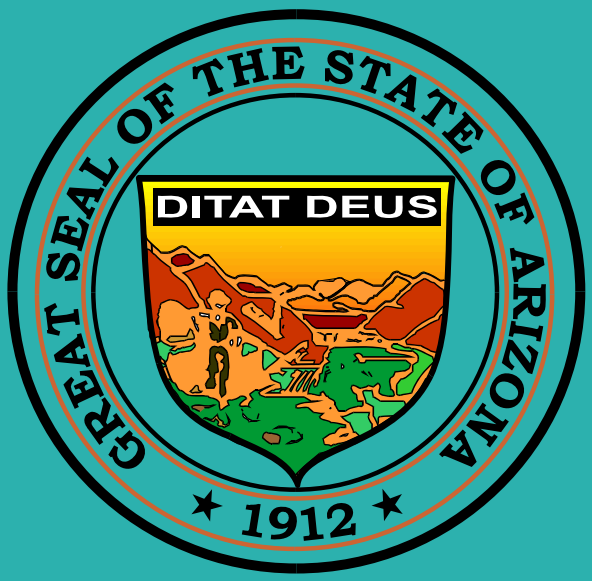
UNIFORM SYSTEM
OF
FINANCIAL RECORDS
FOR
ARIZONA
CHARTER SCHOOLS



AUDITOR GENERAL

UNIFORM SYSTEM OF FINANCIAL RECORDS
FOR
ARIZONA CHARTER SCHOOLS

TABLE OF CONTENTS

I. Introduction

II. Calendar of Events

III. Chart of Accounts

IV. Budgeting

V. Accounting Principles

VI. Accounting Procedures

- A. Introduction
- B. Accounting Records
- C. Cash
- D. Supplies Inventory
- E. Capital Assets
- F. Receipts
- G. Disbursements
- H. Payroll
- I. Travel
- J. State and Federal Financial Assistance

VII. Financial Reporting

VIII. Audit/Review Requirements

IX. Information Technology

X. Appendices

- A. Food Service
- B. Auxiliary Operations
- C. Student Activities
- D. Student Attendance Reporting
- E. Records Management

INTRODUCTION

The *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) has been developed by the Office of the Auditor General pursuant to Arizona Revised Statutes (A.R.S.) §15-183(E)(6). The Arizona Department of Education (ADE) assisted in preparing this manual. The USFRCS prescribes the minimum internal control structure policies and procedures for charter schools for accounting, financial reporting, budgeting, attendance reporting, and various legal compliance requirements. These policies and procedures are in conformity with generally accepted accounting principles and federal and state laws. However, charter schools 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 USFRCS are based on the Arizona Constitution; Arizona Revised Statutes; Arizona Attorney General Opinions; Financial Accounting Standards Board pronouncements; relevant sections of the *Code of Federal Regulations*; and other professional, state, and federal requirements.

Sections within the USFRCS are revised periodically for changes in laws, regulations, and accounting pronouncements that cover charter school accounting, financial reporting, and compliance with state and federal laws. However, if charter schools need to be informed quickly of revisions, clarifications, or additional requirements such as those concerning legal compliance, the Office of the Auditor General and ADE will jointly issue USFRCS Memorandums to Arizona charter school administrators. USFRCS Memorandums should be considered amendments to the USFRCS; and as the USFRCS is revised, information contained in the memorandums will be incorporated therein, if applicable.

Statute requires schools to comply with the requirements of the USFRCS. However, it also allows a school's sponsor to approve exceptions to USFRCS requirements. Any exceptions to the USFRCS requirements must be documented in the school's charter. A school found to be in noncompliance with the requirements of the USFRCS could have state funding withheld or its charter revoked.

This calendar of events includes dates specified in Arizona Revised Statutes (A.R.S.), the Arizona Administrative Code (AAC), the Internal Revenue Service (IRS) Circular E *Employer's Tax Guide*, the *Single Audit Act Amendments of 1996*, the Code of Federal Regulations, the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), and dates established by Arizona Department of Education (ADE) policy. To help ensure that the required dates are met and for internal planning and control purposes, schools may want to specify additional interim dates. Where applicable, reference to additional information discussed in other manual sections has been provided.

ANNUAL REQUIREMENTS

Date	Activity	Authority	Manual Section
Not later than July 5 or the date of publication of notice of the public hearing and board meeting	A **proposed budget** must be prepared and furnished in electronic format to the Superintendent of Public Instruction.	A.R.S. §15-905(A)	§IV, Budgeting; and **Budget**
Not later than July 5, but at least 10 days prior to the board meeting to adopt the proposed budget	A **notice of the public hearing** and board meeting must be published in a newspaper of general circulation or electronically on ADE's website.	A.R.S. §15-905(C)	§IV, Budgeting; and **Budget**
By July 15	The **proposed budget** must be presented at a public hearing immediately followed by a board meeting to adopt the budget.	A.R.S. §15-905(B), (D), and (E)	§IV, Budgeting; and **Budget**
By July 15	The **compensatory instruction budget** request must be submitted to ADE.	A.R.S. §15-756.11	
By July 18	The **adopted budget** must be electronically submitted to the Superintendent of Public Instruction and posted on ADE's website. The School must post a link on its website to the budget on ADE's website.	A.R.S. §15-905(E)	§IV, Budgeting; and **Budget**
Within 30 days after the date the notice of public hearing is published or posted on ADE's website	The publisher's **affidavit of publication** of the notice of public hearing or an affidavit including the date the notice was posted to ADE's website must be filed with the Superintendent of Public Instruction.	A.R.S. §15-905(C)	§IV, Budgeting; and **Budget**
By September 15	Schools that qualify to submit a **English language learner budget request** to ADE must do so.	A.R.S. §15-756.03 (C)	
By October 1	Schools 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 the State Board of Education.	A.R.S. §15-211	

Date	Activity	Authority	Manual Section
By October 15	A copy of the **Annual Financial Report** should be electronically submitted to the Superintendent of Public Instruction.	A.R.S. §§15-183(E)(6) and 15-904	§VII, Financial Reporting; and **AFR**
By January 31	Schools must furnish each employee a completed **Form W-2** and certain nonemployee payees a completed **Form 1099** for the calendar year just ended.	IRS Circular E	§VI-H, Payroll
By February 28	**Form A-1R**, Annual Withholding Reconciliation Return, must be filed with the Arizona Department of Revenue.	A.R.S. §43-412	§VI-H, Payroll
By February 28	**Form ADOR 05-5432**, Public School Report, must be filed with the Arizona Department of Revenue.	A.R.S. §43-1089.01	
Before May 15	**Budget revisions** must/may be made and the revised budget approved at a governing board meeting. This includes the revision of student count and state equalization assistance. The revised budget should be filed with the Superintendent of Public Instruction by May 18.	A.R.S.§15-185(B)(2)	§IV, Budgeting; and **Budget**
June 15	Career and Technical Education **Performance Measures Reports** should be submitted to ADE.	ADE Policy	
By June 30	Schools should prepare and retain on file a **list of liabilities** for goods or services received on or before June 30 that will not be paid by June 30 of the current fiscal year.	USFRCS	§VI-G, Disbursements
By June 30	Monies in the **petty cash account** should be returned to the general revolving bank account.	USFRCS	§VI-C, Cash
By June 30	Schools should submit **graduation rate** data to ADE.	ADE Policy	
At June 30	Interest earned during the year on the **State Income Tax Withholdings bank account, Federal Payroll Tax Withholdings bank account,** and **Employee Insurance Programs Withholdings bank account** should be deposited in the general bank account.	USFRCS	§VI-H, Payroll
Annually	Schools must submit an **annual ELL Report** to ADE.	A.R.S. §15-756.10	

Date	Activity	Authority	Manual Section
Varies by sponsor	Annual **audit reports** must be submitted to appropriate oversight bodies.	A.R.S. §15-914	§VIII, Audit Requirements; and applicable Legal Compliance Questionnaire

PERIODIC REQUIREMENTS

Date	Activity	Authority	Manual Section
At least once every 2 years	Schools must take a **physical inventory** of furniture, equipment, and vehicles purchased with federal monies, costing $5,000 or more, and having useful lives over one year, and reconcile it to the capital assets list.	2 CFR 200.313(a)(2)	§VI-E, Capital Assets
At least once every 3 years	Schools should take a **physical inventory** of furniture, equipment, and vehicles and reconcile it to the capital assets and stewardship lists.	USFRCS	§VI-E, Capital Assets
Within 14 days after the end of each pay period	**State Retirement System contributions and withholdings** must be submitted to the Arizona State Retirement System.	AAC 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. §§43-401(C) and 43-412	§VI-H, Payroll
By the 18th of each month	**Cash management reports** must be submitted to ADE for all Federal projects.	ADE Policy	
Within 90 days after the project end date	**State and federal project completion reports** must be submitted to ADE.	2 CFR 200.328 (b)(1) and ADE Policy	
Within 10 days after the end of each covered month	**Federal reimbursement claims** for meals served must be filed with ADE.	USFRCS	§X-A, Food Service

Date	Activity	Authority	Manual Section
At least once each calendar month	A report of cash receipts, disbursements, transfers, and cash balances of **Student Activities** should be submitted to the governing board.	USFRCS	§X-C, Student Activities
At least every 20 school days in session	**Membership Information** should be submitted to ADE.	A.R.S. §15-1042(G)	§X-D, Student Attendance Reporting
At least every 60 school days in session	**Absence Information** should be submitted to ADE	A.R.S. §15-901(A)	§X-D, Student Attendance Reporting

CONTENTS

Topic	Page
INTRODUCTION	III-A-1
ACCOUNT CODE STRUCTURE	III-A-1
Project	III-A-1
Balance Sheet Classifications	III-A-1
Revenue and Gain Classifications	III-A-1
Expense and Loss Classifications	III-A-2
ACCOUNT CODE FORMAT	III-A-3
COST ALLOCATION	III-A-4
INDIRECT COST REPORTING	III-A-5
PROJECT CODES	III-B-1
BALANCE SHEET OBJECT CODES	III-C-1
Assets	III-C-1
Liabilities	III-C-3
Equity	III-C-5
REVENUE AND GAIN OBJECT CODES	III-D-1
EXPENSE AND LOSS CODES	III-E-1.1
Program	III-E-1.1
Function	III-E-2.1
Object	III-E-3.1
Unit	III-E-4
EXAMPLE ENTRIES	III-F-1

INTRODUCTION

This Chart of Accounts prescribed for charter schools provides for the establishment of a complete accounting system, including the recording of assets, liabilities, equity, revenues, and expenses.

The standardized account code structure for use by charter schools has been developed to accomplish several key objectives.

- To ensure charter schools comply with generally accepted accounting principles (GAAP).
- To establish a uniform, comprehensive, minimum chart of accounts to improve financial data collection, reporting, transmission, accuracy, and comparability among Arizona charter schools, Arizona school districts, and schools nationwide. The *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) Chart of Accounts meets the requirements of the U.S. Department of Education's account classifications.
- To reduce the administrative burden on schools 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.

Charter schools operated by governmental organizations (such as a tribal government or community college district) may find it beneficial to follow the *Uniform System of Financial Records for Arizona School Districts* Chart of Accounts, which is based on governmental accounting, rather than the USFRCS Chart of Accounts, which is based on private business accounting. According to Arizona Revised Statutes (A.R.S.) §15-183(E)(6), any exceptions to the requirements of the USFRCS must be approved by the sponsor and documented in the charter.

ACCOUNT CODE STRUCTURE

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

1. **PROJECT—**This element separately identifies the financial activity and position of federal and state projects providing the information necessary to demonstrate compliance with federal and state requirements. Additionally, at the school's option, this element may be used to account for other special projects (project codes 1500-1999). (**III-B**)
2. **BALANCE SHEET CLASSIFICATIONS—**Corresponds to items normally appearing on the balance sheet. The primary account classifications are Assets, Liabilities, and Equity. (**III-C**)
3. **REVENUE AND GAIN CLASSIFICATIONS—**Segregates revenues by source. The source classifications are Local, Intermediate, State, and Federal. Gains are also classified here. (**III-D**)

4. **EXPENSE AND LOSS CLASSIFICATIONS**:

Program—A plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. The primary programs are Regular Education, Special Education, Special Education Disability Title 8 PL 103-382 Add-On, Pupil Transportation, and Programs Requiring Separate Budgets. (**III-E-1**)

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, and Debt Service. (**III-E-2**)

Object—Describes the service or material obtained as the result of a specific expense. The primary object codes are Personal Services—Salaries, Personal Services—Employee Benefits, Purchased Professional and Technical Services, Purchased Property Services, Other Purchased Services, Supplies, Property, and Other Expenses and Losses. (**III-E-3**)

Unit—Segregates expenses by instructional level (e.g., elementary, high school, and schoolwide) and individual campuses. (**III-E-4**)

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, schools 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 (e.g., English, math, or science). As an alternative to using a separate optional element for course codes, schools may establish course codes under function 1000—Instruction.

Job Classification—To further break down costs of salaries and benefits by purpose, bargaining unit, or otherwise (e.g., office/clerical, administrative, professional-education, technical, or laborer).

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

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 revenue and gain accounts consist of project and object code elements only. Other elements are generally zero filled. However, a school may choose to use program, function, and unit codes to better track revenues. Expense and loss accounts consist of project, 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. Schools are required to record transactions to the most detailed bold level for all areas.

BALANCE SHEET:

Project	Program	Function	Object	Unit
XXXX	000	0000	0XXX	000

REVENUES AND GAINS:

Project	Program	Function	Object	Unit	
XXXX	000	0000	1XXX	000	Revenue from local sources
XXXX	000	0000	2XXX	000	Revenue from intermediate sources
XXXX	000	0000	3XXX	000	Revenue from state sources
XXXX	000	0000	4XXX	000	Revenue from federal sources
XXXX	000	0000	5XXX	000	Net assets released from restrictions

EXPENSES AND LOSSES:

Project	Program	Function[1]	Object	Unit[2]	
XXXX	XXX	XXXX	6XXX	XXX	(place optional elements here)

[1] The first and second digits are required. Generally, the third and fourth digits may be used at the school's option to provide additional function detail.

[2] The first digit is required for charter schools containing elementary and high school grade levels. The second and third digits are required for schools with two or more campuses.

COST ALLOCATION

Expenses 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 among programs 100 and 200; the salary of an individual who works in the school 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.

Schools may use an allocation base to allocate specifically assignable expenses 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, schools 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, but must be allocated at the unit code level (i.e., schoolwide expenses must be allocated among individual schools and instructional levels by year-end). However, this allocation is required only for the school's annual report cards in accordance with A.R.S. §15-746 and is not required to be recorded in the school's accounting records.

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 schools receiving federal grants though 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 charter schools 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 **2310**. 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 school 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 **2310—Executive Administration**.

Heads of Components—Administrators that directly report to a member of the school'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 that has the authority to make key decisions for school business operations would be classified in **2310** 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 **2510** as a head of component rather than **2500—Central Services** to allow for correct treatment of those costs in the indirect cost rate calculation.

1000 SCHOOLWIDE PROJECT—Accounts for all financial activities of the school, including those required to be accounted for separately (e.g., federal and state projects).

1010 **Classroom Site (Total)**—Control project for Classroom Site Projects 1011, 1012, and 1013 to account for the portion of state sales tax collections and permanent state school fund earnings received by charter schools as approved by the voters in 2000 as a part of Proposition 301. The monies in the three projects must be used to supplement, rather than supplant, existing monies and must not be used for administrative purposes.

1011 **Classroom Site (Base Salary)**—Accounts for 20 percent of the current Classroom Site Fund distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for teacher base salary increases and teacher employment-related expenses. A.R.S. §15-977

1012 **Classroom Site (Performance Pay)**—Accounts for 40 percent of the current Classroom Site Fund distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for performance-based teacher compensation increases and teacher employment-related expenses. A.R.S. §15-977

1013 **Classroom Site (Other)**—Accounts for 40 percent of the current Classroom Site Fund distributions, and any prior year's unexpended balance and interest earnings. Monies in this project can only be used for any of the following maintenance and operation purposes: class size reduction, assessment intervention programs and dropout prevention programs for instructional purposes (other than athletics) coded to function 1000; teacher compensation increases, teacher development, and teacher liability insurance premiums. A.R.S. §15-977

1020 **Instructional Improvement**—Accounts for monies received from gaming revenue. Up to 50 percent of these monies may be used for teacher compensation increases and class size reduction as provided in A.R.S. §15-977. The expenses for class size reduction, if any, must be appropriate expenses under function 1000 (other than 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 third grade. The monies in the project may not be used to supplant existing state and local monies. A.R.S. §15-979

1071 **English Language Learner**—Accounts for monies received from the English Language Learner Fund. Monies received are to provide for the incremental cost of instruction to English language learners (ELLs) and must be used to supplement existing programs. In accordance with A.R.S. §15-756.03 and .04, monies must not be used to supplant federal, state, or local monies previously used for ELLs, or used to pay for the normal costs of conducting programs for English proficient students. As defined in §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

1072 **Compensatory Instruction**—Accounts for monies received from the Compensatory Instruction Fund. Monies received are 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 previously used for ELLs. A.R.S. §15-756.11

1100-1399 **Federal Projects**—A group of codes used to account for revenues and expenses of federally-funded projects. A separate code should be established for each individual project. If a federal project is not specifically listed or included in a code range below, an unassigned code number in the 1310-1399 range should be assigned for that project.

1100-1130	**ESEA Title I—Helping Disadvantaged Children Meet High Standards**
1140-1150	**ESEA Title II—Professional Development and Technology**
1160	**ESEA Title IV—21st Century Schools**
1170-1180	**ESEA Title V—Promote Informed Parent Choice**
1190	**ESEA Title III—Limited English and Immigrant Students**
1200	**ESEA Title VII—Indian Education**
1210	**ESEA Title VI—Flexibility and Accountability**
1220	**IDEA Part B**
1230	**Johnson-O'Malley**
1240	**Workforce Investment Act**
1250	**AEA—Adult Education**

1260-1270	**Vocational Education—Basic Grants**
1280	**ESEA Title X—Homeless Education**
1290	**Medicaid Reimbursement**
1300	**Charter School Implementation Project (Stimulus)**
1310-1399	**Other Federal Projects**

1400-1499 **State Projects**—A group of codes used to account for revenues and expenses of state-funded projects. A separate code should be established for each individual project.

1400	**Vocational Education**
1410	**Early Childhood Block Grant**
1420	**Extended School Year—Pupils with Disabilities (A.R.S. §15-881)**
1425	**Adult Basic Education (A.R.S. §15-234)**
1430	**Chemical Abuse Prevention Programs (A.R.S. §15-712)**
1435	**Academic Contests (A.R.S. §15-1241)**
1445	**Dropout Prevention Program (4-12) (Laws 1992, Ch. 305, §32 and Laws 2000, Ch. 398 §2)**
1450	**Gifted Education (A.R.S. §15-779.03)**
1455	**Family Literacy Program (A.R.S. §15-191.01)**
1456	**College Credit Exam Incentives (A.R.S. §15-249.06)**
1457	**Results-based Funding (A.R.S. §15-249.08)**
1460	**Environmental Special Plate (A.R.S. §37-1015)**
1465	**Charter School Stimulus Fund (A.R.S. §15-188)**
1484	**Failing Schools Tutoring Grant (A.R.S. §15-241)**
1470-1499	**Other State Projects**

1500-1999 **Other Special Projects—**Schools may, at their own option, elect to use these project codes to track the financial activity of various other school projects (e.g., bookstore, athletics, food service, gifts and donations, construction projects, and extracurricular activities fees tax credit).

ASSETS

0100 CASH—Currency, coins, checks, warrants, postal and express money orders, and bank drafts on hand, in transit, on deposit in a financial institution, or on deposit with an official or agency designated as custodian of cash and deposits.

0101 Cash on Hand—Cash physically located at the school or in the possession of its representative (e.g., cash from sales of student lunches that has not been deposited in the bank).

0102 Cash in Bank—Cash on deposit with a bank or savings and loan institution.

0110 INVESTMENTS—Investments held for earning income in the form of interest or dividends.

0111 Unamortized Premiums

0112 Unamortized Discounts (Credit)

0130 RECEIVABLES—Amounts due from individuals or other entities.

0132 Accounts Receivable—Amounts due on open account from individuals or other entities for goods and services furnished by the school.

0134 Interest Receivable—Amount of interest receivable on investments.

0135 Refundable Deposits—School 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 school buildings or property.

0137 Grants Receivable—Contributions or gifts of cash or other assets due from another entity.

0140 ASSETS RESTRICTED TO INVESTMENT IN CAPITAL ASSETS—Cash and receivables that have been restricted by an outside party to be used for investment in capital assets.

0150 PREPAID EXPENSES—Cash outlays for benefits that have not been received (e.g., insurance or rent).

0160 INVENTORY OF SUPPLIES FOR CONSUMPTION—Supplies on hand, valued at cost, that will be used for school operations (e.g., general supplies, gas, and oil).

0170 INVENTORY OF SUPPLIES FOR SALE OR RENTAL—Inventory on hand, valued at cost or market, that will be sold or rented (e.g., bookstore inventory, food, and milk).

0190 CAPITAL ASSETS—Assets of the school such as land and improvements, buildings and improvements, and equipment. For discussion of capital asset valuations, see subsection **VI-E**. The following criteria should be met for an item to be included in this account.

1. The useful life of the item must equal or exceed 1 year.

2. The unit cost or value assigned should meet the capitalization thresholds established by the school. In accordance with subsection **VI-E**, such threshold may not exceed $5,000 for equipment or $5,000 for land, buildings, and related improvements.

3. Improvements do not include repairs or maintenance performed on assets to restore them to operating condition.

4. If the terms of a lease agreement meet certain criteria as outlined in subsection **VI-E**, the lease should be considered in substance a purchase of an asset, and the item being leased should be capitalized.

0191 **Land and Land Improvements**—Land owned by the school, 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 due 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 and usefulness over time, it is appropriate to depreciate these assets. Therefore, all capitalized site improvements should be depreciated over their expected useful lives. Leasehold improvements to land are also included here.

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 the school. 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. Leasehold improvements to buildings are also included here.

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 Deprecation 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

0200 NONPAYROLL PAYABLES—Amounts owed for goods or services received and monies borrowed; also, refundable deposits held by the school.

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—A liability of the school for amounts received as a prerequisite to providing goods or services, such as deposits made by students on textbooks and lab deposits.

0203 Bank Revolving Line of Credit Payable—Liability for monies borrowed through a revolving line of credit.

0204 Notes/Loans Payable—Obligations in the form of written promissory notes.

0205 Taxes Payable—Liability for nonpayroll taxes of the school.

0210 DUE TO GOVERNMENTAL ENTITIES, STUDENT GROUPS, AND OTHERS—Amounts due to a governmental unit, student group, or another entity.

