-1031(D) and R7-2-1050(C)
PRO10	The District awarded contracts according to R7-2-1031, R7-2-1032, R7-2-1046(A)(1), or R7-2-1050 and retained documentation to support the award(s).	Determine: • For contracts where only 1 responsive bid or proposal was received, the District followed the requirements of R7-2-1032 or R7-2-1046(A)(1) and retained documentation for that determination. • For purchases made through an IFB, contracts were awarded to the lowest responsible and responsive bidders whose bids conformed to the requirements and evaluation criteria set forth in the IFB. R7-2-1031 • For purchases made through an RFP, contracts were awarded to the offerors determined to be the most advantageous, based on the factors set forth in the RFP, and documentation was retained for the determination. R7-2-1050
PRO11	If the District procured construction projects that used construction-manager-at-risk, design-build, or job-order-contracting to procure construction services, it complied with the requirements of R7-2-1100 through R7-2-1115.	
PRO12	The District's procurement files contained signed procurement disclosure statements for all employees with job responsibilities related to each procurement and for all nonemployee consultants or technical advisors involved in each procurement process. R7-2-1008(C) and R7-2-1015	Confirm that in addition to requiring a procurement disclosure statement, the District reviewed and considered all conflict-of-interest disclosure statements for those employees, nonemployee consultants, and/or technical advisors with job responsibilities related to procurement.
PRO13	The District's procurement files included applicable written determinations as required throughout the procurement rules.	Based on the type of procurement, determine any required determinations were made either within the solicitation or a copy of the determination was maintained in the procurement file.

FY20 #	Question	Review procedure
PRO14	The District followed A.R.S. §15-213 and R7-2-1093 for the use of multi-term contracts.	Determine: • The terms and conditions of renewal or extension, if any, were included in the IFB or RFP. A.R.S. §15-213(L) and R7-2-1093 • For materials or services and contracts for job-order-contracting construction services that were entered into for more than 5 years, the governing board determined in writing that a contract of longer duration would be advantageous to the District before the procurement solicitation was issued. A.R.S. §15-213(L) and R7-2-1093
PRO15	The District followed R7-2-1117 through R7-2-1123 for contracts for specified professional services.	
PRO16	The District's procurement files included the required information, as applicable. R7-2-1001(96)	Based on the procurement files tested in the questions above.
PRO17	The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of $300 or more. (Effective for all procurements July 1, 2020, and thereafter.) A.R.S. §15-213(N) and R-7-2-1003)	Determine for pertinent employees (those who supervise other employees or participate in the planning, recommending, selecting or contracting for materials, services, goods, construction, or construction services of a school district or school purchasing cooperative) the District provided guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of $300 or more. A.R.S. §15-213(N)
PRO18	The District used only school district purchasing cooperatives contracts from cooperatives it was a member of or used only lead district contracts that it was listed as a member of in the solicitation. R7-2-1191 through R7-2-1195	Determine: • The District retained cooperative purchasing agreements on file for each cooperative or lead district it used. • The District did not use another district's or cooperative's contract for purchasing goods or services unless the District was included in the original solicitation.
PRO19	The District performed due diligence to support the use of each cooperative or lead district contract the District made purchases from during the audit period.	• Indicate the name of each cooperative or lead district used. • Determine if the District's due diligence process for purchases made from cooperative contracts complied with the School District Procurement Rules.
PRO20	The District prepared written determinations for any specified professional services, construction, construction services, or materials purchased through a school purchasing cooperative, including how the determination was made. R7-2-1004	Confirm the District followed its prescribed method and procedures to prepare written determinations when choosing to use a cooperative contract as required by R7-2-1004.