0212 Local
0213 County
0214 State
0215 Federal
0216 Student Groups
0217 Others

0220 ACCRUED PAYROLL AND RELATED BENEFITS—Salary and fringe benefit costs incurred but not yet paid during the current accounting period.

0221 Salaries and Wages (Gross)—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 Retirement Plan Contributions (Employer's Portion)—Amount of matching retirement plan contributions incurred as a result of salaries and wages earned by employees. Include both retirement and related long-term disability contributions, if applicable.

0225 Employee Insurance—Amount incurred for premiums on insurance for employees (health and accident, medical, life, etc.) provided by the school.

0226 Unemployment Insurance—The school's liability for unemployment insurance taxes.

0227 Workers' Compensation—The school's liability for workers' compensation premiums.

0229 Compensated Absences—The school's liability for accrued vacation and sick leave benefits.

0230 OTHER ACCRUED ITEMS—Costs incurred but not yet paid during the current accounting period.

0231 Interest—Interest costs incurred but not yet paid during the current accounting period.

0233 Self-Insurance Claims—Amounts owed for claims and judgments payable to other than employees.

0240 PAYROLL DEDUCTIONS AND WITHHOLDINGS (EMPLOYEES)—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 Retirement Plan Contributions—Amounts deducted from employees' salaries for retirement plan contributions. Any portion representing long-term disability contributions should be recorded under object code 0246.

0246 Long-Term Disability—Amounts deducted from employees' salaries for long-term disability benefits.

0247 Voluntary Deductions—Amounts of voluntary deductions, such as annuities and dependent health insurance premiums that have not yet been paid.

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.

0260 CONTRACTS PAYABLE—Amounts due on written contracts for assets received by a school.

0261 Capital Leases—Amounts due on capital lease agreements. (Capital leases payable should be initially recorded at the lower of the fair market value of the leased asset or the present value of the minimum lease payments.)

0262 Construction—Amounts due on construction contracts.

0270 BONDS AND LOANS PAYABLE

Effective 7/1/20

0271 Current—Liabilities for redemption of bonds and loans that are payable within 1 year.

0272 Long-Term—Liabilities for redemption of bonds and loans that are not payable within 1 year.

EQUITY

0300 UNAPPROPRIATED RETAINED EARNINGS—Undistributed earnings of the school that have not been restricted or appropriated for any specific purpose.

0310 APPROPRIATED RETAINED EARNINGS—Undistributed earnings of the school that have been restricted by law or appropriated by the school governing board to meet contractual restrictions, protect against expected losses, or some other reason, making part of retained earnings unavailable for distribution. One example would be funds reserved for the future purchase of equipment.

0320 NET ASSETS—The excess of the book value of assets of the school over its liabilities. **(Used only by not-for-profit schools)**

Updated

0321 Without Donor Restrictions—The part of net assets that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

0322 With Donor Restrictions—The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Updated

Revenue object code 1920 includes subobject codes to be used by not-for-profit schools for revenue with and without donor restrictions. Any other revenues or gains that are restricted by donors must also be classified as such by not-for-profit schools.

1000 REVENUE FROM LOCAL SOURCES

1300 Tuition—Revenue from individuals, private sources, other schools or districts, and government sources for education provided by the school. The portion of tuition representing transportation fees should be recorded under revenue code 1400 Transportation Fees.

1310 Tuition from Individuals
1320 Tuition from Other Arizona Schools or Districts
1330 Tuition from Out-of-State Schools or 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—Revenue from individuals, private sources, other schools or districts, and government sources for transporting students to and from school and school activities.

1410 Transportation Fees from Individuals
1420 Transportation Fees from Other Arizona Schools or Districts
1430 Transportation Fees from Out-of-State Schools or Districts
1440 Transportation Fees from Other Private Sources (Other than Individuals)
1450 Transportation Fees from Other Governmental Sources Within Arizona
1460 Transportation Fees from Other Governmental Sources Outside Arizona

1500 Earnings on Investments—Revenue from short-term and long-term investments. Included is interest revenue earned on temporary or permanent investments, such as U.S. treasury bills or other interest-bearing investments, gains realized from the sale of investments, and revenue from rental and use charges on real property held for investment purposes.

1600 Food Service—Revenue from dispensing food to students and adults.

1700 School Activities—Revenue from school-sponsored and student activities including bookstore sales, miscellaneous fees, concerts, and athletic events.

1750 Revenue from Enterprise Activities—Revenue from vending machines, school stores, soft drink machines, etc., not related to the food service program.

1790 Extracurricular Activities Fees Tax Credit—Revenue 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.

1800 Revenue from Community Services Activities—Revenue from community services activities operated by a school. For example, revenue from operating a swimming pool or civic center as a community service would be recorded here. Multiple accounts may be established within the 1800 series to differentiate various activities.

1900 Other Revenues and Gains from Local Sources—Other revenue from local sources not classified above.

1910 Rentals—Revenue from the rental of either real or personal property owned by the school. Revenues from the short-term rental of school property, such as daily use fees, should be recorded under account 1800. Rental of property held for income purposes is not included here, but is recorded under account 1500.

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. Not-for-profit schools **must** use the following **subobject** codes to classify these revenues. Revenues 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 are recorded under account 1790.

Updated

1921 Without Donor Restrictions

1922 With Donor Restrictions

1930 Gain or Loss on Sale of Capital Assets—Amount of revenue over (under) the book value of the capital assets sold.

1950 Miscellaneous Revenues from Other Schools or Districts—Revenue from services provided to other schools or districts other than tuition and transportation services. These services could include data processing, purchasing, maintenance, cleaning, and consulting.

1960 Miscellaneous Revenues from Local Governmental Units—Revenue from services provided to local governmental units. These services could include data processing, purchasing, maintenance, cleaning, cash management, and consulting.

1980 Refund of Prior Year's Expenses—Expenses that occurred last year that are refunded this year, including voided stale-dated checks where another check is not issued. If both expense and refund occurred in current year, reduce this year's expenses, as prescribed by GAAP.

1990 Miscellaneous—Revenue from local sources not provided for elsewhere.

2000 REVENUE FROM INTERMEDIATE SOURCES

2100 Unrestricted—Revenue from the county that can be used for any legal purpose without restriction.

2200 Restricted—Revenue from the county that must be used for a categorical or specific purpose.

2900 Revenue for/on Behalf of the School—Commitments or payments made by the county for the benefit of the school, 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

3100 Unrestricted—Revenue from the State 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. §15-185.

3130 Certificates of Educational Convenience—Revenue received from the State pursuant to certificates of educational convenience for pupils who reside in 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; residences supervised by the Department of Juvenile Corrections pursuant to the Interstate Compact on Juveniles; or unorganized territories. A.R.S. §15-825

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 Arizona 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 (e.g., Classroom Site Project and Instructional Improvement Project).

3900 Revenue for/on Behalf of the School—Commitments or payments made by the State for the benefit of the school, or contributions of equipment or supplies. Separate accounts may be maintained to identify the specific nature of the revenue item.

4000 REVENUE FROM FEDERAL SOURCES

4100 Unrestricted Revenue Received Directly from the Federal Government—Revenues received directly from the federal government to the school 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.

4300 Restricted Revenue Received Directly from the Federal Government—Revenue received directly from the federal government to the school that must be used for a categorical or specific purpose. If such money is not completely used by the school, it usually is returned to the governmental unit.

4500 Restricted Revenue Received from the Federal Government through the State—Revenues received from the federal government through the State to the school 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 (e.g., National Forest Fees) and Indian tribes (e.g., Johnson O'Malley assistance).

4800 Federal Impact Aid—Revenues received from the federal government to help educate federally connected children.

4900 Revenue for/on Behalf of the School—Commitments or payments made by the federal government for the benefit of the school, or contributions of equipment or supplies. Such revenues include E-rate projects paid directly by the Schools and Libraries Corporation and foods donated by the federal government to the school. Separate accounts may be maintained to identify the specific nature of the revenue item.

5000 NET ASSETS RELEASED FROM RESTRICTIONS—Used to record the release of assets from donor restrictions through the satisfaction of program restrictions, satisfaction of equipment acquisition restrictions, and the expiration of time restrictions. **(Used only by not-for-profit schools)**

5100 Satisfaction of Program Restrictions

5101 Without Donor Restrictions

5102 With Donor Restrictions

Updated

5200 Satisfaction of Equipment Acquisition Restrictions

5201 Without Donor Restrictions

5202 With Donor Restrictions

5300 Expiration of Time Restrictions

5301 Without Donor Restrictions

5302 With Donor Restrictions

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 and 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. Expenses not specifically assignable to other programs should be classified here (e.g., school office and food service expenses).

200 SPECIAL EDUCATION—Special programs include activities for elementary and secondary students (kindergarten through grade 12) receiving services outside the realm of "regular programs" in accordance with disability classifications defined in A.R.S. §15-761; and programs for gifted, remedial, English immersion, and vocational, technical, and career education.

Effective 7/1/20

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
280 Career Education

400 PUPIL TRANSPORTATION—Accounts for expenses relating to transporting students to and from school or school activities, including school athletics.

430 English Language Learners Incremental Costs
435 English Language Learners Compensatory Instruction
470 Vocational and Technical Education

500 PROGRAMS REQUIRING SEPARATE BUDGETS—Accounts for expenses required by statute to be accounted for separately.

530 Dropout Prevention Programs—Accounts for expenses for dropout prevention programs approved by the State Board of Education.

540 Joint Career and Technical Education and Vocational Education Center—Accounts for expenses for a jointly owned and operated career and technical education and vocational education center 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 for 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—Activities that add to a student's educational experience. These activities typically include events and activities that take place outside the traditional classroom. Some examples of such activities are athletics, band, choir, and debate.

610 **School-Sponsored Cocurricular Activities**—School-sponsored activities, under the guidance and supervision of school 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 are classified as program 620.

620 **School-Sponsored Athletics**—School-sponsored activities, under the guidance and supervision of school 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 the school has the responsibility of providing this program, all program costs should be classified here.

900 **COMMUNITY SERVICES PROGRAMS—**Activities that are not directly related to providing educational services in a school. These include services such as community recreation programs, civic activities, public libraries, programs of custody and care of children, and community welfare activities provided by the school for the community as a whole or some segment of the community.

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 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 for course codes in the accounting string, schools may establish course codes under this function. ***(See additional bold code below)***

1900 Other Instructional Staff—Include salaries and benefits of classroom aides or assistants of any type that assist in the instructional process**.**

2000 SUPPORT SERVICES—Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.

2100 Support Services—Students—Activities designed to assess and improve the well being of students and to supplement the teaching process: including attendance and social work services; guidance services; health services; psychological services; speech pathology and audiology services; and occupational/physical therapy related services.

2110 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-A-5**. ***Used in the indirect cost calculation.***

2200 Support Services—Instruction—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students, instruction-related technology, and academic student assessment. This function also includes curriculum directors, special education directors, or others who supervise staff performing these functions.

2210 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-A-5**. ***Used in the indirect cost calculation.***

Effective 7/1/21

2220 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.

Effective 7/1/21

2230 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.

2300 Support Services—General Administration—Activities concerned with establishing and administering policy for operating the school, including governing board services and lobbying.

2310 Executive Administration—Activities associated with overall general administration or executive responsibility for the school. This function includes the office of the superintendent/charter representative 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. 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.***

2320 Retiree Health—Payments made to provide retiree health benefits. If a retired employee returns to 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 compensation and benefits. ***Used in the indirect cost calculation.***

2321 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-A-5. ***Used in the indirect cost calculation.***

2400 Support Services—School Administration—Activities concerned with overall administrative responsibility for a particular campus.

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 school. 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-A-5**. ***Used in the indirect cost calculation.***

2500 **Central Services**—Activities that support other administrative and instructional functions, including fiscal services; purchasing; warehousing and distributing services; printing, publishing, and duplicating services; personnel services; and administrative technology services.

2510 **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-A-5**. ***Used in the indirect cost calculation.***

2520 **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. ***Used in the indirect cost calculation.***

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.

2530 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 though 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. ***Used in the indirect cost calculation.***

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. This function includes activities related to operating and maintaining buildings, care and upkeep of grounds, care and upkeep of equipment, vehicle operation and maintenance (other than student transportation vehicles), security, and safety.

2610 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-A-5**. ***Used in the indirect cost calculation.***

2700 Student Transportation—Activities concerned with conveying students to and from school, as provided by state and federal law, and trips to school activities. This includes vehicle operation, monitoring services, and vehicle servicing and maintenance services.

2710 Heads of Components Student Transportation—Activities associated with the overall administration of Student Transportation below the executive level. See description of head of components on page **III-A-5**. ***Used in the indirect cost calculation.***

2900 Other Support Services—All other support services not classified elsewhere in the function 2000 series.

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-A-5**. ***Used in the indirect cost calculation.***

3000 OPERATION OF NONINSTRUCTIONAL SERVICES—Activities concerned with providing noninstructional services to students, staff, or the community.

3100 Food Service Operations—Activities concerned with providing food to students and staff at a campus or school. 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-A-5**. ***Used in the indirect cost calculation.***

3300 Community Services Operations—Activities concerned with providing community services to students, staff, or other community participants. Examples of this function would be the operation of a community swimming pool, a recreation program for the elderly, a childcare center for working parents, etc. Activities related to counseling students and parents as described in function **2100** should be coded there.

3310 Heads of Components Community Service Operations—Activities associated with the overall administration of Community Services Operations below the executive level. See definition of heads of components on page **III-A-5**. ***Used in the indirect cost calculation.***

3400 Bookstore Operations—Activities concerned with bookstore operations.

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-A-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. Expenses recorded under this function that should be included as part of the capitalized cost of an asset must be reclassified to the applicable asset account by fiscal year-end.

4100 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-A-5**. ***Used in the indirect cost calculation.***

5000 DEBT SERVICE—Activities related to servicing the long-term debt of the school including payments of both principal and interest. This function should be used to account for capital lease payments and other long-term notes. Interest on short-term notes or loans repayable within 1 year of receiving the obligation is charged to function 2500.

6100 PERSONAL SERVICES—SALARIES—Amounts paid to both permanent and temporary school employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the school.

Used with functions 1000-4000. Used with function 1900 if salaries are for Other Instructional Staff (e.g., classroom aides).

6110 Certified Salaries—Amounts earned by employees certified by the Arizona Department of Education.

6111 Administrators
6112 Teachers
6113 Substitute Teachers
6114 Other

6150 Noncertified Salaries—Amounts earned by employees who are not certified by the Arizona Department of Education.

6151 Administrators
6152 Teachers
6153 Substitute Teachers
6154 Other

6200 PERSONAL SERVICES—EMPLOYEE BENEFITS—Amounts paid on behalf of employees; these amounts are not included in the gross salary, but are in addition to that amount. Such payments are fringe benefit payments, whether paid directly to the employee or not, and are part of the cost of personal services.

Used with functions 1000-4000. Used with function 1900 if benefits are for Other Instructional Staff (e.g., classroom aides).

6210 Employee Insurance—Amounts for the employer's share of any insurance plans, such as life, health, dental, and accident insurance.

6220 Social Security Taxes—Employer's share of amounts paid for social security. (Schools must maintain adequate records to separately identify OASDI and Medicare.)

6230 Retirement Plan Contributions—Employer's share of amounts paid for retirement and long-term disability contributions to the school's retirement plan. (Schools must maintain adequate records to separately identify retirement and long-term disability.)

6240 Tuition Reimbursement—Amounts reimbursed by the school to any employee qualifying for tuition reimbursement on the basis of school policy.

6250 Unemployment Insurance—Amounts paid to provide unemployment insurance for employees. These charges may be distributed to functions in accordance with the salary budget or may be charged to function 2300.

6260 Workers' Compensation—Amounts paid to provide workers' compensation insurance for employees. These charges may be distributed to functions in accordance with the salary budget or may be charged to function 2300.

6270 **Health Benefits**—Amounts paid by the school 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, schools must maintain adequate records to be able to report these categories for use in the indirect cost calculation.)**

6281 **Unused Leave Payments**—Amount paid for unused leave when an employee retires or separates from employment.

6282 **Normal Severance Payments**—Amounts paid other than leave payments, if any, when an employee retires or separates from 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 classified above, including fringe benefits such as automobile allowances, housing or related supplements, moving expenses, and paid parking. Schools may establish subcodes 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. While 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, counselors, technicians, therapists, accountants, etc. It is recommended that a separate account be established for each type of service provided to the school. Services in conjunction with the purchase or construction of capital assets should be capitalized as part of the asset's cost. Costs related to conference fees, employee training, and professional development are also included here.

Usually used with functions 1000 and 2000.

6310 **Audit Services**—Audit Services associated with financial and compliance audits of a school. Do not include amounts related to audits of federal programs. Federal program audit costs should be coded to expenditure object code 6300. ***Used in the indirect cost calculation.***

Usually used with function 2300.

6325 **Contract Teachers**

Effective 7/1/21

6330 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.

6400 PURCHASED PROPERTY SERVICES—Services purchased to operate, repair, maintain, and rent property owned or used by the school. These services are performed by persons other than school employees. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

6410 Utility Services—Costs for nonenergy utility services supplied by public or private organizations including water and sewage services. Telephone and facsimile services should be classified under object code 6530.

Used only with function 2600.

6420 Cleaning Services—Services purchased to clean buildings and grounds, including disposal, snow removal, custodial, and lawn care services (apart from services provided by school employees).

Used only with function 2600.

6430 Repairs and Maintenance Services—Costs for repairs and maintenance services not provided directly by school personnel.

Effective 7/1/21

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 object code 0194.

6432 Technology-Related Repairs and Maintenance—Costs for repairs and maintenance services for technology equipment that are not directly provided by school personnel. This includes ongoing service agreements for technology hardware.

6440 Rentals—Costs for renting or leasing land, buildings, and equipment. For capital leases, use object code 6850 to record interest expense and 0261 to record the principal payment.

Usually used with functions 1000 and 2000.

Effective 7/1/21

6441 Rental of Computers and Related Equipment—Costs for leasing or renting computers and related equipment for both temporary and long-term use.

6490 Other Purchased Property Services—Purchased property services that are not classified above. Costs for telephone and facsimile services should be included in object code 6530.

Usually used with function 2600.

6500 OTHER PURCHASED SERVICES—Costs for services rendered by organizations or personnel not on the school payroll, but not included in Purchased Professional and Technical Services (6300) or Purchased Property Services (6400). 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—Costs for transporting students to and from school and other activities.

6511 Student Transportation Purchased From Other Arizona Schools or Districts—Amounts paid to other Arizona schools or districts for transporting children to and from school and school-related events.
Used only with function 2700.

6512 Student Transportation Purchased From Out-of-State Schools or Districts—Payments to schools or districts outside Arizona for transporting children to and from school and school-related events.

Used only with function 2700.

6519 Student Transportation Purchased From Other Sources—Payments to persons or agencies other than schools or 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 expenses on public carriers. Expenses for the rental of buses that are operated by personnel on the school payroll are not recorded here but under object code 6440.
Used only with function 2700.

6520 Insurance (Other than Employee Benefits)—Costs for all types of insurance coverage, including property, liability, and fidelity. Insurance for group health is not charged here but is recorded under object code 6200.
Used with functions 2300, 2600 or 2700.

6530 Communications—Services provided by persons or businesses to assist in transmitting and receiving messages or information. This category includes telephone, voice communication services, and voicemail; data communication services to establish or maintain computer-based communications, networking, and Internet services; video communication services to establish or maintain one-way or two-way video communication via satellite, cable, or other devices provided by a private or public utility company; and postal communication services to establish or maintain postage machine rentals, postage, express delivery services, or couriers.
Usually used with functions 2500 and 2600. Used with functions 1000 or 2200 if for supporting instruction.

6540 Advertising—Costs for announcements in professional publications, newspapers, or broadcasts over radio and television. These expenses 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 are not recorded here but are charged to object code 6300.

Usually used with functions 2300 or 2500.

6550 **Printing and Binding**—Costs for job printing and binding, usually according to specifications of the school. This includes designing and printing forms and posters as well as printing and binding school publications. Preprinted standard forms are not charged here but are recorded under object code 6610.

Usually used with function 2500.

6560 **Tuition**—Expenditures to reimburse other educational institutions. ***Used in the indirect cost calculation.***

Used only with function 1000.

6570 **Food Service Management**—Costs for the operation of a local food service facility by other than employees of the school. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenses paid for food, supplies, labor, and equipment would be charged to the appropriate object codes.

Used only with function 3100.

6580 **Travel**—Costs of transportation, meals, lodging, and other expenses associated with traveling on business for the school (including nonemployees traveling for a school purpose). This includes public transportation fares or private vehicle reimbursement, subsistence, and other permissible travel 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, object code 6100.

Used with functions 1000–4000.

6590 **Miscellaneous Purchased Services**—Purchased services other than those coded elsewhere in the expenditure object code 6500 range.

6591 **Services Purchased from Other Arizona Schools or Districts**—Payments to another school or district within the State 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 classify such payments to the 6300 series of object codes or to this code, 6591 should be used so that *all* interschool payments can be eliminated when consolidating reports from multiple schools at state and federal levels.

Usually used with function codes in the 2000 range.

6592 **Services Purchased from Out-of-State Schools or Districts**—Payments to another school or district outside the State 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 classify such payments to the 6300 series of object codes or to this code, 6592 should be used so that *all* interschool payments can be eliminated when consolidating reports at the federal level.

Usually used with function codes in the 2000 range.

6600 SUPPLIES—Amounts paid for items that are consumed, worn out, or deteriorated through use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.

6610 General Supplies—Costs for all supplies for operating the school, including freight and tax.

Used with functions 1000-4000.

6620 Energy—Costs for energy, including gas, oil, coal, gasoline, and services received from public or private utility companies.

6621 Natural Gas—Costs for gas utility services from a private or public utility company.

Usually used with functions 2600 and 3100.

6622 Electricity—Costs for electric utility services from a private or public utility company.

Usually used with functions 2600 and 3100.

6623 Bottled Gas—Costs for bottled gas, such as propane gas received in tanks.

Usually used with functions 2600 and 3100.

6624 Oil—Costs for bulk oil normally used for heating.

Usually used with function 2600.

6625 Coal—Costs for raw coal normally used for heating.

Usually used with function 2600.

6626 Gasoline—Costs for gasoline purchased in bulk or periodically from a gasoline service station.

Usually used with functions 2600 and 2700.

6630 Food—Costs for food used in the school food service program. Food used in instructional programs is charged under object 6610.

Used only with function 3100.

6631 USDA Commodities (Excluding Freight)—The fair market value of commodities donated by the U.S. Department of Agriculture (USDA).