FY20 #	Question	Review procedure
PRO21	The District, when acting as a lead district in a procurement, followed the procurement procedures required for competitive sealed bidding or competitive sealed proposals, as applicable, and considered the total estimated volume of purchases for all public procurement units identified in the solicitation. R7-2-1011	Determine: • The District followed the procurement procedures required for IFBs or RFPs, as applicable. • The District identified the total estimated volume of purchases for all public procurement units in the solicitation. R7-2-1011 Indicate in the comments the number of contracts the Districts procured as a lead district.
PRO22	For all emergency procurements, the District retained a written statement documenting the basis for the emergency, the selection of the particular contractor, and why the price paid was reasonable, and this statement was signed by the individual authorized to initiate emergency procurements. R7-2-1055 and R7-2-1056	
PRO23	The District's governing board approved all sole-source procurements before any purchases were made, and the written determinations were retained in the procurement files. R7-2-1053	Confirm the governing board minutes include written determinations for all sole source determinations prior to making purchases or entering a contract, including the specific reasons for a vendor being determined sole source as well as the dollar amount of purchase.
PRO24	For any purchase of services from governing board members or goods or services from District employees, regardless of the expenditure amount, the District followed the School District Procurement Rules, except as authorized by A.R.S. §15-323.	• Based on discussion with the District and review of the vendor totals list, identify any purchases from governing board members or employees and determine if the purchases were completed appropriately. A.R.S. §38-503(C) • See exceptions in A.R.S. §15-323(B) and (C).
PRO25	The District followed the School District Procurement Rules for purchases of any supplies, materials, and equipment from governing board members if the purchase exceeded $100,000 or followed the guidelines for written quotes if below the threshold. A.R.S. §38-503(C)	Based on discussion with the District and review of the vendor totals list, identify any purchases from governing board members or employees and determine if the purchases were completed appropriately.
PRO26	For purchases the District made from General Services Administration (GSA) schedules 70-IT and 84-Law Enforcement, the governing board first authorized the contracts in writing. A.R.S. §15-213(K) and R7-2-1196(C)	Confirm the governing board minutes included written approval for purchases from a GSA contract.
	Classroom Site Fund–A.R.S. §15-977	
	Objective: To determine whether the District appropriately spent these State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as allowed by law.	
CSF01	The District's total Classroom Site Fund (CSF) revenues were properly allocated among the following funds: 011–Base Salary (20%), 012–Performance Pay (40%), and 013–Other (40%), and expenditures in the CSFs (011-013) were within the CSF budget limit.	If the District exceeded the limit in any of the individual CSFs, determine the expenditures were appropriately reallocated to the M&O or other allowable fund.

FY20 #	Question	Review procedure
CSF02	For Fund 011, expenditures were only for teacher base salary increases, employment-related expenses, and registered warrant expense.	
CSF03	For Fund 012, expenditures were made only in accordance with the governing-board-adopted, performance-based teacher compensation system, including employment-related expenses and registered warrant expense.	
CSF04	For Fund 013, expenditures were only for class size reduction, teacher compensation increases, assessment-intervention programs, teacher development, dropout-prevention programs, teacher liability insurance premiums, and registered warrant expense, and not used for school-sponsored athletics.	Determine expenditures from Fund 013 were for allowable purposes and used only for instructional purposes as defined under the instruction function in the USFR Chart of Accounts and not used for school-sponsored athletics.
CSF05	The District's teacher base salary increases (Fund 011), performance-based teacher compensation increases (Fund 012), and monies spent from Fund 013 for teacher compensation increases were paid only to employees possessing a teaching certificate and employed to provide instruction related to the District's educational mission. Arizona Attorney General Opinion I13-005	
CSF06	The District's CSF revenues and expenditures were recorded in the separate CSFs (011-013) throughout the fiscal year rather than only at year-end.	
CSF07	The District's CSF monies were used to supplement, rather than supplant, existing funding from all other sources. (See USFR Memorandum No. 194.)	
CSF08	The District's budget balances remaining at year-end in any of the 3 CSFs (011-013) were carried forward in the same funds to ensure that the restrictions placed on the original allocation of revenues were applied in future years.	

FY20 #	Question	Review procedure
	Payroll–USFR VI-H	
	Objective: To determine whether the District has implemented effective controls to reduce the risks associated with payroll expenditures by documenting evidence of review, verification, and approval to ensure employees are appropriately compensated.	
PAY01	The District's payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) were separated among employees.	• Determine if the District separated payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) among employees. • If separating payroll processing was not possible due to the District's limited staff size, determine if adequate management review procedures were in place to compensate for employees performing incompatible functions.
PAY02	The District established a delayed payroll system for hourly employees that did not delay payments more than 7 business days during its normal 2-week payroll processing cycle and allowed adequate time for payroll adjustments to be made, if needed, between the end of the pay period and the payment date.	Determine the payroll system allowed processing time for any payroll adjustments to be made between the end of the pay period and the payment date and that did not delay payments more than 7 business days during its normal 2-week payroll processing cycle.
PAY03	The District required employees' contracts or personnel/payroll action forms to document the employees' election for prorated compensation.	Confirm employees completed prorated compensation elections before beginning work and no changes were made after work had begun.
PAY04	The District ensured any adjustments to pay for employees who received prorated wage payments during the year were based on each employee's official rate of pay.	
PAY05	The District ensured hourly employees were not paid for more than the actual hours worked to date.	• Determine the District had a procedure in place to review employee hours worked to identify any overpayments at any point throughout the year. • Test hourly employee payroll payments to determine employees were not paid for more than the actual hours worked to date.
PAY06	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	For employees selected for payroll testwork, verify the employee files contained all the required documents. If not, determine the District had a plan to obtain the required documents.
PAY07	The District ensured that valid fingerprint clearance cards were on file for all required personnel and a method to identify employees whose cards were going to expire was in place. A.R.S. §§15-342 and 41-1750(G)	• Review the District's method to obtain and track employees' fingerprint clearance cards and other credentials and monitor expiration dates. • Based on the sample in #PAY06 or based on review of the District's list, verify the District maintained valid fingerprint clearance cards for required personnel.
PAY08	The District enrolled employees who met the ASRS membership criteria, withheld employee contributions, and in a timely manner remitted employee and District contributions in accordance with the ASRS Employer Manual.	• Determine that employees who met the membership criteria were enrolled in ASRS. • Confirm employee and District contributions were submitted timely and in accordance with ASRS requirements.

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PAY09	The District accurately calculated and in a timely manner remitted the alternative contribution rate payments to ASRS for all applicable positions filled by ASRS retirees. (https://www.azasrs.gov/content/alternate-contribution-rate)	
PAY10	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment.	Verify the District had a system in place (computer-based program or spreadsheet) to compare employee leave requests to the system balances that were used for the accrual and use of vacation, sick leave, and compensatory time for all employees and verify the accuracy of that system.
PAY11	Attendance records were prepared for each pay period for each employee subject to the Fair Labor Standards Act (FLSA) and were approved by the employee and the employee's supervisor.	Determine District employees subject to FLSA and review timesheets for proper approval.
PAY12	The District's payroll was properly reviewed and approved before processing and distribution to employees.	Review prepayroll registers or payroll registers to determine they were supported by authorized notifications of: • Employment. • Terminations. • Pay rate changes. • Withholding and voluntary deduction authorization forms. • Documentation of additional duty pay rate or hours and evidence work was performed. • Work attendance/leave records. • Determine all supporting documents were reviewed and approved before final completion and warrants and direct deposit amounts were reviewed prior to distribution to employees. • Indicate the amount of any over/under payments identified.
	Financial reporting–USFR VII	
	Objective: To determine whether the District properly prepared its financial reports, including its Annual Financial Report (AFR), for the audit year to provide legislative and oversight bodies, investors and creditors, and the public a transparent view of the District's financial position and operational results.	
FR01	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	
FR02	The District reported revenue and expenditure amounts on the AFR that agreed with the District's accounting records and applicable supporting documentation.	Verify the District did not post transactions or adjusting entries to the data file after preparing the AFR. Audit firms may forgo writing a deficiency for rounding errors.
FR03	The District prepared the AFR and AFR summary (if one was prepared) with all information as required by A.R.S. §15-905 and followed the AFR Review, Submission, and Publication Instructions.	