6632 USDA Commodities (Freight Only)—Expenses for freight charges for USDA commodities.

6633 Other Food—Costs for food other than USDA commodities.

6640 Books, Periodicals, and Instructional Aids—Costs for books, textbooks, and periodicals prescribed and available for general use, including reference books. This category includes the cost of workbooks and textbooks that are purchased to be resold or rented. This category also includes the cost of bookbinding or repairs to textbooks and school library books.

Used with functions 1000–4000.

6641 Library Books—Expenses for regular purchases of library books and related items available for general use by students, including reference books, films, cassette tapes, periodicals, and computer databases used in the library/media center.

6642 Textbooks—Expenses for textbooks or educational systems for each course of study, including books, kits, videocassettes, films, instructional computer software, or workbooks that function as part of the basic program. This code is not intended to cover costs of teaching supplies normally consumed, such as paper, pencils, scissors, crayons, and tape.

6643 Instructional Aids—Expenses for materials, such as instructional computer software, workbooks, films, kits, and magazines that supplement the school's adopted program.

6644 Other Books, Periodicals, and Media—Expenses for books, periodicals, and other media such as DVDs purchased for nonstudent users or for noncredit enrichment programs.

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, parallel cables, and monitor stands.

Used only with functions 2200 and 2500.

6700 PROPERTY—Expenses for capital asset depreciation and impairments.

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.

Used only with function 4000.

6750 Capital Asset Impairments—Used to record impairment losses on capital assets. An asset is considered impaired when its carrying amount exceeds its fair value. An impairment loss should be recognized only if the carrying amount of a capital asset is not recoverable and exceeds its fair value.

Used only with function 4000.

6800 OTHER EXPENSES AND LOSSES—Expenses and losses not otherwise classified above.

6810 Dues and Fees—Costs for membership in professional or other organizations, certification/licensing fees, or payments to a paying agent for services rendered, such as bank fees.

Usually used with functions 1000 and codes in the 2000 range.

6820 Judgments Against the School—Costs for all judgments against the school 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 the school resulting from failure to pay bills or debt service are recorded under the appropriate expense accounts as though the bills or debt service had been paid when due.

Updated

Used only with function 2300.

6830 Pass-through Payments—Payments to another entity for monies received by the school 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. ***Used in the indirect cost calculation.***

6840 Sub-awards—Sub-awards are awards provided by a school to a subrecipient to carry out part of the services for which the award was received by the school. 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. **(For indirect cost reporting, schools must maintain adequate records to be able to report the portion of each individual sub-award exceeding $25,000.)**

6850 Interest—Interest expense on revolving lines of credit, capital leases, and account balances not paid in full within 30 days.

6860 Nonpayroll Taxes

6861 Federal
6862 State
6863 Local
6864 Property

6870 Loss on Sale of Investments—Losses realized on the sale of investments. Losses represent the excess of the cost or any other basis at the date of sale over the sale proceeds. The basis at the date of sale is the cost less amortization of premiums or plus amortization of discounts, as applicable.

6890 Miscellaneous Expenses—Expenses not properly classified in one of the object codes included above. Students' food and hotel costs associated with student travel, as well as student entrance fees paid by the school should be coded here.

Used with functions 1000-4000.

6900 OTHER OBJECTS

6910 Indirect Costs—Overhead costs associated with operating federal projects that cannot be easily identified with a specific project. Such costs are usually recorded in project 1000—Schoolwide Project. Indirect costs are calculated using an indirect cost rate approved by ADE.

This object code is neither a revenue nor an expense code. It serves as an internal management tool used primarily for ADE reporting purposes. It should be used with a project code; however, a program and function code are not required. It should not be used in preparing the school's audited financial statements. (See Example Entry 13 on page **III-F-2**.)

This element identifies expenses by instructional level and school. The first digit of the three-digit unit code identifies the instructional level and is required for charter schools containing both elementary and high school grades. The second and third digits of the unit code are used to account for expenses of particular campuses and are required for schools with two or more campuses. The following numbers should be used as the first digit. Schools should add subaccounts (i.e., 110, 120, etc.) within the elementary and high school codes to identify particular campuses.

100 **Elementary**—A school organized as an elementary school with a grade level of kindergarten through eighth grade.

200 **High School**—A school organized as a high school with a maximum grade level span of 9 through 12.

300 **Schoolwide**—Assigned to any expense that applies to the entire school and is not clearly assignable to an instructional level. Expenses charged to this unit code must be allocated among individual campuses and instructional levels by fiscal year-end. However, this allocation is only required for the school's annual report cards and is not required to be recorded in the school's accounting records.

The following journal entries are examples of double-entry account coding for various transactions. The examples do not include the unit code element, which is required only for charter schools with both elementary and high school grade levels and schools with two or more campuses.

	Account Codes	Description	DEBIT	CREDIT
1.	1000 000 0000 0102	Cash in Bank	$90,000	
	1000 000 0000 3110	Revenues—State Equalization Assistance		$90,000
	(To record receipt of state equalization assistance.)			
2.	1000 200 1000 6112	Certified Salaries—Teachers	$ 1,000	
	1000 200 1000 6220	Social Security Taxes—Employer Matching	76	
	1000 200 1000 6210	Employee Insurance—Employer	100	
	1000 000 0000 0222	Social Security—OASDI Payable—Employer		$ 62
	1000 000 0000 0243	Social Security—OASDI Payable—Employee		62
	1000 000 0000 0223	Medicare Payable—Hospital Insurance—Employer		14
	1000 000 0000 0244	Medicare Payable—Hospital Insurance—Employee		14
	1000 000 0000 0225	Employee Insurance Payable		100
	1000 000 0000 0241	Federal Income Taxes Payable		120
	1000 000 0000 0242	State Income Taxes Payable		24
	1000 000 0000 0247	Voluntary Deductions (Insurance)		50
	1000 000 0000 0102	Cash in Bank		730
	(To record the biweekly salary of a certified teacher who teaches children in the gifted program.)			
3.	1000 000 0000 0196	Equipment	$7,500	
	1000 000 0000 0102	Cash in Bank		$7,500
	(To record the purchase of a copier for use by the accounting department.)			
4.	1000 000 0000 0102	Cash in Bank	$1,000	
	1000 000 0000 1922	Contributions and Donations from Private Sources—With Donor Restrictions		$1,000
	(To record receipt of a donation that has been restricted by the donor to be used for the purchase of textbooks. **Not-for-profit schools only**.)			
5.	1000 000 0000 5302	Net Assets Released from Time Restrictions—With Donor Restrictions	$ 500	
	1000 000 0000 5301	Net Assets Released from Time Restrictions—Without Donor Restrictions		$ 500
	(To record the release of assets from donor restrictions by the passage of time. **Not-for-profit schools only**.)			
6.	1000 000 0000 0216	Due to Student Groups	$ 150	
	1000 000 0000 0102	Cash in Bank		$ 150
	(To record a student club disbursement.)			

Updated

	Account Codes	Description	DEBIT	CREDIT
7.	15XX 000 0000 0102	Cash in Bank	$3,000	
	15XX 000 0000 1700	Revenue—School Activities		$3,000

(To record gate receipts from a school basketball game for a school electing to use a separate project code to track the financial activity of its athletic program.)

8.	15XX 000 0000 0102	Cash in Bank	$ 600	
	15XX 000 0000 1600	Revenue—Food Service		$ 600

(To record school lunch sales for a school electing to use a separate project code to track the financial activity of its food service program.)

9.	1000 000 0000 0150	Prepaid Insurance	$10,000	
	1000 100 2600 6520	Property Insurance	10,000	
	1000 000 0000 0102	Cash in Bank		$20,000

(To record the purchase of a 2-year property insurance policy.)

10.	1000 400 2700 6626	Gasoline for Student Transportation	$ 1,500	
	1000 000 0000 0201	Accounts Payable		$ 1,500

(To record the purchase of gasoline for school buses used for regular education on account. It is expected to be used up during the current period.)

11.	1000 000 0000 0194	Buildings	$50,000	
	1000 000 0000 0261	Capital Leases Payable		$45,000
	1000 000 0000 0102	Cash in Bank		5,000

(To record the school's entry into a capital lease to obtain a building, including a cash down payment.)

12.	1000 400 4000 6740	Depreciation	$15,000	
	1000 000 0000 0197	Accumulated Depreciation on Equipment		$15,000

(To record the annual depreciation of school buses.)

13.	1000 000 0000 0102	Schoolwide Project—Cash in Bank	$500	
	1XXX 000 0000 6910	Federal Projects—Indirect Costs	500	
	1000 000 0000 6910	Schoolwide Project—Indirect Costs		$500
	1XXX 000 0000 0102	Federal Projects—Cash in Bank		500

(To record indirect costs in a federal project. **Not-for-profit** schools will also need to make a journal entry in the federal project similar to Example Entry 5 if the revenue was recorded as restricted when it was received.)

Account Codes	Description	DEBIT	CREDIT
14. 1000 400 2700 6511	Student Transportation Purchased from Other Arizona Schools or Districts	$1,000	
1000 000 0000 0102	Cash in Bank		$ 1,000
(To record the payment made to another Arizona school or district for transporting the paying school's students.)			
15. 1000 000 0000 0196	Equipment	$30,000	
1000 000 0000 0102	Cash in Bank		$30,000
(To record the purchase of a van to be used to transport disabled students.)			
16. 1000 620 1000 6643	Instructional Aids	$ 1,000	
1000 000 0000 0102	Cash in Bank		$ 1,000
(To record the purchase of athletic instructional aids.)			

INTRODUCTION

Budgeting is the process of translating the school's plans into an itemized, authorized, and systematic plan of operation, expressed in dollars, for a given period. The result of this process is a document that serves as a blueprint to monitor and control ongoing operations. Budgeting provides an opportunity to examine the school's resources and each current or planned program and activity.

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

Participants in the budgeting process should include the school governing board, the chief executive officer, the chief business officer, other administrators, and perhaps representatives of faculty and parents. School governing boards should oversee the entire budget process. Each governing board should review current conditions, evaluate proposals, and adopt the final version of the proposed budget.

POLICIES

Preparation of the Annual Budget

Schools must prepare a proposed budget each fiscal year on budget forms prescribed by the Office of the Auditor General and the Arizona Department of Education (ADE), which include all information required by Arizona Revised Statutes (A.R.S.). The charter school budget forms are reviewed annually and revised for legislative and other changes. The forms are issued with detailed instructions on preparing and adopting the budget.

The school must submit the proposed budget to the Superintendent of Public Instruction no later than July 5 of each year or no later than the date of publication of notice of the public hearing and board meeting. The proposed budget must be kept on file at the school and made available to the public upon request.

Preparation and Publication of Notice

A notice of public hearing and governing board meeting to adopt a budget must be submitted to ADE for posting on ADE's website no later than 10 days prior to the meeting. Schools that maintain their own website must post a copy of the proposed budget or budget summary and hearing notification on the school's website.

Public Hearing and Board Meeting

The governing board members shall hold the public hearing at the time and place designated in the notice. The purpose of the public hearing is to present the proposed budget publicly to all those present at the hearing. Any person may request the governing board to explain the budget or any item therein and may protest the inclusion of any item in the proposed budget.

Immediately following the public hearing, the president of the governing board shall call to order the board meeting to adopt the proposed budget. The budget must be recorded in the board minutes. The governing board must submit the adopted budget to the Superintendent of Public Instruction no later than July 18.

Budget Revisions

Schools may revise their adopted budgets during the fiscal year provided all revisions are completed and approved at a governing board meeting before May 15. If the school has overestimated its student count and state equalization assistance it must revise its budget before May 15. If a school underestimated its student count and state equalization assistance or received federal or state grants or other miscellaneous receipts that were not included in its adopted budget, the school may choose to revise its budget before May 15 to include any additional monies received or to be received.

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 school management level, a report of operations and variance analysis may be prepared monthly and should be prepared at least quarterly. The monthly budget report should include the budgeted expenses per the adopted budget, current-month expenses, year-to-date expenses, commitments, and the remaining budget balance. The level of detail presented in the report should be dependent on each school's specific management needs. Monthly budget reports may be used to monitor activity at any level from project to object code.

CONTENTS

Topic	Page
INTRODUCTION	V-A
Introduction	V-A
Principles	V-A
FOR-PROFIT-ENTERPRISES	V-B
Introduction	V-B
Revenues, Expenses, Gains, And Losses	V-B
Assets, Liabilities, And Equity	V-B
NOT-FOR-PROFIT-ENTERPRISES	V-C
Introduction	V-C
Revenues, Expenses, Gains, And Losses	V-C
Assets, Liabilities, And Net Assets	V-C

INTRODUCTION

For proper accounting and financial reporting purposes, charter schools should account for their financial position and results of operations in accordance with generally accepted accounting principles applicable to private enterprises. A.R.S. §15-183(E)(6). Such entities may be organized as for-profit (i.e., sole-proprietorship, partnership, corporation) or not-for-profit (i.e., corporation) entities. Accounting principles for private enterprises are established by the Financial Accounting Standards Board (FASB). Schools should refer to the pronouncements of FASB and its predecessor bodies for a detailed discussion of applicable accounting principles.

PRINCIPLES

Generally accepted accounting principles applicable to for-profit and not-for-profit entities differ due to their profit orientation. However, the following accounting principles apply to both types of entities.

Measurement Focus and Basis of Accounting

Measurement focus identifies **what** transactions and events should be recorded in the accounting records and reported in the financial statements.

Private enterprises account for transactions using the flow of economic resources measurement focus. The focus is on the measurement of net income of for-profit organizations, or change in net assets for not-for-profit organizations (i.e., revenues minus expenses). Using this focus, all transactions affecting the entity's economic resources are reported in the financial statements.

Basis of accounting refers to **when** revenues and expenses are recognized in the accounting records and reported in the financial statements.

Schools using either orientation should use the accrual basis of accounting for reporting purposes. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period incurred. Not-for-profit organizations recognize certain revenues/net assets as with donor restrictions. Consequently, the release of net assets from donor-imposed restrictions are recognized in the accounting period in which the restrictions on the assets are satisfied (e.g., expiration of specified period of time).

INTRODUCTION

This section briefly describes the assets, liabilities, equity, revenues, and expenses applicable to charter schools organized as for-profit entities.

REVENUES, EXPENSES, GAINS, AND LOSSES

Revenues include operating and nonoperating revenues. Operating revenues include grants and aid, sales of goods or services (e.g., food items, supplies and materials, and optional activities), and other miscellaneous revenues. Nonoperating revenues include interest and gains on investments, gifts and donations, and gains on the disposal of capital assets.

Expenses include operating and nonoperating expenses, and income tax expense. Operating expenses include salaries and benefits, administrative costs, utilities, repairs and maintenance, transportation, insurance, supplies and materials, and depreciation. Nonoperating expenses include interest expenses and losses on the disposal of capital assets and investments.

ASSETS, LIABILITIES, AND EQUITY

Assets may include cash, investments, receivables, inventories, prepaid items, capital assets, and deferred taxes. Receivables may include accounts, notes, and interest receivable, and amounts due from governmental entities. Assets should be classified as current or noncurrent for reporting purposes.

Liabilities may include accounts payable, contracts payable, accrued payroll, employee benefits, compensated absences, claims and judgments, amounts due to governmental entities, and deferred taxes. Other liabilities may also include deferred revenues and long-term liabilities such as capital leases payable. Liabilities should be classified as current or noncurrent for reporting purposes.

Equity includes contributed capital and retained earnings. Contributed capital represents resources contributed to the school by owners. Retained earnings represents the school's earnings (i.e., net income) that have been reinvested in the school or not yet distributed to owners.

INTRODUCTION

This section briefly describes the assets, liabilities, net assets, revenues, and expenses applicable to charter schools organized as not-for-profit entities.

REVENUES, EXPENSES, GAINS, AND LOSSES

Revenues include grants and aid, sales of goods or services (e.g., food items, supplies and materials, and optional activities), interest on investments, gains on the disposal of capital assets, gifts and donations, and other miscellaneous revenues. Revenues should be classified as either with or without donor restrictions.

Expenses include salaries and benefits, administrative costs, utilities, repairs and maintenance, transportation, insurance, supplies and materials, depreciation, interest expenses, and losses on the disposal of capital assets.

ASSETS, LIABILITIES, AND NET ASSETS

Assets may include cash, investments, receivables, inventories, prepaid items, and capital assets. Receivables may include accounts, notes, and interest receivable, and amounts due from governmental entities.

Liabilities may include accounts payable, contracts payable, accrued payroll, employee benefits, compensated absences, claims and judgments, and amounts due to governmental entities. Other liabilities may also include deferred revenues and long-term liabilities such as capital leases payable.

Net assets are classified as with and without donor restrictions. Net assets with donor restrictions are net assets whose use is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the school. Net assets without donor restrictions are all net assets of the school which are not restricted.

CONTENTS

Topic	Page
INTRODUCTION	VI-A
ACCOUNTING RECORDS	VI-B
CASH	VI-C
SUPPLIES INVENTORY	VI-D
CAPITAL ASSETS	VI-E
RECEIPTS	VI-F
DISBURSEMENTS	VI-G
PAYROLL	VI-H
TRAVEL	VI-I
STATE AND FEDERAL FINANCIAL ASSISTANCE	VI-J

An effective accounting system is essential in providing accurate and timely financial information to legislators, governing boards, school administrators, investors and creditors, and the public. The Legislature uses financial information as a basis to allocate financial support. Governing boards use such information to plan overall policies and operations, to plan capital budgeting, and to project future financing. School administrators use the information to plan and conduct the daily financial affairs of the school. Investors and creditors need information about available and probable financial resources, actual and contingent liabilities, and the overall debt position of the school in order to evaluate its ability to meet long-term debt service obligations. The public uses such information to determine how well the school is meeting its stewardship responsibilities.

Accounting system policies and procedures should be in writing and formally adopted by the governing board. Essential to an effective accounting system is a system of internal control that will provide a plan of organization, adequate internal checks and balances, and sufficient supporting records to ensure the safeguarding of assets and the accuracy and reliability of the financial records. The accounting system must also provide information necessary to determine school compliance with finance-related legal and contractual provisions.

An organizational chart showing lines of responsibility is one means of formalizing a school's plan of organization. Written job descriptions setting forth the duties and responsibilities of each employee should support the organizational chart. A good plan of organization should delegate responsibilities to key departments and adequately segregate incompatible functions among employees. Operating and accounting functions should be separated so one employee does not have both recordkeeping and custodial duties. In small schools where limited personnel prohibit such segregation of duties, a school administrator should review the work of employees performing both duties.

The remainder of the Accounting Procedures section describes in specific detail the policies, procedures, and recordkeeping methods of an effective accounting system for Arizona charter schools. The procedures described in this section are designed for schools with governing boards that are responsible for both policy and operational decisions. However, statute only requires that governing boards be responsible for policy decisions. Statute does not assign responsibility for operational decisions. If a charter school's governing board is not responsible for operational decisions, the procedures described in this section related to governing boards should be modified to assign operational decisions to the appropriate decision maker. Note that proper internal controls, including segregation of duties, should be maintained as noted above.

CONTENTS

Topic	Page
INTRODUCTION	VI-B-1
DOUBLE ENTRY ACCOUNTING	VI-B-1
SOURCE DOCUMENTS	VI-B-2
JOURNALS	VI-B-2
General Journal	VI-B-3
Special Journals	VI-B-3
GENERAL LEDGER	VI-B-5
SUBSIDIARY LEDGER	VI-B-6
BUDGETARY ACCOUNTING	VI-B-6
TRIAL BALANCE	VI-B-7

INTRODUCTION

Accounting records and procedures (i.e., methods) comprise the accounting system through which a school identifies, assembles, analyzes, classifies, records, and summarizes its financial transactions and reports the financial position and results of operations of the school. 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 amounts and in the fiscal years in which they occur. Additionally, the accounting system should monitor the school's legal compliance concerning the use of financial resources.

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

DOUBLE ENTRY ACCOUNTING

Schools 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 should 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**		**Expenses***	
Debit	Credit	Debit	Credit
Decrease	Increase	Increase	Decrease

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

Schools should record all revenues, expenses, and the related assets and liabilities, and prepare financial reports on an accrual basis. Schools should record revenues in the accounting period in which they are earned. Schools should record expenses in the fiscal year in which goods or services are received.

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, cash register tapes, and validated bank deposit receipts. Examples of cash disbursements source documents include 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. Schools should maintain adequate segregation of initiating, approving, and recording journal entries. A school administrator should be authorized to review and approve all journal entries before recording the journal entry in the accounting records.

Schools should use prenumbered and numerically controlled journal entry forms. They should identify the preparer and account code distribution; and contain sufficient explanations, attachments, or references to documentary evidence supporting the entry. The employee approving the journal entry form should initial it.

JOURNALS

A journal is defined as a book of original entry. Journals provide a chronological detailed record of 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 school should adhere to the following practices in maintaining general and special journals.

1. Each page should indicate the type of journal and page number.
2. Each transaction should be coded in accordance with the **Chart of Accounts, §III**.
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 in the general ledger standard monthly journal entries, adjusting entries, and year-end closing and reversing entries. The following describes typical examples of such entries:

1. Establishing an asset or liability account
2. Correcting posting errors
3. Reclassifying revenues or expenses
4. Closing revenue and expense accounts to retained earnings/net assets

The following sample entry is recorded in the general journal. The entry closes the revenue and expense accounts to retained earnings at the end of the fiscal year (item 4 above).

GENERAL JOURNAL					Page 02
Date 20XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
6/30	1XXX-000-0000-XXXX	Revenues	X	$1,513,000	
	1XXX-XXX-XX00-6XXX	Expenses	X		$1,464,000
	1XXX-000-0000-0300	Unappropriated Retained Earnings	X		49,000
To close revenue and expense accounts to the retained earnings account for the year ended June 30, 20XX.					

Special Journals

Schools may use a special journal to record recurring entries of a particular type. Journals should be kept separately by 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

PROJECT ..... 1000 CASH RECEIPTS JOURNAL
ACCOUNT NO. 0102

			Receipts-Credit			
Date 20XX	Payor	Cash Debit	Local 1000	Intermediate 2000	State 3000	Federal 4000
7/15	Arizona Dept. of Education State Aid Apport. #1	$89,000			$89,000	

Disbursements Journal—Disbursements are recorded in this journal by date of receipt of goods or services, when processing vouchers. When a check is written, the check number and date are recorded. An example of a disbursements journal follows.

Left Side

PROJECT ..... 1000 DISBURSEMENTS JOURNAL Page 03
PROGRAM 100
ACCOUNT NO. 0102

			Check		
Date 20XX	Voucher No.	Payee	Number	Date	Cash Credit
9/3	4	Salt River Project	1020	9/10	$ 1,000
9/5	5	Principal's Salary	2100	9/10	1,300
9/5	5	Teachers' Salaries	2152-2261	9/10	38,500

Right Side

	Object Code-Expenses—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						$1,000	
2400	$ 1,300						
1000	38,500						

GENERAL LEDGER

The general ledger is the summary of financial transactions and the basis for preparing trial balances and financial reports. Schools can maintain the general ledger by using a hand-posted ledger or a computer system. The ledger should be organized according to the chart of accounts. The general ledger should contain the following accounts.

1. Assets, Liabilities and Equity/Net Assets—Asset and liability accounts should be established when assets or liabilities are recognized. The balances in these accounts fluctuate during the year with increases and decreases in assets and liabilities, and the accounts are not closed at the end of each fiscal year. The equity/net assets accounts are used to account for the difference between assets and liabilities.

2. Revenues, Gains, Expenses, and Losses—These accounts are opened at the beginning of each fiscal year and closed to equity/net assets accounts at the end of each fiscal year.

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

1. Establish a general ledger account for each source of revenues, expenses, gains, and losses.

2. Prepare necessary subsidiary ledgers when more detailed information is desired.

3. Enter in the "Memo" column each budgeted amount for revenues, expenses, gains, and losses.

Total revenues, expenses, gains, and losses are posted monthly from the appropriate journals to the general ledger accounts.

Examples of typical accounts in the general ledger follow.

PROJECT .....1000 **CASH IN BANK** Page 01
ACCOUNT NO. 0102

Date 20XX	Ref.	Transaction Description	Amount Debit	Amount Credit	Balance
7/01		Balance Forward			$ 82,000
7/31	RJ1	July Receipts	$89,000		171,000
7/31	DJ1	July Disbursements		$51,500	119,500

PROJECT .....1000 **REVENUES—STATE EQUALIZATION ASSISTANCE** Page 01
ACCOUNT NO. 3110

Date 20XX	Ref.	Transaction Description	Revenues Amount	Revenues To Date	Balance to be Received (Memo)
7/01	GJ2	Current Year Budget			$1,068,000
7/31	RJ1	First Apportionment of State Aid	$89,000	$89,000	979,000

PROJECT ..... 1000 **PERSONAL SERVICES—SALARIES** Page 01
PROGRAM 100
FUNCTION NO. .. 2400
ACCOUNT NO. 6111

Date 20XX	Ref.	Transaction Description	Disbursements Amount	Disbursements To Date	Commitments (Memo)	Remaining Budget (Memo)
7/01	GJ2	Current Year Budget				$32,000
7/01		Principal's Contract			$31,200	800
7/31	DJ1	July Disbursements	$2,600	$2,600	28,600	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.

BUDGETARY ACCOUNTING

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

Schools may use ledgers maintained by account to monitor commitments by including a column for recording each commitment and a column for the remaining budget balance.

1. At the beginning of the fiscal year, the school should enter the budget balance of each account in the remaining budget column.
2. When purchase orders, lease-purchase contracts, salary contracts, etc. are issued, amounts are entered in the commitments column and the remaining budget balance is calculated.
3. When a purchase is proposed, the school should determine whether the remaining budget balance is sufficient to approve the purchase.
4. When expenses are recorded, commitments should be reversed.

TRIAL BALANCE

A trial balance is a list of the balances of the accounts in the general ledger, and is prepared periodically 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. Schools should prepare a trial balance at the end of the reporting period to facilitate preparing financial statements.

CONTENTS

Topic	Page
BANK ACCOUNTS	VI-C-1
General Account	VI-C-1
General Revolving Account	VI-C-1
General Petty Cash Account	VI-C-4
Grants and Gifts to Teachers Account	VI-C-5
BANK RECONCILIATIONS	VI-C-5
INVESTMENT OF CASH	VI-C-7
SAMPLE FORMS: REVOLVING ACCOUNT CHECK REQUEST	VI-C-8
PETTY CASH WITHDRAWAL REQUEST	VI-C-8

BANK ACCOUNTS

Bank accounts should be authorized by the governing board and a list of authorized check signers designated by the governing board for each bank account should be kept current.

Governing boards may authorize establishment of the following bank accounts. The bank accounts should be used only for their intended purpose. To properly control cash, the minimum number of accounts possible should be maintained and inactive bank accounts should be closed promptly. Schools with student activities should establish a separate bank account for those monies.

Types of Accounts
General Account
General Revolving Account
Payroll Clearing Account
State Income Tax Withholdings Account
Federal Payroll Tax Withholdings Account
Employee Insurance Programs Withholdings Accounts
Food Service Account
Food Service Revolving Account
Auxiliary Operations Account
Auxiliary Operations Revolving Account
Student Activities Account
Grants and Gifts to Teachers Account

Bank accounts, other than the general account, the general revolving account, and the grants and gifts to teachers account are discussed in the Food Service, Auxiliary Operations, Student Activities, and Payroll subsections.

General Account

A general bank account should be established by the governing board for current operations. This account should account for all resources used to finance school operations except those to be accounted for in the other specific purpose accounts listed above.

General Revolving Account

A general revolving account may be established by the governing board. The amount should be no more than $5,000 for charter schools with elementary or high school grade levels and $10,000 for charter schools with both elementary and high school grade levels.

A check should be drawn against the general bank account to establish the revolving account. The custodian of the revolving account should be bonded in an amount equal to twice the imprest amount of the account.

The revolving account should be operated on an imprest basis. Therefore, monies in the bank 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 fiscal year should be made by June 30 so that expenses are reported in the proper accounting period.

The revolving account may be used for activities that require immediate cash outlays such as postage, freight, fuel taxes, travel, and other minor disbursements. **Salaries and wages should not be paid from the revolving account.**

Procedures for establishing the revolving account

1. A voucher (or order for payment) should be submitted to the governing board. The voucher is prepared and approved as other school vouchers. (See **§VI-G, Disbursements**, for detailed procedures on preparing and approving vouchers.)
2. When the voucher for the revolving account is approved by the governing board, a check should be issued from the general bank account payable to the revolving account custodian.
3. When the check is received by the custodian, it should be deposited into the revolving account immediately. (See **§VI-F, Receipts**, for detailed deposit procedures.)
4. The custodian should record the deposit in the revolving account check register by entering the deposit date, description, and deposit amount when the validated deposit slip is received. The validated deposit slip should be retained in the revolving account file.

Revolving account disbursement procedures

Specific procedures may vary depending on size and organization of the school.

1. The employee requesting a check should:
   a. Complete a revolving account check request (**VI-C-8**) by filling in the date, payee, invoice number, purpose, amount, and the requester's signature.
   b. Obtain approval for the check request from the appropriate supervisor. The supervisor should sign and date the revolving account check request to indicate approval.
   c. Submit the approved revolving account check request and supporting documentation (i.e., invoice) to the revolving account custodian.

2. The revolving account custodian should:

   a. Verify the mathematical accuracy of the invoice and ensure that the revolving account check request is properly completed and approved. Any discrepancies noted should be investigated and resolved prior to check issuance.

   b. Sign and date the revolving account check request.

   c. Prepare and sign a revolving account check.

   d. Record the check number, account code, and date on the revolving account check request.

   e. Record the check number, issue date, description, and amount, and calculate a new balance in the revolving account check register.

   f. Forward the signed check to the requester.

   g. Mark the vendor invoice and other supporting documents paid, indicating check number, amount, and date, to prevent reuse.

   h. File the revolving account check request and supporting documents in an unreimbursed disbursements file.

When the revolving account cash balance reaches a predetermined minimum level, the custodian should replenish the account. Before initiating replenishment procedures, the custodian should reconcile the cash on hand and the unreimbursed check requests and supporting documents to the imprest amount.

Revolving account replenishment procedures

1. The custodian should submit all revolving account check requests and related supporting documentation, including copies of bank statements verifying service charges, filed in the unreimbursed disbursements file to the employee responsible for voucher preparation.

2. The voucher should be prepared in accordance with the procedures outlined in **§VI-G, Disbursements**. The disbursements should be charged to the account codes listed on the revolving account check requests. The voucher should equal the total of the paid invoices or other supporting documents and any applicable bank service charges.

3. The voucher should be submitted to the governing board for approval.

4. The check received from the general bank account should be deposited into the revolving account**.** The deposit slip should be prepared in duplicate and the copy retained by the custodian. (See **§VI-F, Receipts**, for detailed deposit procedures.)

5. The custodian should record the deposit in the check register when the validated bank deposit receipt is received and matched with the copy retained. The validated bank deposit receipt and copy should be retained in the revolving account file.

Petty Cash Account

A petty cash account, for minor disbursements when a check is not practical or immediate cash payment is required, may be established by a check drawn on the general revolving account. The governing board should authorize the petty cash account. One employee should be designated the petty cash account custodian. The custodian should make certain the cash is locked in a safe or a cash box to which only the custodian has access.

The petty cash account should be maintained on an imprest basis. This means that the monies in the petty cash box plus Petty Cash Withdrawal Requests (whether supported by sales receipts or not) should equal the authorized petty cash account amount at all times.

The petty cash account should be returned to the general revolving account by June 30 in order for expenses to be reported in the proper accounting period. To do this, the petty cash account custodian should submit the remaining cash and unreimbursed petty cash withdrawal requests with supporting sales receipts to the revolving account custodian, who should then deposit the cash in the revolving bank account and record the deposit in the revolving account check register.

Petty cash disbursement procedures

1. The employee requesting petty cash should:
   a. Complete a petty cash withdrawal request (**VI-C-8**).
   b. Obtain prior approval for disbursement from the appropriate supervisor. The supervisor should sign and date the petty cash withdrawal request to indicate approval.
   c. Submit the approved petty cash withdrawal request and sales receipt, if already obtained, to the petty cash custodian.
2. The petty cash custodian should:
   a. Verify the mathematical accuracy of the sales receipt, if applicable, and ensure that the petty cash withdrawal request is properly completed and approved. Any discrepancies noted should be investigated and resolved before cash is disbursed.
   b. Sign and date the petty cash withdrawal request and maintain it in the cash box with the sales receipt, if already obtained, to support the disbursement.
   c. Disburse the cash to the requesting employee, who should sign and date the petty cash withdrawal request.
   d. Upon receipt of any change from the employee and the sales receipt if not obtained prior to the disbursement, verify the mathematical accuracy of the receipt and that the sales receipt amount plus any change equals the withdrawal request amount. Differences should be investigated and resolved. The date returned, sales receipt amount, and change returned should be recorded on the

applicable petty cash withdrawal request and placed in the petty cash box until the petty cash account is replenished.

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

Petty cash account replenishment procedures

1. The petty cash custodian should:
   a. Complete a revolving account check request (**VI-C-8**) and have it approved by the appropriate supervisor.
   b. Submit the check request and supporting petty cash withdrawal requests and sales receipts to the general revolving account custodian.
2. The general revolving account custodian should issue a check payable to the petty cash custodian in the amount requested. (See **VI-C-2** for revolving account disbursement procedures.)

Grants and Gifts to Teachers Account

The governing board may establish a grants and gifts to teachers account to deposit grants and gifts designated for use by a teacher for instructional purposes.

Schools should maintain a separate record for each grant or gift deposited in the bank account. The record should include, at a minimum, the teacher's name, the grantor, the date and amount of each deposit and withdrawal, and the accumulated balance. Disbursements from the account should be by check signed by two school employees appointed by the governing board and should be authorized in writing by the teacher designated to use the grant or gift. To provide such authorization, schools may use a form or form letter.

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

BANK RECONCILIATIONS

Schools should receive monthly bank statements that summarize the monthly activity and report the ending cash balance for each bank account. Bank statement cash balances generally do not agree to the school's records because checks may be outstanding, deposits may be in transit, and the school may not have recorded bank charges. Therefore, a reconciliation is performed to verify the accuracy of both balances.

A written bank reconciliation should be prepared monthly for each bank account by an employee not responsible for handling cash or issuing checks.

Bank reconciliation procedures

1. Receive the unopened envelope containing the bank statement and canceled checks.
2. Obtain the check register and file of validated deposit slips for the bank account.
3. Compare the canceled checks to the check register to ensure that the number, date, payee, and amount are in agreement. Canceled checks should be examined for alterations, authorized signatures, and irregular endorsements.
4. Prepare a list of outstanding checks. Outstanding checks are checks that have been issued and deducted from the check register balance, but have not been deducted from the bank balance as shown on the bank statement. If the list of outstanding checks discloses checks that have been outstanding for six months (180 days) or longer, the employee should void those checks, delete them from the list of outstanding checks, and increase the balance of the check register by the amount of the voided checks.
5. Compare the date and amount of each deposit shown on the bank statement to the validated bank deposit slip maintained on file and to the check register.
6. Prepare a list of deposits in transit. Deposits in transit are deposits made subsequent to the bank statement date and, therefore, are not included in the bank balance or shown on the bank statement.
7. Differences noted in 3 and 5 should be resolved and the check register balance adjusted, if necessary.
8. Record the bank charges indicated on the statement in the check register.
9. Compute the month-end reconciled balance as follows:

   Ending balance per bank statement

   (+) Deposits in transit

   (-) Outstanding checks

   (=) Month-end reconciled balance
10. Compare the balance computed in 9 to the adjusted balance in the check register. Differences should be investigated and resolved.
11. Sign and date the reconciliation. If the employee preparing the reconciliation is also responsible for handling cash or issuing checks, the business manager or administrator should review and sign the reconciliation.
12. File the reconciliation, bank statement, and canceled checks by bank account and month.

INVESTMENT OF CASH

An effective system of cash management includes the investment of idle monies to increase revenues. Schools have a responsibility to act prudently with respect to public monies. Therefore, schools should look to the investment standards established for the State Treasurer in A.R.S. §35-310 et seq as a basis for the school's investments.

For information on the investment of auxiliary operations and student activities monies, see §§**X-B** and **X-C**, respectively.

_____ **CHARTER SCHOOL**

REVOLVING ACCOUNT CHECK REQUEST

Date _____ Amount $ _____

Payable to _____

Invoice No. _____

Purpose _____

_____

Requested by _____

Approved by _____

TO BE COMPLETED BY CUSTODIAN:

Check No. _____ Date _____

Account Code _____

Signature _____

_____ **CHARTER SCHOOL**

PETTY CASH WITHDRAWAL REQUEST

*Date _____

*Requested by _____

*Purpose _____

_____

Account Code _____ *Amount $ _____

Approved by _____ Date _____

Received by _____ Date _____

Custodian _____ Date _____

Sales Receipt Amount $ _____ Receipt No. _____ Date _____

Change Returned $ _____ Date _____

*Must be completed by Requester

CONTENTS

Topic	Page
INTRODUCTION	VI-D-1
POLICIES	VI-D-1
PROCEDURES	VI-D-1
Inventory Systems	VI-D-1
Method of Accounting for Inventory	VI-D-2
Inventory Control	VI-D-2
Issuing and Receiving Warehouse Supplies	VI-D-3
Physical Inventory	VI-D-3
Inventory Pricing	VI-D-5
Recording Supplies Inventory at Year-End	VI-D-6
SAMPLE FORMS: WAREHOUSE REQUISITION/ISSUE FORM	VI-D-7
INVENTORY COUNT SHEET	VI-D-8

INTRODUCTION

Supplies include goods and materials of an expendable nature that are consumed in the normal course of operating the school. Schools 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.

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

For maximum benefit, schools should tailor the internal controls to their specific needs. For example, inventories may be maintained in a centralized system using a central warehouse, a decentralized system, distributing supplies to classrooms and offices on receipt, or a combination of these systems. The policies and procedures in this section illustrate using a centralized inventory system.

POLICIES

1. Schools should maintain segregation of duties between recordkeeping and custodial functions. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
2. Schools should properly safeguard supplies inventory.
3. Schools should take a complete physical inventory annually or once every three years if perpetual inventory records are maintained.
4. Schools should properly value inventory and maintain adequate supporting documentation.

PROCEDURES

Inventory Systems

Schools may maintain supplies inventory accounting records using a perpetual or a periodic inventory system.

In a perpetual inventory system, purchases and issues of supplies 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 supplies 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. See **VI-D-6** for an example of a perpetual inventory record.

Schools should arrange perpetual inventory accounting records by description or stock number. School office personnel should maintain the perpetual records. However, if the records are maintained by warehouse personnel, the accounting supervisor, business manager, or other administrator 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 and value of the supplies, the rate of turnover, and the effectiveness of other inventory control procedures.

Under a periodic inventory system, supplies inventory issuance 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 a 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, schools should maintain a record of purchases of each inventory item during the accounting period. The record of purchases should include description, date of receipt, quantity received, purchase order number, and unit cost.

Schools may use either method or a combination of both. 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.

Method of Accounting for Inventory

Schools should use the consumption method to recognize expenses for supplies inventory. Under the consumption method, supplies inventory items are considered 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 expenses.

Inventory Control

An important element of inventory control is to establish optimum minimum and maximum stock levels for items in the inventory. Optimum levels help minimize the risks of having inadequate inventories to meet school 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, schools should take into consideration the volume of usage of an item, and the time required to order and receive the inventory item. When inventory is depleted to the minimum stock level, schools should purchase additional inventory items. To determine the maximum stock inventory level, schools 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 to properly safeguard supplies inventory. 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

Schools should follow these procedures when receiving a requisition for supplies that are available in the warehouse. Schools should follow the procedures presented in **Disbursements, §VI-G**, for supplies that are not on hand and need to be purchased. (These procedures are based on a perpetual inventory system with records maintained by the school 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 **VI-D-7**.)
	2. Forwards supplies and copy of issue form to requestor.
	3. Forwards signed copy of issue form to school office and retains original issue form on file.
School Clerk	4. Updates perpetual inventory accounting records from the signed issue form.
School Administrator	5. Reviews requisitions periodically to help ensure that items requisitioned are reasonable and the requisitioner was authorized to request supplies.

Physical Inventory

Schools 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, the school should take a physical inventory at least once every three years. The inventory should be taken at year-end, if possible. If the school takes a physical inventory 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 following procedures should be followed to prepare for a physical inventory.

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

2. Close the warehouse, if possible, or reduce activity in the supplies area during the physical inventory. The school 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 list of the damaged or obsolete items and present it to the governing board or an administrator authorized by the board for approval prior to disposal.

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

Counting the Inventory—Schools 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 list. Unused tags should be returned to the employee maintaining the log to account for all tags.

Alternatively, schools may use prenumbered inventory count sheets (**VI-D-8**). 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 school 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 completing the initial inventory counts, an employee not involved in the first count should recount items on a test basis to verify the accuracy of the physical inventory counts. All differences should be resolved before the physical inventory is concluded. The employee responsible for supervising the physical inventory should initial corrections to inventory tags or inventory count sheets.

Preparing the Inventory List—Schools should prepare a supplies inventory list annually. The inventory list should include item and unit description, purchase document numbers, quantity, unit cost, extended cost, page totals, and a grand total.

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

1. Price the inventory in accordance with the cost flow assumption adopted by the school and applicable supporting documentation (including vouchers, vendor invoices, and purchase orders), and record the purchase document numbers and unit cost on the inventory list.
2. Compile, extend, and total the inventory list.
3. Sign and date the list to document responsibility for the valuation of the items.

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

Schools should consider having a second employee recheck the accuracy of the list on a test basis by comparing amounts to supporting documentation and verifying extensions and totals.

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

Inventory Pricing

Inventory valuations may directly affect the school's financial reports. Therefore, consistency in valuing the inventory is required so that financial reports may be compared from year to year and from school to school. 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 ADE. 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 list.

The cost of supplies inventory may be determined by associating a flow of costs with the flow of supplies inventory transactions. The school should adopt and consistently apply the cost flow assumption from year to year. Three common cost flow assumptions are first-in, first-out (FIFO), last-in, first-out (LIFO), and average cost.

The following is an example of an inventory item valuation under a perpetual system using the FIFO cost flow assumption. The FIFO method is based upon the assumption that the first items purchased are the first items issued. Under FIFO, the invoice prices of the most recent purchases are used to calculate ending inventory.

PERPETUAL INVENTORY RECORD

Location: Bin 5 — Unit of Measure: 1 cap

Stock No.: RC378X — Maximum Stock: 15

Description: Radiator Caps — Minimum Stock: 4

	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, 20XX, 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 list and supporting documents.

Recording Supplies Inventory at Year-End

At year-end, schools recording acquisitions of supplies using the consumption method should adjust the inventory asset account to the amount determined by the year-end physical inventory or perpetual inventory records and record the expense for the inventory items used. The following example illustrates a year-end adjusting entry.

GENERAL JOURNAL

Date 20XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Amount Credit
6/30	1XXX-XXX-XX00-6610	General Supplies Expense	X	$1,200	
	1XXX-000-0000-0160	Inventory of Supplies for Consumption	X		$1,200
To adjust the inventory of supplies balance to reflect valuation according to the physical inventory on June 30, 20XX, and to record expenses for supplies inventory used during the year.					

_____ **CHARTER SCHOOL**

WAREHOUSE REQUISITION/ISSUE FORM

No.: (numbered consecutively when received)

Date: _____

Requested by:_____

Department: _____

Location: _____

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

Total Amount $_____

Issued by: _____

Title: _____

Date: _____

Received by: _____

Title: _____

Date: _____

_____ **CHARTER SCHOOL**

INVENTORY COUNT SHEET

Sheet No.: (prenumbered)

INVENTORY _____, 20____

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 $ _____

CONTENTS

Topic	Page
INTRODUCTION	VI-E-1
POLICIES	VI-E-1
PROCEDURES	VI-E-1
Capital Assets List	VI-E-2
Stewardship List	VI-E-2
Property Identification	VI-E-2
Valuation of Capital Assets	VI-E-3
Acquisitions and Disposals	VI-E-5
Reconciling Changes in Capital Asset Accounts to the Capital Asset Additions List	VI-E-6
Reconciling the Previous Year-End List to the Current Year-End List	VI-E-6
Physical Inventory	VI-E-6
SAMPLE FORMS: LIST OF CAPITAL ASSETS	VI-E-8
REQUEST FOR AUTHORIZATION TO DISPOSE OF EQUIPMENT	VI-E-9
RECONCILIATION OF CHANGES IN CAPITAL ASSET ACCOUNTS TO THE CAPITAL ASSET ADDITIONS LIST	VI-E-10
RECONCILIATION OF PREVIOUS YEAR-END CAPITAL ASSETS LIST TO CURRENT YEAR-END CAPITAL ASSETS LIST	VI-E-11
INVENTORY COUNT SHEET	VI-E-12

INTRODUCTION

Capital assets are comprised of land and improvements, buildings and improvements, and equipment. These assets represent a major investment to the school. Therefore, the school should establish adequate control and accountability over these assets by developing a complete property control system.

A complete property control system includes the policies and procedures for recording and controlling capital assets as well as the capital asset information itself. Such a system will provide:

1. Centralized control over assets, including safeguards against theft and misuse.
2. Maximum efficiency in property use.
3. Accumulation of data for more effective current and long-range planning of capital asset acquisitions, replacements, and maintenance.
4. Property records in the event of fire or other casualty loss.
5. The proper valuation and classification of capital assets, and their fair presentation in the financial statements.