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FR04	The District properly prepared the Food Service page of the AFR and reported expenditures from the M&O Fund 001 and Capital Fund 610 that agreed with the District's accounting records.	Verify reported amounts were properly coded and agreed to the District's accounting records, including the federal match.
FR05	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	
FR06	The District's website included its average teacher salary and a copy of or a link to the District's page from the most recent Auditor General's District Spending Report.	
FR07	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely.	• Review the District's process to prepare and submit the SDER. • Compare SDER with payroll reports to confirm full time equivalents and salaries were accurately reported. • Confirm the District filed the SDER report with ADE by October 15 and corrections were made within the February 1 to March 1 deadline.
	Student attendance reporting–ADE's School Finance External Guidelines	
	Objective: To determine whether the District has implemented effective controls to report accurate student membership and attendance information to ADE to reduce the risk that the District received an inappropriate amount of State aid and/or local property taxes.	
SAR01	The District's calendar ensured school was in session for the required days and offered students the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in A.R.S. §§15-808(J)(1),15-901(A)(1), and 15-901.07.	Review the District's calendar and bell schedule(s) to confirm requirements have been met.
SAR02	If the District had an early (pre-) kindergarten program, the District calculated and submitted membership information for early (pre-) kindergarten students' attendance records for this program only for students with disabilities. A.R.S. §15-901(A)(1)(a)(i) and USFR Memorandum No. 175	Select at least 3 student attendance records.
SAR03	The District appropriately tracked and reported student membership and absences.	Select number of attendance records shown in parentheses based on District's ADM: • For elementary & junior high - <1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15); • For high school, CTED or AOI - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR04	The District prorated high school students' membership if enrolled in less than 4 subjects.	Select number of attendance records shown in parentheses based on District's ADM: • For high school -<1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7)

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SAR05	The District was a CTED or CTED member.	
SAR06	The District had an AOI program.	
SAR07	For students enrolled in a program provided by a CTED in a facility the District owned or operated (satellite programs), the District reported the actual enrollment for only the District classes the student was enrolled in at the District's school (excluding CTED program classes) under the District's CTDS number.	Select number of students shown in parentheses based on ADM for high school, CTED, or AOI - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7)
SAR08	For students enrolled in a program the CTED provided in a facility the District owned or operated (satellite programs), the District calculated student absences in accordance with ADE's methods based on the number of District classes the student was enrolled in and attended at the District's school (excluding CTED satellite program classes).	Select number of students shown in parentheses based on ADM for high school, CTED, or AOI - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7)
SAR09	For CTED satellite programs, the CTED reported actual student enrollment data for only the CTED program classes the student was enrolled in at that member district's satellite location (excluding school district classes). A.R.S. §15-393(O)	Select number of students shown in parentheses based on ADM for high school, CTED, or AOI - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7). Total membership claimed for the school district and the CTED satellite locations for each student should not exceed 1.25.
SAR10	For CTEDs that meet for at least 150 minutes (not including any breaks) per class period on a CTED central campus, the CTED reported the membership as 0.75. A.R.S. §15-393(Q)	Select number of students shown in parentheses based on ADM for CTED - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7) for students enrolled in a CTED course provided at a qualifying centralized or leased centralized campus.
SAR11	For students enrolled in both District and in CTED central program courses, the sum of the ADM was no more than 1.75 and the amount claimed by either entity was no more than 1.0. A.R.S. §15-393(Q)	Select number of students shown in parentheses based on ADM for high school - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR12	The District maintained appropriate documentation and accurately reported students enrolled in its AOI program, including redetermining the actual full time equivalent (FTE) for each student enrolled in an AOI program following a student's withdrawal or after the end of the school year.	Select number of students' records shown in parentheses based on the District's ADM - <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7) and determine the District maintained the students' intended FTE Enrollment Statement and guardian-approved or District computer-generated daily log describing the amount of time spent by the student on academic tasks that agreed to the hours reported to ADE.
SAR13	The District ensured the student's name in the student management system matched the name on the legal document on file. A.R.S. §15-828(D)	For questions 13-19, select the number of entries and withdrawals shown in parentheses based on District's ADM -<1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15).
SAR14	The entry date in the computerized attendance system agreed to the entry form and was entered into the attendance system within 5 working days after the actual date of the student's enrollment.	