POLICIES

The school should implement the following policies in establishing an adequate property control system.

1. Schools should assign an individual to be directly responsible for administering policies and procedures over the property control system including coordinating the administrative and accounting functions.
2. The school should prepare a detailed list of capital assets that includes all equipment with unit costs of $5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of $5,000 or more. If the school wishes, it may record assets on the list at a lower threshold amount with the governing board's approval.
3. The school should prepare a stewardship list for all equipment with a cost of $1,000 or more but less than the capital asset threshold.
4. School personnel should take a physical inventory of all equipment at least every three years, and at least every two years for equipment costing more than $5,000 purchased with federal monies.
5. Adequate insurance coverage should be maintained.

PROCEDURES

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

Capital Assets List

The school should prepare a detailed list of capital assets that includes all equipment with unit costs of $5,000 or more and useful lives of one year or more, and all land, buildings, and improvements related to land and buildings with costs of $5,000 or more.

The list of capital assets (**VI-E-8**) should include the following information for each item:

1. Location (campus, department, building, etc.)
2. Identification number for equipment (tag number, serial number, or other number that specifically identifies the item)
3. Description (model number, size, color, etc.)
4. Method of acquisition (purchase, construction, trade, lease-purchase, or donation)
5. Source of funding (the project from which the item was purchased)
6. Acquisition date (month and year of acquisition)
7. Purchase document number (P.O. number, voucher number, or other document number that can be used to trace to the supporting documentation)
8. Cost (see Valuation of Capital Assets, **VI-E-3**)
9. Condition of asset (required only for assets with unit costs of $5,000 or more purchased with federal monies)
10. Percentage of federal participation (required only for assets with unit costs of $5,000 or more purchased with federal monies)

The list should be maintained by separate asset category (i.e., land and improvements, buildings and improvements, and equipment).

Stewardship List

To help safeguard and control significant equipment items costing less than $5,000, the school should also prepare a stewardship list for all equipment, with a cost of $1,000 or more but less than $5,000. The stewardship list should include the item's description, identification number (tag number), location, and the month and year of acquisition.

Property Identification

The school should specifically identify equipment with unit costs of $1,000 or more and a useful life of 1 year or more in order to physically safeguard the assets.

1. Each item should be tagged, marked with an identifying number, or specifically identified by some other means such as serial number.

2. If tags are used, the school office should distribute the tags and keep a record of the tag assignments. Tags should be prenumbered, numerically controlled, and issued sequentially.
3. Small or valuable items, such as musical instruments, should not be tagged if this would seriously impair the value or usefulness of the item. Engraving or encoding such items is recommended to facilitate their possible return if they are lost or stolen.
4. The school should identify equipment items with unit costs greater than $50 but less than $1,000 as school property. These items need not be numerically tagged or included on the capital assets or stewardship lists.

Valuation of Capital Assets

Capital assets may be constructed or acquired by purchase, donation, lease-purchase, or trade, and are to be valued at actual cost unless donated.

Purchase—Capital assets purchased should be recorded at actual cost. Actual cost includes ancillary charges necessary to put the asset in its intended location and condition for use. Ancillary costs include sales taxes; freight and delivery charges; installation, assembly and testing charges; and other incidental costs.

For purchases of land, incidental costs that are also part of the total cost of the land include legal fees, attorney's fees, title fees, architect's fees, survey fees, appraisals, recording fees, assumption of liens and delinquent taxes, and other closing costs.

Site preparation costs such as clearing, filling, grading, or demolition work that are not directly connected with the construction of buildings or improvements to buildings should also be included in land cost.

Land improvements include the acquisition cost of permanent improvements to land such as sidewalks, roadways, retaining walls, sewers, and storm drains; furnishing and installing capital playground apparatus or bleachers; or flagpoles, gateways, fences, and underground storage tanks.

The cost of a building (including relocatable buildings) should include:

1. The contract purchase price
2. Expenses to place the building into serviceable condition
3. Architectural and engineering fees
4. Attorney's fees
5. Building permits
6. Licenses

Improvements to buildings may include permanent fixtures such as heating and cooling equipment, plumbing and lighting fixtures, and tearing out or building walls and partitions, adding windows and doors, stairways, corridors, and rooms.

If several capital assets are purchased together, the total cost should be allocated proportionately among the assets to enable the separate cost of the assets to be recorded and the proper calculation of depreciation. The allocation should be based on the fair values of the assets at the date of acquisition.

If a purchase transaction includes the trade-in of a similar used asset, the school should record the new asset on the capital assets list at its fair value as of the date purchased. For example, a vehicle with an invoice price of $10,000 is acquired with $8,000 cash and the trade-in of another vehicle originally purchased for $7,000. The old vehicle has a book value of $2,000 and accumulated depreciation of $5,000. The new vehicle should be recorded on the capital assets list at $10,000 and the old vehicle should be deleted from the list.

Schools should distinguish between costs for improvements and costs for repairs and maintenance. If a cost increases the utility or significantly extends the useful life of an asset, it should be added to the asset's cost on the list and depreciated. If a cost returns the asset to its normal operating condition, it should be classified as a repair and maintenance expense and should not be included on the capital assets list.

Lease-purchase—When lease agreements are entered into, the school should examine the agreement to determine if the leased asset should be recorded on the capital assets or stewardship lists.

Leased assets should be recorded on the capital assets or stewardship lists if at least one of the following criteria is met.

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

In accordance with generally accepted accounting principles, the school should value lease-purchases that are recorded on the capital assets list at the lesser of the fair 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.

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[1] These criteria 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.

Donation—Schools should record capital assets acquired by donation, bequest, or gift at their fair value as of the date of acquisition.

Construction—All costs incurred during the construction period should be accumulated in the Construction in Progress asset account until the project is completed. Such costs may include architectural and engineering fees; costs of material, 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 school employees construct an asset, the salaries, wages, and employee benefits of the school employees for that labor should be included in the cost of the asset. After the project is completed, the school should reclassify the asset from the Construction in Progress account to its proper category on the capital assets list.

Depreciation—Schools should record depreciation on all capital assets except for land and land improvements that produce a permanent benefit in order to determine total operating expenses.

The following illustrates an adjusting entry to record depreciation at the end of the fiscal year.

GENERAL JOURNAL					
Date 20XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Credit
6/30	1XXX-XXX-4000-6740	Depreciation Expense	X	$2,000	
	1XXX-000-0000-0197	Accumulated Depreciation	X		$2,000
To record annual depreciation expense on equipment.					

Schools should maintain a subsidiary ledger or a depreciation schedule for depreciable assets in order to monitor each asset's value for disposal. The ledger or schedule should include tag number, description, cost, and accumulated depreciation.

Acquisitions and Disposals

The capital assets and stewardship lists may be maintained on a current basis or, if preferred, separate lists of acquisitions may be maintained during the year and used to update the capital assets and stewardship lists at the end of the fiscal year.

Schools should use the following suggested procedures for disposing of assets.

1. A request for authorization to dispose of equipment (**VI-E-9**) or a similar form should be prepared by the principal or individual responsible for the physical control of the property and should be approved by the governing board or authorized administrator for disposals by sale, trade-in, loss, obsolescence or damage.

2. When an asset is disposed of, the asset should either be deleted from the school's capital assets or stewardship list or included on a list of disposals that will be used to update the capital assets and stewardship lists at fiscal year-end.

3. The school should also remove obsolete or damaged equipment from the capital assets and stewardship lists. A separate list of these items may be maintained for control purposes until the items are disposed of.

When disposing of federally funded equipment with a current, per-unit, fair market value greater than $5,000, the awarding agency has a right to a share of the current market value or proceeds from the sale proportionate to its investment. When federally funded land, buildings and related improvements, and equipment are no longer needed for the originally authorized purpose, the school must request disposition instructions from the federal awarding agency. (2 CFR §200.313)

Reconciling Changes in Capital Asset Accounts to the Capital Asset Additions List

Schools should reconcile the changes in the capital asset accounts in the general ledger to the capital asset additions list at the end of each fiscal year. The reconciliation should be documented in writing. If there is a material difference, the form on **VI-E-10** may be used to help resolve the differences. This procedure provides assurance that equipment items costing $5,000 or more and with useful lives longer than one year, and land, buildings, and related improvements costing $5,000 or more are included on the capital assets list. An employee independent of the recordkeeping and custodial functions for capital assets should prepare the reconciliation. If this is not possible, a school administrator should review and approve the reconciliation.

Reconciling the Previous Year-End List to the Current Year-End List

Schools should reconcile the previous year-end capital assets list to the current year-end list to help provide accuracy and continuity of the list. The form on **VI-E-11** may be used to document this reconciliation. Differences noted on the form should be resolved.

Physical Inventory

School personnel should take a physical inventory of equipment costing at least $1,000 at least every three years, and at least every two years for equipment costing $5,000 or more purchased with federal monies.

Schools 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.

Schools should count items in a systematic manner so items are neither omitted nor counted more than once. The employee responsible for custodianship should not take the counts. To provide an accurate count, movement of the asset items should be restricted during the physical inventory.

One method of taking the physical inventory is to issue a current list of assets by department to each department. The information on the list should include each item's tag number, description, serial number (if applicable), and location. Each department should assign an employee not responsible for the custodianship of its assets to compare them to the department's assets on the list. Verification of assets should be indicated by initialing the asset item on the list. Assets in the department not included on the list should be added. Such items may include new acquisitions or transfers of equipment from another department. Similarly, assets on the list that are not located should be indicated as such on the list. Each department head should review the completed inventory list and document the review by initialing and dating the list.

An alternative method for taking a physical inventory is to use uniform prenumbered inventory count sheets (**VI-E-12**). The school should distribute count sheets to each department. As each item is counted, the tag number (or serial number) and description should be recorded on the count sheet, and the person who counts and records the inventory should initial and date the count sheet to document responsibility.

The employee supervising the physical inventory should maintain a log of the prenumbered count sheets and account for the numerical sequence. The count sheet log should indicate the school locations being inventoried and the corresponding count sheets distributed to those locations. Unused inventory count sheets should be returned to the employee maintaining the log to account for all inventory sheets.

Using either method, employees performing the counts should note on inventory sheets any damaged or obsolete items observed. Department heads should initiate disposal procedures for these items so they can be deleted from the capital assets or stewardship list.

After the inventory has been counted, second counts should be made on a test basis by an employee not involved in the first count to help ensure the accuracy of the physical inventory counts. Differences should be resolved and adjustments to inventory count sheets should be initialed by an employee responsible for supervising the physical inventory process.

After the inventory is complete, an employee independent of any custodial function should reconcile the results of the inventory with the capital assets and stewardship lists. Differences should be investigated and any necessary adjustments made to the lists.

Schools should retain all inventory count sheets, control logs, written instructions, and other documentation relating to the physical inventory to support the capital assets and stewardship lists.

_____ CHARTER SCHOOL

List of Capital Assets

Page No. ____

Campus _____

Department_____

Location _____

Identification Number Tag No.	Serial No.	Description	Method of Acquisition	Source of Funding	Acquisition Date	P.O. No./ Voucher No.	Cost[1]
							$

Page Total $_____

Grand Total $_____

[1] Record donated assets at their fair value at the time of donation.

_____ CHARTER SCHOOL

Request for Authorization to Dispose of Equipment

Form No. (Prenumbered)

Check one: **Trade-In** ☐ **Sale** ☐ **Loss** ☐ **Transfer** ☐ **Other** ☐

From:

Campus _____

Department _____

Location _____

Transfer To (if applicable):

_____

_____

_____

			FOR BUSINESS OFFICE USE ONLY			
Tag No.	**Description (Include Model Number)**	**Serial No.**	**Date Acquired**	**Recorded Cost/Value**	**Sale/Trade-in Amount**	**Accumulated Depreciation**
				$	$	$

Reason for Disposition: _____

_____

_____

Signature _____ Date _____
Department Head/Principal

Signature _____ Date _____
Board/Authorized Agent

Deleted from capital assets/stewardship list by _____Date _____

_____ CHARTER SCHOOL

Reconciliation of Changes in Capital Asset Accounts

To the Capital Asset Additions List

Fiscal Year _____

Total changes in capital asset accounts		$ _____	Total per capital asset additions list		$ _____
Plus:	Capital assets recorded on list but not recorded as assets in the general ledger due to coding error, oversight, or other reasons		Plus:	Capital assets coded to capital asset object codes (0190 series) but not recorded on list	
	_____	_____		_____	_____
	_____	_____		_____	_____
	_____	_____		_____	_____
	_____	_____		_____	_____
	_____	_____		_____	_____
Less:	Items inappropriately recorded in the general ledger as capital assets		Less:	Items recorded on list costing less than $5,000	
	_____	_____		_____	_____
	_____	_____		_____	_____
	_____	_____		_____	_____
	_____	_____		_____	_____
Correct balance		$ _____	Correct balance		$ _____

_____ CHARTER SCHOOL

Reconciliation of Previous Year-End Capital Assets

List to Current Year-End Capital Assets List

Preparer_____

Date _____

	Land and Improvements	Buildings and Improvements	Equipment	Total
A. Totals from previous year-end capital assets list				
B. Add: Current year's acquisitions				
C. Less: Current year's disposals				
D. Total				
E. Totals from current year-end capital assets list				
F. Difference (Compare D and E)				

_____ CHARTER SCHOOL

Inventory Count Sheet

Sheet No. (Prenumbered)

Inventory _____, 20_____

Campus: _____

Department: _____

Location: _____

Counted by: _____ **Examined by:** _____

Tag No.	Description	Serial No.

CONTENTS

Topic	Page
INTRODUCTION	VI-F-1
POLICIES	VI-F-1
PROCEDURES	VI-F-2
YEAR-END PROCEDURES	VI-F-3
SAMPLE FORM: CASH RECEIPTS SUMMARY	VI-F-4

INTRODUCTION

Receipts received by charter schools may include state aid, gifts and donations, grants, and proceeds from the sale or lease of school property. Receipts are also generated through sales of goods and services by food service operations, auxiliary operations, and student activities. Receipts include currency, coins, and certain types of formal negotiable paper, such as bank drafts, cashiers' checks, money orders, warrants, and certified and ordinary checks.

Because of the relatively high risk associated with transactions involving receipts, charter schools should establish and maintain effective internal control to safeguard receipts and provide prompt and accurate reporting.

POLICIES

The following policies should be implemented to maintain adequate internal control over receipts.

1. Receipts should be adequately safeguarded and properly recorded on a timely basis using the account codes prescribed in **§III, Chart of Accounts**.
2. Schools should segregate among employees the duties of receiving, depositing, and recording receipts. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
3. Employees handling significant amounts of cash should be adequately bonded.
4. Prenumbered and numerically controlled cash receipt forms should be prepared in triplicate for each cash payment received. They may be handwritten, or generated by a computer system or a cash register.
5. Cash receipts should be deposited intact daily, when significant, or at least weekly.
6. A validated bank deposit receipt should be retained for each bank deposit.

PROCEDURES

The following procedures are suggested for recording cash receipts other than food service operations, auxiliary operations, and student activities receipts.

Performed by	Procedure
School Clerk	1. Receives cash, checks, warrants, and supporting documentation; counts and inspects such cash receipts for correct amounts, payees, and endorsements; and restrictively endorses checks and warrants.
	2. Prepares a three-part prenumbered cash receipt form for the amount received. Issues the original to the payer, attaches copy 1 to the supporting documentation, and retains copy 2 in a numeric file.
	3. Records the date of receipt on supporting documentation.
	4. Reviews supporting documentation for mathematical accuracy and completeness and reconciles it to accompanying cash receipts. If cash receipts do not agree with supporting documentation, resolves the difference. Documents review on the supporting documentation and initials.
	5. Places cash receipts in a cash register, safe, or locked drawer until further processing.
	6. Retrieves cash receipts and prepares the cash receipts summary (**VI-F-4**) to reconcile the amount of cash receipts to the cash receipt forms. Investigates any differences.
	7. Prepares a bank deposit slip in duplicate and files the deposit slip copy.
	8. Submits supporting documentation, cash receipts summary, and the original deposit slip to a school administrator.
School Administrator	9. Counts the cash receipts and reviews the supporting documentation, cash receipts summary, and deposit slip. Indicates review on the cash receipts summary.
	10. Makes deposit and submits the supporting documentation, cash receipts summary, and validated bank deposit receipt to the recording clerk.
Recording Clerk	11. Compares validated bank deposit receipt to the total amount of cash receipts on the cash receipts summary, bank deposit slip copy, and supporting documentation. Investigates any differences.

Performed by	Procedure
Recording Clerk	12. Records bank deposit in check register and records the receipts in the accounting records. (See **§III, Chart of Accounts** for sample journal entries.)
	13. Files Cash Receipt Summary and supporting documentation by deposit date.

YEAR-END PROCEDURES

The proper accounting for revenue at year-end is very important so it is correctly stated in the financial statements. Under the accrual basis of accounting, revenue for the fiscal year ended June 30 that was not received by June 30, but was earned, should be accrued. Typical revenues that may need to be accrued include cost reimbursement and entitlement programs, and interest earned on investments.

_____ CHARTER SCHOOL

CASH RECEIPTS SUMMARY

_____, 20___
Month Day

Part I—Cash Receipts Held for Deposit to the General Bank Account

Receipt Number	Account	Description (issued to)	Amount of Receipt
			$
		Total Receipts (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 Receipts (Part I)	$_____
Total Cash Count (Part II)	_____
Difference	$_____
Reason for Difference:	

_____ _____
Prepared by Date

_____ _____
Reviewed by Date

CONTENTS

Topic	Page
POLICIES	VI-G-1
PROCEDURES	VI-G-2
Disbursement Processing	VI-G-2
BLANKET PURCHASE ORDERS	VI-G-5
PREPAID EXPENSES	VI-G-6
GUIDELINES FOR COMPETITIVE PURCHASING BELOW THE DOLLAR LIMITS REQUIRED FOR SEALED BIDS	VI-G-6
CREDIT MEMOS	VI-G-7
YEAR-END CUTOFF	VI-G-8
Accounts Payable	VI-G-9
Salaries and Wages Payable	VI-G-9
Lease-purchase Contracts Payable	VI-G-9
Construction Contracts Payable	VI-G-9
SAMPLE FORMS: PURCHASE REQUISITION	VI-G-10
PURCHASE ORDER	VI-G-11
RECEIVING REPORT	VI-G-12

POLICIES

The following policies should be implemented to comply with statutory requirements and maintain adequate internal control over disbursements.

1. All disbursements should be approved by the governing board. The governing board may delegate the authority to approve disbursements (and/or set limits for such approval) between governing board meetings. However, the board shall review and approve a report of disbursements at least monthly.

2. The governing board should approve all long-term contracts before the contracts are executed.

3. Schools must follow the School District Procurement Rules adopted by the State Board of Education in accordance with A.R.S. §15-213(A)(1) for all purchases including construction in excess of the limits established by A.R.S. §41-2535 ($100,000) unless specifically exempted by a school's sponsor in its charter agreement. For procurement of construction not exceeding $150,000, schools may follow the Simplified Construction Procurement Program adopted by the State Board of Education in accordance with A.R.S. §15-213(A)(2).

Updated

4. Schools may purchase goods and services through cooperative purchasing agreements provided the charter school performs adequate due diligence procedures to provide reasonable assurance that the purchasing cooperative complies with the School District Procurement Rules. Schools should document the due diligence procedures performed for at least a sample of the contracts that the school wishes to use from a purchasing cooperative.

5. Schools are required to follow the School District Procurement Rules for all purchases between schools and their employees regardless of the dollar amount and the revenue source.

6. Schools should follow the guidelines for competitive purchasing below the dollar limits required for sealed bids for all purchases not exceeding $100,000. (See page **VI-G-6**.)

7. Purchase orders should be prepared for all school disbursements except for exempted items such as salaries and related costs, utilities, and in-state travel, or where a contract exists.

8. Receiving reports should be prepared for all goods and services received, except exempted items.

9. Disbursements from authorized bank accounts should be made with prenumbered checks. Each check should be marked "void after 180 days" to help ensure prompt cashing by the payee.

10. Checks should be properly completed before issuance, and should not be written payable to cash or bearer. Void checks should be so stamped to prevent reuse and numerically filed with other canceled checks.

11. Unused checks should be physically safeguarded and access to them limited to authorized personnel who do not have access to the signature facsimile plates.

12. Signature facsimile plates, if used, should be physically safeguarded and access to them limited to a minimum number of employees who do not have access to the blank checks.

PROCEDURES

The disbursement cycle consists of six processes: budgeting, requisitioning, purchasing, receiving, paying, and recording.

Duties should be adequately segregated among employees so that no individual performs all processes of the cycle. A school administrator independent of the disbursement function should periodically review disbursement transactions to ensure that disbursements are made in compliance with the school's established policies and procedures. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)

Disbursement Processing

Following are representative procedures for processing disbursements, using a central supply area for the illustration. Specific procedures may vary depending on the size and organization of the school.

Performed by	Procedure
Requisitioning Department	1. Prepares a two-part purchase requisition (**VI-G-10**), which should be signed and dated by the preparer and the individual authorized to approve the requisition.
	2. Forwards original requisition to the school office and retains the copy on file.
School 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 balance is available to make disbursement.
	5. Signs and dates the requisition, or returns it to the requisitioning department if sufficient budget balance is not available.
	6. Initiates bidding procedures required by State Board of Education Rules R7-2-1001 et seq, if the amount of the purchase exceeds the dollar limits requiring formal bidding procedures (see **VI-G-1**).
	7. Selects a vendor in accordance with the Guidelines for Competitive Purchasing Below the Dollar Limits Required for Sealed Bids if the purchase does not require formal bidding procedures (see **VI-G-6**).

Performed by	Procedure
School Clerk	8. Reverifies budget balance if the actual cost exceeds the estimated cost recorded on the requisition.
	9. Prepares a four-part prenumbered purchase order (**VI-G-11** and **12**). The school should issue purchase orders in sequential order and numerically account for them. Those initiated but not issued should be voided to prevent reuse and retained in the numeric purchase order file. Purchase orders should be signed by an administrator authorized by the governing board.
	10. Distributes the purchase order as follows: a. Original—Vendor b. Copy 1—Vendor File—alphabetical with the requisition attached c. Copy 2—Numeric File d. Copy 3—Receiving Report—quantities blocked out
Receiving/ Requisitioning Department	11. Receives copy 3 of the purchase order and performs the following steps when the goods are delivered: a. Inspects the goods for visible damage in the presence of the carrier. Damaged goods should not be accepted. b. Counts, weighs, or measures the goods, as applicable, to determine 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 (**VI-G-12**). d. Delivers goods to the requisitioner and secures proof of delivery by requiring the recipient to initial and date the receiving report. e. Submits the completed receiving report to the school office, with shipping documents such as bills of lading or freight bills attached. 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 school employee responsible for procuring the services or managing the project.

Performed by	Procedure
School Clerk	12. Compares the receiving report with copy 1 of the purchase order and requisition on file.
	13. Notes on the purchase order items satisfactorily received and clearly indicates status of the purchase order (complete, partial shipment, etc.).
	14. Attaches receiving report with shipping documents to copy 1 of the purchase order and requisition, and files alphabetically in the vendor file until receipt of invoice.
	15. Receives vendor's invoice and records date of receipt on 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, requisition, 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 only for the goods received.
	18. Calculates cash discount, if applicable.
	19. Attaches the invoice to copy 1 of the purchase order, requisition, receiving report, and shipping documents.
	20. Prepares a disbursement voucher (or order for payment) which consists of a voucher cover sheet and voucher supplement (i.e., disbursement register). Classifies disbursements as prescribed by the **Chart of Accounts (§III)**.
	21. Verifies that sufficient cash balance is available in the applicable bank account(s) to make the disbursement.
	22. Forwards voucher and supporting documentation to the recording clerk.
Recording Clerk	23. Verifies that the voucher cover sheet is supported by and agrees to the voucher supplement. Totals voucher supplement disbursements by project code and/or bank account and compares these totals to the voucher cover sheet total to ensure that totals agree.
	24. Submits the voucher to the school administrator.
School Administrator	25. Reviews the voucher and signs the voucher to indicate approval.
	26. Submits the voucher to the governing board for approval. (This step may be performed monthly if the governing board delegates approval authority to the school administrator.)

Performed by	Procedure
Recording Clerk	27. Receives approved voucher from the governing board and records the disbursement using the account codes indicated on the voucher. (See **§III, Chart of Accounts** for sample journal entries.)
	28. Submits voucher and supporting documentation to the school clerk.
School Clerk	29. Prepares checks; updates the check register; and submits checks, voucher, and supporting documentation to the school administrator and authorized cosigner.
School Administrator and Authorized Cosigner	30. Compares checks to voucher and supporting documentation to ensure that payee and amount agree, and signs checks.
	31. Submits checks, voucher, and supporting documentation to the recording clerk.
Recording Clerk	32. Compares the checks to the check register to ensure that the following agree: a. Check number b. Payee c. Amount
	33. Investigates any differences. Initials and dates the voucher supplement and check register to indicate evidence of review.
	34. For each check, cancels vendor's invoice by stamping "paid" and recording voucher and check numbers on the invoice.
	35. Files voucher by voucher number, and mails check to vendors.

BLANKET PURCHASE ORDERS

Blanket purchase orders may be used for items that are purchased on a recurring basis from the same vendor within a specified time frame. Examples of such purchases include bulk purchases of food, gasoline, or dairy products. Preparing, approving, and processing blanket purchase orders should follow the same procedures and are subject to the same internal control as standard purchase orders. Blanket purchase orders should state a specific period of time 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 unspent balance remaining.

PREPAID EXPENSES

Prepaid expenses result from disbursements made prior to the receipt of goods or services. Prepayments should be made only if prepayment is normally required to procure the item or the item must be prepaid to receive a discounted price. The following list is not necessarily all-inclusive and other items may be prepaid.

1. Insurance premiums
2. Magazine subscriptions
3. Officiating services
4. Conference registrations
5. Hotel accommodations
6. Airfare
7. Service/maintenance contracts
8. Membership dues
9. Early payments of lease purchases to reduce interest costs
10. Payments to vendors that do not accept purchase orders (e.g., federal government)
11. Enrollment fees

Schools should prepare written documentation, signed by an authorized school administrator, supporting the decision to prepay such items and retain it with disbursement supporting documentation. Other items not on this list may be prepaid, but should meet the same criteria stated above and also be documented and approved by a school administrator. Items not meeting the criteria should be paid only after the goods or services are received.

GUIDELINES FOR COMPETITIVE PURCHASING BELOW THE DOLLAR LIMITS REQUIRED FOR SEALED BIDS

The following competitive purchasing guidelines for amounts less than those established in A.R.S. §41-2535 are the minimum requirements that schools must follow. These guidelines do not apply to purchases made from employees as schools are required to follow the School District Procurement Rules for these purchases regardless of the dollar amount. Any variations from these guidelines, such as lower dollar limits or higher levels of required competition responsive to local circumstances, must be reasonable, and must be documented in the minutes as a policy of the governing board.

1. The governing board may, in a public meeting, delegate procurement authority to a designated school 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 the award of a contract up to an amount predetermined by the governing board.

2. Employees so designated may not participate in any aspect of a specific procurement from which they could benefit directly or indirectly from a contract for such procurement. The school should have a

policy that a violation of this prohibition may result in termination or other disciplinary action against such employees.

3. The school should obtain written quotes from at least three vendors for all purchases of at least $10,000, but not exceeding $100,000.
4. Whether to request a written quote is determined by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in the purchase of the item or items from one vendor.
5. The vendors contacted and their quotes should be written on or attached to the school's file copy of the related requisition form or purchase order. If three quotes cannot be obtained, the school should also document the vendors contacted who did not offer quotes and the reasons they would not do so. If a vendor is selected because of reasons other than the lowest price, such as quality of the product or work to be performed, the reasons should be fully documented.
6. The invitation for quotes should be issued in sufficient time before the purchase is to be made and in sufficient detail to allow vendors to adequately respond.
7. An exception to the above guidelines for price competition may be made in the event of an emergency involving the health, safety, or welfare of school personnel or students. In such an emergency declared by the governing board or designee, emergency purchase action may be taken without price competition, if necessary. Prior approval of the governing board should be obtained for such purchases, if possible. Even under emergency conditions, price competition should be sought if it will not unduly delay the correction of the condition requiring emergency procedures. If emergency purchases are made without price competition, a complete written description of the circumstances should be maintained on file in the school office.

CREDIT MEMOS

These policies and procedures apply to those transactions that result in the issuance of a vendor credit memo to a school.

Credits applicable to current fiscal year expenses may be applied against subsequent payments to the same vendor or may be refunded in cash. If refunded in cash, the school should reduce the amount of the expense recorded in the accounting records. Credits applicable to a prior fiscal year should be refunded, and such refund should be recorded as miscellaneous revenue.

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 school clearly marked SHIPMENT OUT may be used).
2. A receipt should be obtained from the vendor, carrier, etc., for the outgoing shipment.
3. A credit memo should be obtained from the vendor (and a refund check, if appropriate) which includes reference to the original invoice and purchase order number, quantity and description of returned items, and amount of credit allowed.
4. The same account code should be assigned to the credit memo as 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. In addition, the credit memo information should be recorded in a credit memo control log.
5. If a refund check is received, normal cash receipts procedures should be followed except that the accounting entry is to increase cash and decrease the expense account if recorded as a reverse expense.
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 coded in the usual manner.
   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 in the usual manner.
7. If the account codes of the credit memo differ from the original expenses, the credit memo should be shown in the voucher supplement as a separate line item:
   a. With the account code assigned to the credit memo,
   b. With the amount bracketed under the CODE AMOUNT column, and
   c. With the description CREDIT MEMO following the vendor name.

YEAR-END CUTOFF

At fiscal year-end, the school should prepare a list of liabilities for goods or services received on or before June 30 that were not paid by that date. The list, summarized by account, should include vendor name, receiving report date, purchase order number, and estimated cost as recorded on the purchase order, or actual cost if the school has received the invoice. Such liabilities typically include accounts payable, salaries and wages payable, lease-purchase contracts payable, and construction contracts payable.

Accounts Payable

Fiscal year-end accounts payable consist of liabilities for goods and services received on or before June 30 that have not been paid as of that date. To properly establish these liabilities, the school should review purchase orders, receiving reports, vendor invoices, and other relevant information in the vendor files, and determine the dollar amount of goods and services received but not paid for by June 30, which should be summarized by account.

Salaries and Wages Payable

Salaries and wages payable consist of amounts earned by employees at June 30 that have not been paid as of that date and related payroll expenses. Salaries and wages payable should also include the amount still owing on employment contracts that is not paid by June 30.

Lease-purchase Contracts Payable

The school should review lease-purchase contracts and corresponding payment schedules and determine the portion that is payable at June 30.

Construction Contracts Payable

The school should review construction contracts and certificates-of-payment and determine the amount of construction work completed but not paid as of June 30, and record the amount as construction contracts payable.

_____ **CHARTER SCHOOL**

PURCHASE REQUISITION

Department _____ Req. No. _____
Date Required _____ Date _____
Requisitioner _____ Account Code _____

			Price Quotes		
Quantity	Description	Unit	Vendor #1	Vendor #2	Vendor #3
			$	$	$

Estimated Cost $_____

Department Approval _____ Date _____

School Office Approval _____ Date _____

Selected Vendor _____ Cost _____

Vendor No. _____ P.O. No. _____ P.O. Date _____

Vendor Approval _____
Purchasing

FOR SCHOOL OFFICE USE ONLY

Rejected By _____ **Date** _____

Reason _____

_____

_____ **CHARTER SCHOOL**

PURCHASE ORDER

P.O. No. ____(Prenumbered)
Req. No. _____
Date _____

TO: _____ FROM: _____

(Vendor) (School)

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	
Account Code	Amount
	$

TOTAL $_____

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

By _____ _____
Authorized Signature Date

Vendor (Original)
School (Copies 1 and 2)

_____ **CHARTER SCHOOL**

PURCHASE ORDER

P.O. No. _____(Prenumbered)
Req. No. _____
Date _____

TO: _____ FROM: _____

(Vendor) (School)

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

Dates (If more than one delivery indicate dates by items above)

Receiving Report (Copy 3)

CONTENTS

Topic	Page
INTRODUCTION	VI-H-1
POLICIES	VI-H-1
PROCEDURES	VI-H-2
Payroll Records	VI-H-2
Payroll Processing	VI-H-3
Payroll–Related Expenses	VI-H-5
Federal Insurance Contributions Act	VI-H-5
Earned Income Credit (EIC)	VI-H-5
Calendar Year-End	VI-H-6
Fiscal Year-End	VI-H-6
Bank Accounts	VI-H-6
SAMPLE FORMS: CERTIFICATION IN ACCORDANCE WITH A.R.S. §15-512(D)	VI-H-8
INDIVIDUAL TIME SHEET	VI-H-10
LEAVE SUMMARY	VI-H-11

INTRODUCTION

Salaries, wages, and related payroll expenses constitute a major portion of the expenses of all schools. Therefore, payroll processing is an extremely important function that requires strict internal control and close supervision.

POLICIES

The following policies should be implemented to comply with statutory requirements and strengthen internal control over payroll.

1. Governing boards should establish written payroll policies and make them available to employees.
2. Governing boards should approve a salary and wage schedule, or individual contracts if a schedule is not maintained.
3. Appropriate segregation of duties in payroll processing should be maintained. The same employee should not be assigned responsibilities for payroll preparation, payroll authorization, and check distribution. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
4. Schools should establish a delayed payroll system (e.g., five-day lag). This type of system allows time for payroll adjustments to ensure that employees receive only the amount of wages they have earned.
5. Schools should establish adequate control over processing, storing, and issuing checks.
6. Schools should establish procedures for recording payroll expense in the correct fiscal year.
7. Schools should establish and maintain a system to account for the accrual and use of vacation and sick leave for all employees. Policies pertaining to 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. Schools should also prescribe policies pertaining to the voluntary transfer of vacation, personal, and sick leave between employees or to a sick leave bank.
8. Schools must ensure that certain personnel, whether paid or unpaid, as described in A.R.S. §15-512(A) are fingerprinted and submit a form indicating whether they are awaiting trial on, have ever been convicted of, or have ever in open court or pursuant to a plea agreement admitted committing certain criminal offenses [A.R.S. §15-183(C)(4)]. Schools must use the form provided on page **VI-H-8** or a similar form that includes all information required by A.R.S. §15-512(D).

PROCEDURES

Payroll Records

The school office should maintain payroll records for all personnel. Records should provide adequate support for payroll expenses and account distribution, 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**—For contract employees, an employment contract documents agreed-upon terms of employment such as position, salary, benefits, and duration of employment. The employment contract should include agreements for extra pay received for performing additional duties (e.g., chairing a department, or coaching).

2. **Personnel/Payroll Action Form**—For employees not on contract, a personnel/payroll action form should be prepared and retained to document the terms of employment. The personnel/payroll action form serves the same purpose as a contract but does not bind such employees to a specific length of service.

3. **Employment Eligibility Verification (Form I-9)**—Schools 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. Schools must retain the completed form and any supporting eligibility documentation for three years after the date of hiring or one year after the date employment is terminated, whichever is later. In cases where the employment eligibility documents carry an expiration date, schools are responsible for reverifying employment eligibility of employees.

4. **Employee's Federal and State Withholding Allowance Certificates (W-4 and A-4 forms)**—All employees should prepare and sign these forms before the first salary or wage payment is made. If an employee has not submitted a W-4 form 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 by an employee, state income tax should be withheld at the percentage authorized by the Arizona Department of Revenue. The W-4 and A-4 forms on file remain in effect until new forms are submitted by the employee.

5. **Voluntary Deduction Authorizations**—Voluntary deductions may be withheld at an employee's request for items such as credit union deposits or additional insurance. A voluntary deduction authorization form should be retained in the employee's payroll file to support each voluntary deduction, and remain in effect until a new one is prepared or a written request canceling the deduction is received from the employee.

6. **Pay or Position Change Notices**—Pay or position changes should be documented. Proposed pay or position change documentation should provide for approval by an authorized official in the appropriate department for initiation of the new salary or position. Terminations should also be

documented in employee files. Termination forms should provide space to document the reason for the termination.

7. **Arizona State Retirement Plan Application**—Charter schools may participate in the state retirement plan. Schools must have an agreement with the State covering their employees under the federal Old Age, Survivors, and Disability Insurance system (social security) before employees are eligible for membership in the state retirement plan. Further, employees are included in the plan only if the school has executed a supplemental retirement plan agreement with the State.

   Participating schools must withhold state retirement from the wages of all employees who work at least 20 weeks in a fiscal year and at least 20 hours a week. State retirement should not be withheld from employees returning to work pursuant to A.R.S. §38-766.01. Schools must also contribute to the State Retirement System Board an amount equal to the total amount withheld from the employees' wages for payments to the state retirement plan. Schools should deduct state retirement from employees' wages before computing federal and state income tax withholding deductions.

8. **A.R.S. §15-512(D) Certification Form**—School employees described in A.R.S. §§15-183(C)(4) and 15-512(A) must be fingerprinted and submit a form indicating whether they are awaiting trial on, have ever been convicted of, or have ever in open court or pursuant to a plea agreement admitted committing certain criminal offenses. The form provided on page **VI-H-8** or a similar form that includes all information required by A.R.S. §15-512(D) must be used and should be retained on file for as long as the employee remains employed by the school and for three years after termination of employment. Schools may release the information obtained as a result of the fingerprint check referred to above only with the consent of the person who was the subject of the fingerprint check.

9. **Leave Summaries**—The leave summary, which is used to record the accrual of vacation, sick leave, and compensatory time earned or used for each employee, should be updated at the end of each pay period using the individual time sheet (**VI-H-10** and **11**). All leave (other than emergency or sick leave) should be approved in advance in writing and the balances of vacation and compensatory time earned or used should be verified prior to approval of the leave.

10. **Direct Deposit Authorizations**—A direct deposit authorization form documents an employee's authorization for the payroll department to process credit entries and, if necessary, debit entries and adjustments to the employee's account for the purpose of depositing wages.

Payroll Processing

1. Schools must prepare written documentation of changes in payroll such as employment, terminations, and rate changes.

2. Attendance records such as individual time sheets (**VI-H-10**) or clock cards should be prepared for each hourly employee for each pay period, be signed by the employee, approved by the employee's supervisor, and retained to support the payroll. Attendance records for such employees should document regular and overtime hours worked, vacation, sick leave, leave without pay, and compensatory time taken or earned during the pay period. Leave records for certified employees may

be completed on an exception basis for overtime hours worked, vacation time taken, sick leave, etc. The attendance and leave records should be used by the payroll department to update vacation, sick, and compensatory leave schedules. Supervisors should approve overtime hours in advance.

3. The prepayroll register (or prior period payroll lists) should be updated from attendance records, pay or position change notices, and withholding and voluntary deduction authorization forms. The register should be reviewed for reasonableness, and exceptions noted on a list of exceptions. The completed prepayroll register, and a list of exceptions if prepared, should be reviewed and approved by a supervisor.

4. The payroll register should be prepared from the prepayroll register and should include the period covered, employees' names, identification and social security numbers, departments, account numbers charged for payroll, wage or salary rates (regular and overtime), hours worked (regular and overtime), gross pay, federal withholding taxes, state withholding taxes, social security, Medicare, retirement, authorized voluntary deductions (voluntary deductions should be 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.

5. Schools should prepare and submit to the governing board a payroll voucher supported by the payroll register to authorize the preparation of payroll checks. Schools should prepare payroll vouchers and process disbursements in a manner similar to disbursement vouchers (see **§VI-G, Disbursements**). The voucher should indicate the payroll charges for the pay period by account code. Total payroll charges should include the amounts required to be paid by the school for social security, Medicare, and retirement.

6. Schools should ensure that payroll checks, check registers, and payroll registers agree with the prepayroll register and voucher.

7. Employees participating in the various stages of preparing, processing, and approving payroll vouchers and distributing checks should sign and date the voucher or other appropriate document (time sheet, etc.) to document their involvement.

8. Generally, if a school directly engages a school employee to perform additional services such as game officiating or scorekeeping, and the school maintains control or oversight of the employee, payments for these services are considered supplemental wages and are subject to payroll withholdings. However, if an outside entity such as the Arizona Interscholastic Association (AIA) assigns a school employee to provide game officiating, payments for these services generally are not considered supplemental wages and are not subject to payroll withholdings because the game official is considered an independent contractor. Schools should refer to applicable Internal Revenue Service (IRS) publications for additional guidance in determining whether an employer-employee or independent contractor relationship exists.

9. Fringe benefits, including personal use of automobiles provided by schools to employees, must be included in employees' gross income and are subject to income and employment taxes. Fringe

benefits should be budgeted under the appropriate employee benefits expense code. Refer to IRS *Circular E, Employer's Tax Guide* for further information on fringe benefits.

Payroll-Related Expenses

Schools should develop written procedures for the payment of employer payroll-related expenses such as retirement contributions, social security, Medicare, and unemployment taxes. The required monthly, quarterly, or annual reports should be prepared and reconciled to the payroll check registers and general ledger. If working papers are used to develop report information, schools should retain them on file. Supervisory personnel should make periodic reviews of reports to ensure that payments are correct and timely. In addition, schools should develop procedures to ensure that reports of voluntary deductions such as health and life insurance are prepared, reviewed, and filed as appropriate.

Further information on preparing the required payroll-related expense reports and the Earned Income Credit Advance Payment Certificate (Form W-5), and calendar year-end forms (e.g., W-2, 1099-MISC, and 1099-R), and details for remittance of social security and Medicare contributions discussed below are included in IRS *Circular E, Employer's Tax Guide*.

Federal Insurance Contributions Act

The *Federal Insurance Contributions Act* provides for a federal system of old-age, survivors, disability, and hospital insurance. The old-age, survivors, and disability insurance portion is financed by the social security tax. The hospital insurance portion is financed by the Medicare tax.

In accordance with A.R.S. §38-703, schools may submit for approval by the Arizona State Retirement System Board a plan for extending the benefits of Title II of the *Social Security Act*. All employees who are members of the Arizona State Retirement System must be covered by such an agreement. Schools must withhold social security taxes from the salaries and wages of employees who are covered by such an agreement or who are not members of a school retirement system. Schools must also withhold Medicare taxes from salaries and wages paid to all employees hired after March 31, 1986. In addition to the withholdings, schools must contribute an equal amount.

Schools must follow a direct deposit schedule that conforms with the frequency required by Federal Insurance Contribution Act. Schools must also file the appropriate returns and forms with the IRS, and deposit the taxes through the federal tax deposit system.

Earned Income Credit (EIC)

An employee who is eligible for EIC and has a qualifying child has the option of receiving EIC payments in advance during the year. In order to receive the advance payments, the eligible employee must file a new Form W-5 with the school each calendar year. Eligible employees who do not file Form W-5 will not receive advance payments, but can still get the full benefit of the EIC on their federal income tax returns.

Schools should pay advance EIC payments from total federal payroll taxes, including employee income tax, social security, and Medicare withholdings, and the school's share of social security and Medicare taxes. Schools must retain records of advance EIC payments for four years.

Calendar Year-End

A Form W-2 (Wage and Tax Statement) should be prepared by schools for their employees and distributed by January 31. Those schools that file more than 250 information returns must report to the Social Security Administration electronically by March 31.

Schools not filing electronically must file a Form W-3 (Transmittal of Wage and Tax Statements) along with copies of the W-2s, with the Social Security Administration by the last day in February of the following calendar year. Additionally, schools must file a Form A-1R along with copies of the W-2s with the Arizona Department of Revenue by February 28 of the following calendar year.

In either case, schools must distribute three copies of Form W-2 to each employee. Additionally, the school must retain one copy of each W-2 form.

A Form 1099-MISC should be prepared by schools to report payments of $600 or more to reportable payees.

Fiscal Year-End

Schools should establish procedures to ensure that payroll and payroll-related expenses are recorded in the correct fiscal year. If the normal payroll cycle does not end on June 30, schools should make an adjusting entry to include the amount of accrued payroll and payroll-related expenses (i.e., earned but not paid) in the correct year. This adjustment should also include the balance of contract payments due at June 30.

Bank Accounts

The bank accounts described below may be interest bearing, and at the end of each fiscal year, all interest earned should be remitted to the general bank account of the school.

Payroll Clearing Account—The governing board may establish a bank account on which payroll checks may be drawn. Schools should deposit employees' total net pay amount in this bank account each payroll period. Disbursements from the account, except interest remittance, should be made only to pay net payroll.

State Income Tax Withholdings Account—The governing board may establish a bank account for the purpose of depositing and accumulating monies it withholds from employees for state income tax liability until the monies must be deposited with the Arizona Department of Revenue. Checks drawn on the account, except the interest remittance, should be made payable only to the Arizona Department of Revenue.

The governing board should appoint a custodian for the state income tax withholdings account to help ensure that withholdings are deposited according to A.R.S. §43-401(D).

Federal Payroll Tax Withholdings Account—The governing board may establish a bank account in which to deposit federal income tax withheld and both the school and employee social security and Medicare taxes until the monies are electronically transferred to the United States Treasury's accounts.