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SAR15	The student membership begins on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school.	
SAR16	The District obtained and maintained verifiable documentation of Arizona residency for enrolled students, including students in its AOI program. A.R.S. §15-802(B)(1) and ADE's Arizona Residency Documentation Guidelines	Determine A.R.S. §15-802(B)(1) and ADE's Arizona Residency Documentation Guidelines were complied with, except as noted in A.R.S. §15-828(I).
SAR17	The District reported student withdrawal dates to ADE and maintained documentation that supported the date of data entry.	"Day of withdrawal" for determining timely data entry means: a. the later of the student's withdrawal date or the day the District was notified the student will not be returning; or b. the 10th day of unexcused absence for students withdrawn for having 10 consecutive unexcused absences.
SAR18	The District prepared and retained the Official Notice of Pupil Withdrawal form for each withdrawal, and the forms were signed by a District administrator. A.R.S. §15-827	
SAR19	The District counted students withdrawn for having 10 consecutive unexcused absences in membership only through the last day of actual attendance or excused absence. A.R.S. §15-901(A)(1)	
SAR20	The District uploaded membership and absence information to ADE that agreed to the District's computerized system records for the first 100 days of school.	Confirm the District submitted to ADE electronically at least once every 20 school days for membership information and at least once every 60 days for absence information through the last day of instruction. For an AOI program, review year-end attendance information.
SAR21	If students were admitted who were nonresidents of Arizona, the District excluded the student from the District's student count and State aid calculations and charged tuition as applicable. A.R.S. §15-823(G) and (L)	
	Information technology (IT)–USFR IX	
	Objective: To determine whether the District adopted an information technology (IT) security framework that aligned with credible industry standards and implemented controls that provide reasonable assurance that its data is accurate and reliable and protected from unintended exposure and consequences. Test work should determine that the District adopted a framework and controls were operating to protect District and student data.	
IT01	The District maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	• Review District user system access reports and determine the District adequately separated responsibilities among staff for administration, authorization, and operational responsibilities within the separate business systems (i.e., financial accounting system, student attendance system, student payment systems, network, website) and limited employee access to only those business functions or software necessary to perform their job

FY20 #	Question	Review procedure
		function. If this was not possible due to the District's limited staff size, determine adequate management review procedures were in place. • Indicate what systems employees had access to. If there were incompatible duties or employees with superuser access, what steps were taken to mitigate the risks of unauthorized changes.
IT02	The District reviewed and documented any system or software changes implemented.	Review the District's procedures and documentation to confirm any modifications to system hardware or software were authorized by a supervisor and were appropriate.
IT03	The District assessed security risks for unauthorized access to the District's systems, network, and data, including through email, internet use, VPN, wireless access, and mobile devices, and provided employees security awareness training at least annually to prevent, identify, and report suspected security risks and threats.	• Determine the District assessed the risks to District systems and data and implemented procedures to prevent and detect technology-related threats. Determine the District provided employees security awareness training at least annually that addressed prevention and detection of technology-related threats (i.e., phone and email phishing, website and ransomware attacks, and data breaches), and detailed instructions regarding how to prevent, identify, and report suspected security risks and incidents.
IT04	The District removed terminated or transferred employees' or vendors' access immediately from all systems.	Review documentation to confirm the District has a process to remove user access from all systems (e.g., financial accounting system, student information system, District's network, etc.). Further, based on most current list of vendors and transferred or terminated employees dated _____determined that access to District systems had been removed.
IT05	The District's system software and hardware was physically protected from unauthorized access, theft, and environmental hazards.	Review the District's physical access controls over sensitive areas such as server rooms or communication closets.
IT06	The District scheduled and performed backup-control procedures for all critical systems at least annually to ensure uninterrupted operations and minimal loss of data.	Determine if system backup procedures included: • Test of backup reliability and integrity. • Backup copies were stored in separate facilities or fire-rated container. • Backups were scheduled for a defined time/period.
IT07	The District routinely completed software and application updates and patches when they became available.	Review the District's process and documentation that software (including anti-virus, anti-spyware, and anti-malware software) and applications were updated, and patches were completed timely. In addition, confirm systems are up to date to protect the integrity and reliability of the District's data (i.e., web-based applications, accounting, student attendance, and payroll systems).
IT08	The District had vendor contracts or data-sharing agreements in place with 3rd parties accessing or hosting District data that addressed controls to support security and processing integrity, and backup procedures if applicable, before data was accessed/shared.	Review the District's vendor contracts or data-sharing agreements to determine appropriate security, processing, and backup controls were in place. In addition, determine the District appropriately reviewed data accessed or processed by vendors or 3rd parties for propriety.