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

Employee Insurance Programs Withholdings Accounts—The governing board may establish bank accounts to deposit the monies it withholds for employee insurance programs; the monies contributed by the school 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). Disbursements from the accounts should be by check and, except for the interest remittance, should be made payable only to the insurance carriers or to individuals for refunds of insurance.

_____ CHARTER SCHOOL

CERTIFICATION IN ACCORDANCE WITH A.R.S. §15-512(D)

NAME: _____TELEPHONE NUMBER: _____
ADDRESS: _____
CITY: _____STATE: _____ ZIP CODE: _____
DATE OF BIRTH: _____ SOCIAL SECURITY NUMBER: _____ - _____ - _____

☐ (Check box if this statement is true) I am awaiting trial on, or have been convicted of, or in open court or pursuant to a plea agreement admitted committing the criminal offenses in this state or similar offenses in another jurisdiction, which are checked below:

_____ 1. Sexual abuse of a minor
_____ 2. Incest
_____ 3. First or second degree murder
_____ 4. Kidnapping
_____ 5. Arson
_____ 6. Sexual assault
_____ 7. Sexual exploitation of a minor
_____ 8. Felony offenses involving contributing to the delinquency of a minor
_____ 9. Commercial sexual exploitation of a minor
_____ 10. Felony offenses involving sale, distribution, or transportation of; offer to sell, transport, or distribute; or conspiracy to sell, transport, or distribute marijuana or dangerous or narcotic drugs
_____ 11. Felony offenses involving possession or use of marijuana, dangerous drugs, or narcotic drugs
_____ 12. Misdemeanor offenses involving the possession or use of marijuana or dangerous drugs
_____ 13. Burglary in the first degree
_____ 14. Burglary in the second or third degree
_____ 15. Aggravated or armed robbery
_____ 16. Robbery
_____ 17. A dangerous crime against children as defined in A.R.S. §13-604.01, including the following crimes against a minor under 15 years of age: 1) aggravated assault resulting in a serious physical injury or committed by the use of a deadly weapon or dangerous instrument, 2) taking a child for the purpose of prostitution as defined in A.R.S. §13-3206, or 3) child prostitution as defined in A.R.S. §13-3212.
_____ 18. Child abuse
_____ 19. Sexual conduct with a minor
_____ 20. Molestation of a child
_____ 21. Manslaughter
_____ 22. Aggravated assault
_____ 23. Assault
_____ 24. Exploitation of a minor involving drug offenses

I CERTIFY THAT THE ABOVE STATEMENTS ARE TRUE. I UNDERSTAND THAT SUBMITTING INFORMATION INCONSISTENT WITH THAT RECEIVED FROM THE FINGERPRINT CHECK MAY RESULT IN TERMINATION.

_____

SIGNATURE DATE

TO BE COMPLETED BY NOTARY PUBLIC:

The above named, who is known to me or has provided proper identification, signed his/her name on this document in my presence on this _____day of _____, 20____.

NOTARY PUBLIC: _____

My Commission Expires: _____

_____ CHARTER SCHOOL

_____
EMPLOYEE SIGNATURE

_____
Date Period Ended

PRINTED NAME: _____ EMPLOYEE NO. _____

PROJECT TITLE/JOB DESCRIPTION	PROJECT CODE	TOTAL HOURS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
			16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
LEAVE WITHOUT PAY																		
HOLIDAY																		
ILLNESS																		
VACATION TIME USED																		
COMPENSATORY TIME USED																		
APPROVED BY: _____	TOTAL HRS.																	
	STANDARD HRS.																	
	COMP. EARNED																	

_____ CHARTER SCHOOL

LEAVE SUMMARY

For the Year Ended _____, 20___

Employee _____ Employee No. _____

Date hired _____ Vacation rate _____

Payroll Period	Vacation	Sick	Compensatory	Updated By
/ /				
Balance Forward				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				
/ /				
Earned				
Used	( )	( )	( )	
Balance				

POLICIES

Schools should prescribe policies and procedures for reimbursing travel expenses incurred for school purposes. The following policies should be implemented to provide effective internal control over travel expenses:

1. Reimbursement amounts should be adopted by the school governing board and should not exceed the lodging, meals, and mileage reimbursement rates that the Internal Revenue Service (IRS) established. If the school chooses to reimburse expenses in excess of the IRS limits, the school must include any amounts exceeding the limits outlined on the United States General Services Administration website at www.gsa.gov/perdiem in the employee's income on Form W-2. The Arizona Department of Administration (ADOA) Director establishes and the Joint Legislative Budget Committee approves reimbursement rates that do not exceed the IRS limits that schools may use unless the school governing board adopts other rates.

2. Employee and governing board member travel should be approved in advance. All travel expenses should be supported by a travel claim, receipts or invoices if required, and other applicable documents. Travel claims should indicate the time and place travel begins and ends, include odometer readings or map mileage if claiming reimbursement, 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 expenses are recorded in the proper fiscal year.

3. Mileage reimbursement should only be based on the most direct, regularly traveled route when traveling by motor vehicle, or by the most direct air mileage route listed by the civil aeronautics board when traveling by aircraft. Landing and parking fees are reimbursable except at the location where the aircraft is normally based.

Schools will be notified of any changes to the ADOA's lodging, meal allowance, or mileage rates.

Refer to related Charter School FAQs

CONTENTS

Topic	Page
GUIDELINES	VI-J-1
APPLICATIONS	VI-J-2
Budgets	VI-J-2
INDIRECT COST RATE	VI-J-3
AMENDMENTS	VI-J-4
Fiscal Amendments	VI-J-4
Programmatic Amendments	VI-J-5
CASH MANAGEMENT (FEDERAL PROJECTS)	VI-J-5
Budgeting the First Cash Advance (online application process)	VI-J-5
Subsequent Monthly Cash Advances and Cash Management Reporting	VI-J-6
COMPLETION REPORTS	VI-J-9
RETURN OF MONIES	VI-J-10
CARRYOVER OF MONIES	VI-J-11
INTEREST	VI-J-11
AUDIT OF FEDERAL PROGRAMS	VI-J-12
The Single Audit Report	VI-J-12
Audit Findings	VI-J-13
PROGRAMMATIC WAIVERS	VI-J-14

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 charter schools 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 charter schools, rather than assistance applied for and received directly from the grantor agencies.

In order to apply for and receive grant funding, schools 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. Annual General Statement of Assurance's section A and C should be signed by the Charter Holder or Charter Contract Signer. Schools 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.

A charter school is a public school established by contract with the State Board of Education (SBE) or the State Board for Charter Schools (ASBCS) (A.R.S. §15-181). Any approved grant projects will be paid by ADE directly through their charter holder.

If a school 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 school fails to comply with the requirements of the USFRCS, as prescribed by A.R.S. §15-183(E)(6) and *Arizona Administrative Code* (AAC) R7-2-804.

APPLICATIONS

Charter schools 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 email. 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 school.

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 schools 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).

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. Schools 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 charter schools 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).

Charter schools' indirect costs are those expenses 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 schools 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 school 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 expenses 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.

Each school 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 expenses 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.

Once ADE approves a school'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. The school's indirect cost rate can also be found under Project Summary on the home page. Please ignore the county's indirect cost rate shown under Project Summary.

GRANTS MANAGEMENT ENTERPRISE

Arizona Department of Education

ADE Home Page | Grants Home Page | Glossary | Contacts | FAQ's

Project Summary

Instructions

- To go back, click 'Go back'

Go Back | Printer Friendly Version

District	Center for Academic Success, Inc.	County's ICR	0.87 %	*ICR - Indirect C
CTDS	028750000	Entity's ICR	0.22 %	PCA #
Grant Name	2010 - 21st Century Community Learning Centers	Index #	00000	CFDA No.
CFDA Title	After School Learning Centers	Award Year	2003	Award No.
Award Agency	US Department of Education	Award Name	After School Learning Centers	
Project Number	10FSECCL-060195-04A	Project Start Date	07/01/2009	Project End Date
Amendment Approval Date	N/A	Amendment Number	0	Fiscal Year
Current Status	Cash Management Due			

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 expenses 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 schools must be followed whenever advance payment procedures are used, pursuant to 34 CFR §80.20(b)(7). Pass-through entities must ensure that schools 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 school initially applies for a grant, the school 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 school 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 school can submit cash management reports up to the 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 schools 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 email to those schools 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 email to inform schools 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 school to enter: (1) the project's cash balance and (2) encumbrances/estimated expenses which include the project's unpaid invoices and estimated remaining expenses to be paid in the reporting month and the estimated expenses 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 expenses should include payroll and nonpayroll expenses. Upon submission of this data, the grants management system will calculate the adjusted cash balance as the cash balance minus encumbrances/estimated expenses.

Schools may not accumulate excess cash. In order to maintain ADE cash management compliance, schools 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, schools should not remit project monies without first contacting ADE, or until directed to do so.

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

Schools 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 school 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 school needs to purchase capital items at any other time during the project period, the school will need to submit a cash management report and cash management budget page to support its upcoming expense.

For projects ending June 30, the May cash management report will generate the final June payment and should therefore, include all estimated expenses 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 school'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 school submits a cash management report to draw down all of the project monies, the school 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 schools. For noncompliant schools, ADE has a right to change the payment method from the above cash management process to a reimbursement basis that requires monthly expense reports prior to its disbursement for each cash management report, pursuant to 34 CFR §80.21(d).

Example 1 Initial Cash Management Report:

School A indicated its first disbursement month and its estimated expense amount in the application. Upon approval of its application, the School will receive $3,000 in August. This payment is to cover the School's projected 30-day needs.

School A
Application

Budget total (No local carryover)	*$40,000*
First disbursement month	*August*
Estimated August expense amount	*$3,000*
Budget balance	*$37,000*

School A should submit a cash management report in August, which is the first payment month. In this August cash management report, School A needs to indicate their current cash balance and unpaid encumbrances/estimated expenses to be paid in the remainder of August and all of September.

School A
August Cash Management Report

Cash balance	*$1,000*	*Numeric entry: YTD revenue – YTD expenses = cash balance* *e.g., $3,000 - $2,000 = $1,000*
Encumbrances/estimated expenses to be paid by September 30	*$2,000*	*Numeric entry: Unpaid encumbrances and estimated expenses 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 expenses* *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 School B based on 20 percent of the total project budget.

School 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 Expenses *(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*

School B is attempting to draw down $33,000, which exceeds the maximum disbursement amount of $20,000 for this project. The School 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 School 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 school on the current-year project will be suspended until ADE is in receipt of a valid report. Completion reports that are rejected must be corrected and resubmitted to ADE within 30 days after the rejection date or further payments to the school 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 school 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 school 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 banking institution. Discrepancies must be resolved before the completion report is submitted to ADE.

Actual expenses 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 expenses) or the amount allowed by individual program guidelines, whichever is less.

Actual expenses reported should not exceed the total budget. A line item with a zero budget may not reflect any expenses. If monies were used for unauthorized expenses without a fiscal override, the school should make an adjusting journal entry to move the unauthorized expenses out of the grant project and into the Schoolwide Project, preferably prior to submitting the completion report to ADE.

If a completion report reflects an unauthorized expense, or an over-expenditure of a budgeted line item, the school 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 expense or over-expenditure should be reversed in the grant project and recorded in the Schoolwide Project within 60 days of being directed to do so after the completion report approval, and the amount of the unauthorized expense 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 school 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 school 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 expenses or an over-expenditure, the school 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 school receives a completion report email from ADE indicating the need to return monies, the school should print a copy of the email and submit it along with a check 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. Schools 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 school 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 school is directed to amend prior-year monies, the carryover should be amended into the current-year project within 60 days. If the school 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 project earning the interest based on its average daily, weekly, or monthly cash balance.
- Interest earned on state and federal grants administered by ADE must remain with each project 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 school and spent 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 governmental and not-for-profit 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. Governmental and not-for-profit schools must submit the required reports to ADE, the school's sponsor, the Office of the Auditor General (for schools sponsored by universities and community college districts only), and other applicable agencies within the required time frame mentioned below, and include:

- An opinion as to whether the subrecipient'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 subrecipient's internal controls over financial reporting and on compliance and other matters based on an audit of the financial statements.
- A report on the subrecipient'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. In addition, state board-sponsored schools must obtain an audit deadline extension from the State Board for Charter Schools prior to the commencement of the audit. 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 schools 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 school). 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 school). 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 school 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 school and suspending current-year funding until the findings are resolved. The notice will also state that the school 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 school may submit to ADE 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 school 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.

CONTENTS

Topic	Page
INTRODUCTION	VII-1
FINANCIAL REPORTS	VII-2
CONSISTENT APPLICATION OF GAAP	VII-3
INTERNAL REPORTS	VII-4

INTRODUCTION

For proper accounting and financial reporting purposes, charter schools should account for their financial position and results of operations in accordance with generally accepted accounting principles applicable to private enterprise [Arizona Revised Statutes (A.R.S.) §15-183(E)(6)]. Such entities may be organized as for-profit or not-for-profit entities. Accounting principles for private enterprises are established by the Financial Accounting Standards Board (FASB). Schools should refer to pronouncements of FASB and its predecessor bodies for a detailed discussion of applicable accounting and reporting principles.

Financial statements are the means by which schools report financial position and results of operations to legislative and oversight bodies, investors and creditors, and the public. Financial statements should disclose the school'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 also disclose how a school obtains and spends cash or other liquid resources, and other factors that may affect the school's liquidity.

In order to effectively communicate such information, financial statements should be understandable, reliable, relevant, timely, consistent, and comparable among schools. They 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 school over several time periods or among schools during a single time period be consistent for the financial statements to be reliable.

Financial statement information prescribed in this section deals specifically with situations in which the charter school is the primary reporting entity. However, in cases where the charter school is not the primary reporting entity (i.e., the charter school is part of a larger organization or considered a subsidiary of another organization), the financial reporting requirements presented in this section should be applied to the primary reporting entity and not the charter school, unless otherwise noted. Schools should consult applicable pronouncements of FASB and its predecessor bodies and other professional accounting literature for specific guidance when determining operations that comprise the financial reporting entity.

In addition to financial statements, schools are required to prepare an annual financial report to inform legislative and oversight bodies of how well the school is fulfilling its stewardship responsibilities. Schools (both for-profit and not-for-profit) may also be required to file annual tax or information returns with the Internal Revenue Service (IRS) and the Arizona Department of Revenue (ADOR). Schools should contact the IRS and ADOR to determine the specific reporting requirements applicable to their type of entity.

Requirements for financial and compliance audits of school financial statements, including single audits, are discussed in **§VIII, Audit Requirements**.

FINANCIAL REPORTS

Annual Financial Report

The Charter School Annual Financial Report (AFR) is revised annually for legislative, accounting, financial reporting, and other changes, by the Office of the Auditor General and Arizona Department of Education (ADE). Detailed instructions are included in the Submission and Publication File covering the preparation and distribution of the annual financial report.

Information presented in the annual financial report includes budgeted expenses; beginning and ending account balances, revenues, expenses, gains, and losses; and investment in capital assets. The AFR also includes the following non-financial data:

1. Number of campuses
2. Actual days in session
3. Enrollment of gifted pupils by grade and ethnicity
4. For food service, the number of operating months, meals served, and snacks and a la carte servings

The annual financial report should only include the financial activity of the charter school even though the charter school may not be the primary reporting entity for financial statement purposes.

Financial Statements

Schools must prepare financial statements presented in accordance with generally accepted accounting principles (GAAP). Supplementary schedules and narrative explanations should be prepared reporting any accounting and reporting practices that differ from GAAP if necessary to demonstrate compliance with any legal requirements or responsibilities.

The following is a list of the required financial statements of for-profit enterprises and a brief description of each.

Balance Sheet—The balance sheet reports the financial position (i.e., assets, liabilities, and equity) of the school at a specified reporting date.

Statement of Income—This statement reports revenues, expenses, gains, losses, and the resulting net income during a specified reporting period.

Statement of Retained Earnings or Changes in Stockholders' Equity—This statement reports increases and decreases in retained earnings and/or stockholders' equity during a specified reporting period. This statement also reconciles beginning and ending retained earnings.

Statement of Cash Flows—The statement of cash flows summarizes cash receipts and disbursements for the reporting period. This statement reports cash or cash equivalent inflows and outflows as well as the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles

beginning and ending cash and cash equivalents. It should also contain a reconciliation of net income to net cash flows from operating activities and information on investing and financing activities.

Notes to the Financial Statements—The financial statements should be accompanied by explanatory notes, which are an integral part of the financial statements. Their purpose is to communicate information that is not readily apparent from or cannot be included in the financial statements themselves, but is necessary for a fair presentation and adequate disclosure.

The following is a list of the required financial statements of not-for-profit enterprises and a brief description of each.

Statement of Financial Position—The statement of financial position reports the total assets, liabilities, and net assets of the school at a specified reporting date.

Statement of Activities—The statement of activities reports the increases (revenues and gains) and decreases (expenses and losses) in net assets during a specified reporting period. This statement also reconciles the beginning and ending net assets.

Statement of Cash Flows—The statement of cash flows summarizes the cash receipts and disbursements for the reporting period. This statement reports cash or cash equivalent inflows and outflows as well as the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents. It should also contain a reconciliation of changes in net assets to net cash used by operating activities and information on investing and financing activities.

Notes to the Financial Statements—The financial statements should be accompanied by explanatory notes, which are an integral part of the financial statements. Their purpose is to communicate information that is not readily apparent from or cannot be included in the financial statements themselves, but is necessary for a fair presentation and adequate disclosure.

Single Audit Reports

Schools 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 required single audit reports are described in **§VIII, Audit Requirements**.

CONSISTENT APPLICATION OF GAAP

To assist in providing maximum benefit to potential users, a school's financial statements should be comparable between reporting periods. Comparability between periods may be affected by accounting changes, errors in previously issued financial statements, changes in classification, or events or transactions substantially different from those accounted for in previously issued financial statements. Accounting changes can be further classified as changes in accounting principle, changes in an accounting estimate, and changes in the reporting entity.

Changes in the application of GAAP should be disclosed in the notes to the financial statements, and may require prior-period adjustments. Guidance provided by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board should be used as appropriate in accounting for such changes.

When reporting on a school's financial statements that disclose a change in GAAP between audit periods, the auditors may modify their opinion as to consistency, indicating the nature of the change. The auditors' concurrence with or exception to the change will be explicit in the opinion expressed on the financial statements.

INTERNAL REPORTS

The school should prepare internal reports to facilitate planning, controlling, and evaluating school 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 reports should be developed to meet the needs of the school's management.

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.

CONTENTS

Topic **Page**

INTRODUCTION VIII-1

AUDIT PREPARATION VIII-2

AUDIT PROCESS VIII-4

REPORT SUBMISSION AND REVIEW VIII-7

INTRODUCTION

Arizona Revised Statutes (A.R.S.) requires all charter schools to have an annual audit. Governmental and not-for-profit schools expending $750,000 or more in federal financial assistance in a fiscal year are subject to the requirements of the Uniform Guidance. Governing boards of charter schools 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 generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance.

The audit requirements imposed by the Single Audit Act included in this section apply specifically to charter schools that are the primary reporting entity. In cases where the charter school is not the primary reporting entity (i.e., the charter school is part of a larger organization or considered a subsidiary of another organization), these requirements are applicable to the primary reporting entity and not the charter school. However, if the charter school is the only part of the primary reporting entity that received federal financial assistance, the entity may choose to apply these requirements just to charter school operations.

Schools not required to have a single audit (governmental and not-for-profit entities expending less than $750,000 in federal financial assistance and for-profit entities) must have at least an annual financial statement audit. A school may choose to have a single audit instead of a financial statement audit. If it does so, it must follow the same audit requirements as a school that is required to have a single audit. Financial statement audits must be performed by an independent certified public accountant in accordance with generally accepted auditing standards and *Government Auditing Standards*.

For both single audits and financial statement audits, the school's auditor must also complete the applicable compliance questionnaire(s).

Periodically, ADE and the Office of the Auditor General issue a legal compliance questionnaire for charter schools sponsored by universities and community college districts. The Arizona State Board for Charter Schools (ASBCS) issues a similar questionnaire for schools sponsored by ASBCS or the Arizona State Board of Education (ASBE). Schools should refer to the most recent applicable questionnaire for additional detailed audit information.

The remainder of this section explains additional audit requirements imposed by A.R.S. and the Single Audit Act, audit preparation, the audit process, and report submission and review. The audit requirements presented in this section are applicable to both single audits and financial statement audits, unless otherwise noted. Schools sponsored by the ASBCS and the ASBE should also refer to ASBCS guidelines.

AUDIT PREPARATION

Obtaining Audit Services

The first step in the audit process is to contract for such professional service with a certified public accountant (CPA). Schools contracting for audit services estimated to cost over $100,000 must follow the School District Procurement Rules prescribed by the ASBE and set forth in the Arizona Administrative Code R7-2-1061 through R7-2-1068, unless exempted from these rules by its sponsor. These rules require that competitive sealed proposals be solicited through a request for proposals (RFP).

If a school estimates that the cost of audit services will be $100,000 or less, it is not required to follow the School District Procurement Rules. However, schools should follow the guidelines for competitive purchasing below the dollar limits required for sealed bids (see page **VI-G-6**), unless exempted from the guidelines by its sponsor. These guidelines require written quotes from at least three audit firms for services costing at least $10,000 but not exceeding $100,000.

However, it is recommended that schools use an RFP to obtain quotes for audits regardless of estimated cost or procurement exemptions. The nature of an audit requires that certain essential information about the school and the necessary particulars of the audit requirements be communicated to interested audit firms to enable them to develop a proposed audit plan and reasonably estimate the audit's cost. An RFP will assist the school in communicating those requirements.

After evaluating all proposals, the school should draft a proposed contract and/or engagement letter with the audit firm whose proposal is determined to be most advantageous to the school based on the factors outlined in the RFP.

A.R.S. §15-914 and Laws 1999, 1st Special Session, Chapter 4, §15 require financial and compliance audit contracts/engagement letters to be approved by the Auditor General for university and community college-sponsored charter schools or the school's sponsor for state board-sponsored charter schools. Therefore, the school must send a copy of the proposed contract/engagement letter to the applicable agency for approval **before** it is signed and audit work commences. The agency will notify the school of approval, disapproval, and any deficiencies requiring correction.

Charter School Role

School management has a significant role in the audit process and is responsible for providing supporting documents, detailed schedules, accounting records, and other information the auditor requires. The accuracy and completeness of such information is an integral part of school management's responsibilities. School management is also responsible for establishing and maintaining internal control that provides reasonable assurance of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

Schools having a single audit must issue single audit reports that include financial statements (see **§VII, Financial Reporting**), a schedule of expenditures of federal awards, and a summary schedule of

prior audit findings. Schools having a financial statement audit are only required to issue financial statements. These documents may be prepared by the auditor from information provided by the school; however, school management is ultimately responsible for them. In addition, at the completion of the audit, schools having a single audit must prepare a data collection form and a corrective action plan.