FY20 #	Question	Review procedure
IT09	The District ensured changes to data in business (i.e., employee information, pay rates) and IT (i.e., user roles, access rights) systems were approved by an authorized individual prior to processing changes.	Determine changes to data was reviewed and approved by a designated employee to ensure the validity, completeness, and accuracy of processed data, and if issues were noted, corrective action was taken.
IT10	The District enforced data security policies that required strong network passwords that aligned with credible industry standards, such as strong password requirements, screen locks, repeated failed sign-on attempt lockouts, and prohibited sharing of user IDs and passwords.	Determine that the District's password policy required strong passwords (passwords should be easy to remember, difficult to guess, and changed only when compromised) and hardened with more modern controls such as validation against a list of known compromised values or use multifactor authentication tokens, smartcards, biometrics, or multifactor authentication, or some combination thereof to authenticate user identities.
IT11	The District's IT systems generated electronic audit trail reports or change logs with information about the electronic transaction that the District reviewed or analyzed regularly to determine transactions' propriety.	If the system does not provide an electronic audit trail function, how did the District document its manual process to audit transactions?
IT12	The District monitored and reviewed IT system-generated incident or error reports to identify security threats or other unusual activity and addressed the instances.	Determine the District had procedures to investigate and respond to activities identified in the audit event/trail function such as repeat failed logons, or failed accesses related to information systems, administrative privilege usage, employee credential usage, or third-party credential usage, or suspicious network activity.
IT13	The District had recovery and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	Include date and method the District used to review the plan (i.e., tabletop discussion, system test, or other method) and tested at least annually to confirm employee responsibilities, identify internal and external vulnerabilities, and take action to update equipment or remedy any issues identified since the last review.
	Transportation support–ADE's SF-0002 Transportation Guidelines	
	Objective: To determine whether the District has implemented effective controls for its transportation program to ensure it properly reports its transportation miles and student riders to ADE, which helps to ensure the District receives the appropriate amount of State aid.	
TS01	The District accurately calculated and maintained documentation for miles reported on the Transportation Route Report submitted to ADE. A.R.S. §15-922	If test work discloses a net under/overstatement of miles, include that amount here.
TS02	The transported students reported as eligible on the Transportation Route Report met the definition in A.R.S. §15-901(A)(8).	If test work discloses a net under/overstatement of eligible students transported, include that amount here.

FY20 #	Question	Review procedure
	Records management–USFR X-E	
	Objective: To determine whether the District has implemented effective controls to properly protect and maintain its records, including student and employee data, and that its records were disposed of securely and in accordance with established time frames.	
RM01	The District established and followed policies and procedures to properly protect, maintain, and dispose of personally identifiable information and confidential records, such as student and employee information and social security numbers.	Determine the District's records were properly protected, maintained, and disposed of in accordance with the General Retention Schedules for Education K-12 published by the Arizona State Library, Archives and Public Records. (http://apps.azlibrary.gov/records/general.aspx)
	General long-term debt	
	Objective: To determine whether the District is following the laws related to bonds to ensure voters are informed and the District complies with the bond covenants.	
GLTD01	The District calculated and issued debt in accordance with Arizona Revised Statutes and the Arizona Constitution.	
GLTD02	The District did not expend bond proceeds for items with useful lives less than the average life of the bonds issued or 5 years. A.R.S. §15-1021(F)	Sample expenditures made from bond proceeds to determine if expenditures were appropriate and meet the useful life definition.
GLTD03	If outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board transferred the remaining balance to the Debt Service Fund. Otherwise, if the District had no outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board used the remaining balance to reduce taxes. A.R.S. §15-1024(B)	
GLTD04	The District credited interest or other money earned from investing bond proceeds to the Debt Service Fund unless the voters authorized the interest to be credited to the Bond Building Fund or federal laws or rules require the interest to be used for capital expenditures. A.R.S. §15-1024(C)	