Schedule of Expenditures of Federal Awards—The school must prepare a schedule of expenditures of federal awards. The schedule identifies each federal award received and total expenditures for each program by federal awarding agency and pass-through agency (if applicable).

Summary Schedule of Prior Audit Findings—The school is 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. The summary schedule should also include audit findings reported in the prior audit's summary schedule of prior audit findings that were not listed as corrected, no longer valid, or not warranting further action.

Data Collection—The school must complete a data collection form prescribed by the Uniform Guidance and submit it along with the audit reports. The data collection form states whether the audit was completed in accordance with the Uniform Guidance and provides information about the school, its federal programs, and the results of the audit.

Corrective Action Plan—If the current year's audit reports include audit findings, the school is 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 school 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 school and the auditor. The liaison may be the business manager, an administrator, or a designated employee responsible for financial statements and accounting records.

The auditor will usually provide a list of documents, supporting schedules, and analyses required for the audit and specify the date they should be available. The liaison should sign this list to acknowledge responsibility for obtaining and preparing such items.

The liaison should review the list and begin obtaining documents and preparing schedules and analyses 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 audit liaison should provide appropriate forms and instructions to employees to complete these tasks. In addition, the audit liaison should ensure that files of contracts, agreements, leases, insurance policies, judgments, and other relevant documents are reviewed for completeness and accessibility before year-end. The liaison should inform the auditor 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 auditor that an audit of the school's compliance with requirements applicable to its federal financial assistance programs (for single audits only) and 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 also usually requests cooperation of the school'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 single audit or financial statement audit is directed to the expression of opinions on the school's compliance with requirements applicable to its major federal financial assistance programs (for single audits) and financial statements, and is not primarily or specifically designed, and cannot be relied upon, to disclose immaterial errors or fraud.

Audit Test Work

In order to form an opinion on the financial statements and, for single audits, prepare reports on internal control and compliance, the auditor must obtain sufficient, competent, evidential matter. The auditor obtains this evidence by inspecting documents on a test basis, observing school policies and procedures, asking questions of school personnel, and confirming various transactions, account balances, and other information with school employees and outside entities such as vendors or ADE.

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 school 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 auditor usually completes the compliance questionnaire(s). The auditor uses the results of the tests of controls to determine the nature, timing, and extent of substantive tests.

The auditor performs substantive tests 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 results of all test work are documented in the auditor's working papers, which should be retained for at least 5 years after submitting the audit reports, as a record of the work performed. The working papers are the auditor's property.

Audit Reports

When performing a single or financial statement audit, the auditor's responsibility is to express an opinion on the audited financial statements and to report on compliance and internal control, and fraud and illegal acts, when applicable. Auditors performing a single audit must also report on the schedule of expenditures of federal awards. In addition, the auditor is required to complete the applicable compliance questionnaire(s).

Independent Auditor's Report on the Financial Statements—The auditor must issue a report on the financial statements to the governing board. The auditor's report may express an unmodified opinion that states the financial statements are presented fairly in accordance with generally accepted accounting principles (GAAP); a qualified opinion that states "except for" certain conditions, the financial statements are presented fairly in accordance with GAAP; or an adverse opinion that states the financial statements are not presented fairly in accordance with GAAP. If the auditor cannot examine sufficient, competent, evidential matter to support the fairness of the financial statements, the auditor will express a disclaimer of opinion. All substantive reasons for modifying or disclaiming an opinion should be included in the auditor's report on the financial statements in separate explanatory paragraphs.

Reports on Compliance and Internal Control—The auditor is required to report on the school's compliance with applicable laws and regulations for which noncompliance could have a direct and material effect on the determination of financial statement amounts and on internal controls tested as part of the financial statement audit.

Auditors performing a single audit must also report on the tests of internal controls and compliance for major federal award programs and express an opinion on whether the school has complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

Schedule of Findings and Questioned Costs—Auditors performing a financial statement audit may include compliance and internal control findings in their report; however, auditors performing a single audit must prepare a separate schedule detailing the findings and questioned costs discovered during the audit. This schedule includes financial statement findings, federal award findings, and questioned costs. The reports on compliance and internal control should refer to the Schedule of Findings and Questioned Costs.

In addition, the schedule of findings and questioned costs must include a summary of the auditor's results. The summary provides the school with information it needs to complete the data collection form.

Report on the Schedule of Expenditures of Federal Awards—The auditor 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 added as a final paragraph of the financial statement audit report.

Report on Fraud and Illegal Acts—The auditor must report on fraud and illegal acts when, based on the evidence obtained, the auditor believes that either has occurred, or is likely to have occurred, and it is not clearly inconsequential. This report should relate the instances identified to the number of cases examined and quantify them in terms of dollar value, if appropriate and determinable.

Compliance Questionnaire(s)—The auditor should complete all the applicable compliance questionnaire(s). The questionnaire(s) should cover only those internal controls applicable to the charter school even though the charter school may not be the primary reporting entity. The questionnaire(s) assists the Auditor General, ASBE, and ASBCS, as applicable, in determining whether a school has established and maintained internal controls that comply with the USFRCS and/or state and federal laws at a satisfactory level. Each agency may have their own questionnaire(s); therefore, schools should consult the audit guidelines applicable to their sponsor for details of what questionnaire(s) must be completed.

School personnel should review the applicable compliance questionnaire(s) before the audit begins. The school may choose to complete a copy of the questionnaire informally to aid in determining whether its internal controls are adequate for substantial compliance. However, the compliance questionnaire(s) submitted to the applicable agency should be completed by the school's auditor.

Client Representation Letter

At the conclusion of fieldwork, the auditor requires a management representation letter dated as of the date of the auditor's report. The representation letter should be addressed to the auditor and signed by a responsible school official knowledgeable about the letter's contents.

The representation letter contains management's assertions regarding the presentation of the school's financial statements. It includes management's acknowledgment of its responsibility for the fair presentation in the financial statements of the school's financial position, results of its operations, and cash flows in conformity with GAAP. Management also asserts in the representation letter that all financial records and related data were made available, all board meeting minutes were complete and made available, the financial statements are free of errors or irregularities, and all financial transactions are recorded. The auditor may also request management to make assertions concerning the completeness of the schedule of expenditures of federal awards, related party transactions, irregularities involving management or other employees, violations or possible violations of laws or regulations, information concerning contingent liabilities and subsequent events, and any other assertions considered necessary.

REPORT SUBMISSION AND REVIEW

The auditor reviews drafts of the reports described above with school management providing them the opportunity to comment and correct any misunderstandings before the reports are issued. In response to the audit reports on compliance and internal control, the school must provide comments concerning reportable conditions and findings and questioned costs in the reports when management disagrees with the findings. The audit reports are then submitted to the school, the Federal Audit Clearinghouse (if a single audit), ADE Audit Resolution Unit, and other state grantor agencies, and become a matter of public record. The auditor will notify the school of any additional distribution required under the Uniform Guidance.

Charter schools must also submit their audit reports and applicable compliance questionnaire(s) to their sponsor and, for university and community college-sponsored schools, to the Office of the Auditor General. Schools should consult the audit guidelines applicable to their sponsor for details on when and how to file the schools' reports and compliance questionnaire(s). The reports and compliance questionnaire(s) are reviewed for compliance with the USFRCS and state and federal laws, as applicable. The review process differs between oversight agencies; therefore, charter schools should contact the appropriate agency for detailed information on the review process.

CONTENTS

Topic	Page
INTRODUCTION	IX-1
INTERNAL CONTROLS	IX-1
General Controls	IX-1
Application Controls	IX-5
DOCUMENTATION	IX-8
INTERNET AND ELECTRONIC MAIL	IX-9
WIRELESS NETWORKS	IX-10

INTRODUCTION

The information technology (IT) internal control guidelines presented in this section are provided to help school officials and IT personnel develop and implement adequate internal controls for IT-based accounting systems. These controls are intended to provide reasonable assurance that the resulting financial data is accurate and reliable.

IT controls are a specialized application of basic accounting internal controls. 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 or payroll systems.

Given the wide range of computer systems and financial applications, each school should appropriately tailor IT internal controls 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 school'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 school from unintended exposure and consequences. Additionally, the school'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 CONTROLS

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, that business application programs are properly managed and maintained, that data and systems are safeguarded, and that 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—Schools 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.
3. Requirements that IT personnel obtain formal approval from business users before placing a system or system modification into operation.

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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 the development and maintenance of local systems.

4. Requirements that IT personnel develop and retain system documentation, including documented 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—Schools 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 organization'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—Schools 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, schools 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 risks that are identified.
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:

1. Use of 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, etc.
2. Use of different levels of access capabilities, such as read/write privileges, based on data classification and/or ownership.
3. Use of data encryption technologies.
4. Use of properly configured firewalls and intrusion detection/prevention systems.
5. Use of up-to-date anti-virus, anti-spyware, anti-spam and other anti-malware programs, and signatures.
6. Use and review of system access and exception reports and logs.

Access to program files and production data, including general ledger accounting structure, vendor file information, and employee 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 the 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 provide for sufficient tracking of changes made to records.

Computer Operations Controls—Schools 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. Schools 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 jump drives, etc., should be protected from exposure to moisture, extreme temperatures, 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. Schools 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. Schools should develop and routinely update a documented disaster recovery plan, should test it periodically, and should ensure adequate insurance coverage to provide resources necessary to allow 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 to ensure that 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; that data elements are processed correctly by applications; that reliable results are achieved; that transactions detected with errors are controlled to ensure that they are corrected and reentered in a timely manner; and that 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 to 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 controls help 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 an end-to-end 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.

   Schools 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 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. Schools 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 hardcopy 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, schools 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 confidential employee or student information, should be properly secured from unauthorized access and use.

Separation of Duties—As with non-IT internal controls, schools 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 wrongful 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, schools should separate key responsibilities between IT personnel and users. To accomplish this, schools 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 accounting system, 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, schools should ensure that a supervisor reviews system logs, balancing reports, and other relevant indicators regularly.

DOCUMENTATION

Schools should establish and document policies and procedures for its IT operations. The amount of documentation necessary depends upon the circumstances and complexity of the school'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 and 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 response.
8. Problem escalation procedures and/or technical support resources.

INTERNET AND ELECTRONIC 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 new opportunities, it also introduces potential threats. Therefore, the school'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 schools can take to increase security and ensure

proper use of electronic resources and information is to develop Internet and electronic 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 electronic mail.
2. When they are allowed to use it.
3. What constitutes acceptable use of the Internet and electronic mail.
4. What constitutes unacceptable use of the Internet and electronic 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 electronic mail policy raises users' level of security awareness and serves as guidance for technical decisions affecting Internet and electronic mail activity. Further, the policy may help strengthen the school'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 school's Internet and electronic 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 electronic mail. Schools 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, electronic mail, and data, without the use of the traditional cables and wires generally required to connect to a school'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. In particular, mis-configured or unauthorized wireless devices could potentially allow unauthorized users to access and/or use network resources and data, and may allow authorized users to bypass existing network controls. Some of these risks are similar to those of wired networks, while others are new. 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 may 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 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 new 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 school's network.

CONTENTS

Title **Page**

Food Service ..... **X-A**

Auxiliary Operations ..... **X-B**

Student Activities ..... **X-C**

Student Attendance Reporting ..... **X-D**

Records Management ..... **X-E**

CONTENTS

Topic	Page
INTRODUCTION	X-A-1
CASH	X-A-2
RECEIPTS	X-A-3
EXHIBITS	X-A-4
School Log of Tickets Received and Issued	X-A-4.1
Cafeteria Log of Tickets Received and Issued	X-A-4.2
Daily Report of Tickets Issued and Sold	X-A-4.3
Daily Cash Count	X-A-4.4
Daily Cash Reconciliation Report	X-A-4.5
Daily Report of Meals Served	X-A-4.6
Daily A La Carte Sales Report	X-A-4.7
Ticket Refund Slip	X-A-4.8
Log of Charge Sales	X-A-4.9

Charter schools may operate school meal programs. They may also participate in federal child nutrition programs operated on a nonprofit basis and administered by ADE's Child Nutrition Programs Office.

Significant amounts of cash may flow into a school through food service operations. The high risk of loss associated with cash transactions requires that schools establish policies and procedures so that cash receipts are adequately safeguarded and accurately reported. Schools should establish an internal control structure to record, process, summarize, and report food service financial data in accordance with the requirements of Arizona Revised Statutes (A.R.S.), the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), and federal child nutrition programs' guidelines and regulations, as applicable.

This section addresses specific internal control structure policies and procedures for food service cash and receipts. Schools should follow the internal control policies and procedures discussed in **§VI-G, Disbursements**, and **§VI-D, Supplies Inventory**, for food service disbursements and inventory. In addition, if a school participates in federal child nutrition programs, the school should refer to the *Child Nutrition Programs Guidance Manual* published by the ADE Child Nutrition Programs Office for detailed program requirements.

BANK ACCOUNTS

Following are descriptions of the food service bank accounts governing boards may establish and policies and procedures for maintaining them. A written bank reconciliation should be prepared monthly for each bank account.

Food Service Account

A food service bank account may be established by the governing board to account for the operations of the school's food service program.

Food Service Revolving Account

A food service revolving bank account may be established by the governing board. The amount should be no more than $500. A check should be drawn against the food service bank account to establish the revolving account.

The revolving account should be operated on an imprest basis. Therefore, monies in the bank 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 fiscal year should be made by June 30 so that expenses are reported in the proper accounting period.

The revolving account may be used for the payment of freight on commodities, purchase of food required in emergencies, temporary employment not to exceed eight hours for any person, and other minor disbursements.

Procedures for establishing, processing disbursements from, and replenishing the revolving account are similar to those described for the general revolving bank account in **§VI-C, Cash**.

CHANGE FUNDS

Schools may establish a change fund out of the food service bank account for food service operations. Cash receipts from food service operations may not be used to establish change funds, and disbursements from change funds are not permitted.

Change fund procedures

1. A school administrator should maintain a change fund log that indicates the amount of the food service change fund when established.
2. At the beginning of the school year, the cafeteria manager from each cafeteria should sign the change fund log to indicate responsibility for the amount received to establish the cafeteria change fund.
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 fund is no longer needed, cafeteria managers and the school administrator 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 bank account.

POLICIES

The school should implement the following policies to strengthen internal control over food service receipts.

1. Receipts should be adequately safeguarded and properly recorded on a timely basis using the account codes prescribed in **§III, Chart of Accounts**.
2. Schools should segregate among employees the duties of receiving, depositing, and recording receipts. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
3. Employees handling significant amounts of cash should be adequately bonded.
4. Cash receipts should be deposited intact daily, when significant, or at least weekly.
5. Meal tickets should be prenumbered and numerically controlled. Tickets should be physically safeguarded and access limited to authorized employees.

PROCEDURES

The following procedures should be implemented to help provide adequate accountability over food service receipts. If a cashier performs more than one sales activity (e.g., ticket 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
	Ticket Sales
School Clerks I & II	1. Inventory tickets received from printer and record appropriate numbers and ticket type in school log of tickets received and issued (**X-A-4.1**). Initial and date log to indicate responsibility.
School Clerk I	2. Issues blocks of tickets to each cafeteria. Records appropriate numbers in school log of tickets received and issued by cafeteria and type of ticket. Issues tickets in sequence and ensures that all tickets are accounted for. Initials and dates log.
Cafeteria Manager	3. Initials school log of tickets received and issued to verify receipt of tickets from school office.
	4. Records tickets received from the school office in cafeteria log of tickets received and issued (**X-A-4.2**). Initials and dates log to indicate responsibility.
	5. Issues tickets to cashier and records tickets issued in cafeteria log of tickets received and issued.
Cashier	6. Initials cafeteria log of tickets received and issued to verify receipt of tickets from cafeteria manager.

Performed by	Procedure
Cashier	7. Records beginning ticket numbers on the daily report of tickets issued and sold (**X-A-4.3**).
	8. Collects money from students and adults purchasing weekly and daily tickets.
	9. Completes the daily report of tickets issued and sold and prepares a daily cash count (**X-A-4.4**). Signs and dates to indicate responsibility.
	10. Prepares a daily cash reconciliation report (**X-A-4.5**) to reconcile ticket sales to cash collections. Any differences should be resolved. Signs and dates to indicate responsibility.
	11. Submits daily report of tickets issued and sold, daily cash count, daily cash reconciliation report, cash, and unissued tickets to the cafeteria manager.
Cafeteria Manager	12. Records the ending ticket number in the cafeteria log of tickets received and issued, initials it; and signs the daily report of tickets issued and sold to indicate receipt of the unused tickets and verify the number of tickets issued.
	Cash In Line Sales
Cashier	1. Collects cash paid in line for meals.
	2. Collects or punches student and adult weekly tickets; collects daily tickets and charge tickets.
	3. Maintains a log of meals served by type.
	4. Prepares daily cash count (**X-A-4.4**). Signs and dates to document responsibility.
	5. Counts number of meals served and records amounts on the daily report of meals served (**X-A-4.6**).
	6. Prepares a daily cash reconciliation report (**X-A-4.5**) to reconcile sales to cash collections. Any difference should be resolved. Signs and dates to indicate responsibility.
	7. Sorts weekly tickets by classroom and returns tickets to school office for distribution to students 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.

Performed by	Procedure
	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-A-4.7**).
Cashier	2. Collects money for a la carte sales.
	3. Prepares a daily cash count; signs and dates to indicate responsibility.
Cafeteria Manager	4. Takes ending inventory of a la carte items and records count on the daily a la carte sales report.
Cashier	5. Computes and records a la carte sales.
	6. Prepares a daily cash reconciliation report (**X-A-4.5**) to reconcile sales to cash collections. Any differences should be resolved. Signs and dates to indicate responsibility.
	7. Submits daily a la carte sales report, daily cash count, daily cash reconciliation report, and cash to the 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 to indicate review.
	2. Prepares a deposit slip in duplicate.
	3. Submits copy of daily cash reconciliation reports and the deposit slip to the recording clerk. Files original daily cash reconciliation reports and supporting documentation by deposit date.
	4. Makes deposit daily if significant amounts of cash are received, or at least weekly, and submits the validated bank deposit receipt to the recording clerk.
Recording Clerk	5. Compares validated bank deposit receipt to the total amount of cash receipts on the daily cash reconciliation reports and bank deposit slip copy. Investigates and resolves any differences.
	6. Records bank deposit in check register and records the receipts in the accounting records. (See **§III, Chart of Accounts** for sample journal entries.)
	7. Files daily cash reconciliation reports and validated bank deposit receipt by deposit date.

REFUNDING UNUSED TICKETS

The unused portion of paid tickets or meal cards may be refunded; however, cashiers should be encouraged to reduce the number of refunds required by accepting prepayments only for amounts that can be reasonably expected to be used through the end of the school year.

Procedures for ticket refunds made from daily cash receipts

1. A prenumbered ticket refund slip (**X-A-4.8**) should be completed in duplicate.
2. The refund slip should be signed by the parent or student receiving the refund, by the cashier who prepares the ticket refund slip, and by the cafeteria manager. The copy is given to the student or parent.
3. The amount of unused ticket refunds is recorded on the daily cash reconciliation report. These amounts should agree with the sum of amounts recorded on the attached ticket refund slips.
4. The returned unused tickets should be voided and attached to the original refund slip and retained with the daily cash reconciliation report.

CHARGE SALES

Schools may not allow adults to charge food purchases. In addition, charge sales to students should be discouraged because subsequent collection procedures are required.

If school policy is to allow students to charge food purchases, the school should maintain a log of charge sales (**X-A-4.9**). The cashier should record the student's name, the date of the charge, the meal type and ticket number, the amount charged, and the balance due for that student. The student should initial the charge 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-A-4.5**). Students should be billed at least every two weeks for outstanding balances.

If the school determines outstanding balances to be uncollectible, it should decrease sales revenue and the related receivable by the amount of the uncollectible.

_____ CHARTER SCHOOL

SCHOOL LOG OF TICKETS RECEIVED AND ISSUED

Ticket Type _____

Date		Beginning Ticket Number	Ending Ticket Number	School Employee's Initials	Cafeteria	Cafeteria Employee's Initials
Received	Issued					

_____ CHARTER SCHOOL

CAFETERIA _____

CAFETERIA LOG OF TICKETS RECEIVED AND ISSUED

Ticket Type _____

RECEIVED FROM SCHOOL OFFICE				
DATE RECEIVED	BEGINNING TICKET NUMBER	ENDING TICKET NUMBER	QUANTITY RECEIVED	CUSTODIAN INITIALS

ISSUED TO CASHIER					UNISSUED TICKETS RETURNED TO CUSTODIAN				
DATE ISSUED	BEGINNING TICKET NUMBER	ENDING TICKET NUMBER	QUANTITY ISSUED	CASHIER INITIALS	DATE RETURNED	BEGINNING TICKET NUMBER	ENDING TICKET NUMBER	QUANTITY RETURNED	CUSTODIAN INITIALS

_____ CHARTER SCHOOL

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.

_____ **CHARTER SCHOOL**

DAILY CASH COUNT

Cafeteria _____ **Date** _____

Cashier _____ **Register No.** _____

DOLLARS:

_____	$100.00	$_____
_____	50.00	$_____
_____	20.00	$_____
_____	10.00	$_____
_____	5.00	$_____
_____	2.00	$_____
_____	1.00	$_____
	Total Dollars	$_____

COINS:

_____	.50	$_____
_____	.25	$_____
_____	.10	$_____
_____	.05	$_____
_____	.01	$_____
	Total Coins	$_____

CHECKS:

No. _____	$_____
No. _____	$_____
No. _____	$_____
Total Checks	$_____

CASH IN DRAWER	$_____
CHANGE FUND	(_____)
DEPOSIT	$_____*

PREPARED BY: _____ DATE: _____

REVIEWED BY: _____ DATE: _____

* Enter amount on daily cash reconciliation report

_____ CHARTER SCHOOL

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 TICKET SALES (from daily report of tickets issued and sold)					$
CASH COLLECTED FROM CHARGES (from school log of charge sales)					$
TOTAL CASH COLLECTIONS					$
LESS CASH REFUNDS FOR UNUSED TICKETS					($)
TOTAL CASH SALES					$
DEPOSIT (from daily cash count reports)					$
CASH DIFFERENCE					$

Reason for difference:

Cashier _____ Manager _____

(Signature) (Signature)

Date _____ Date _____

* From the daily report of meals served

_____ CHARTER SCHOOL

CAFETERIA _____

DAILY REPORT OF MEALS SERVED

DATE _____

BREAKFAST:

NUMBER OF MEALS SERVED

Students	Tickets	+	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	Tickets	+	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		=	

_____ CHARTER SCHOOL

CAFETERIA _____

DAILY A LA CARTE SALES REPORT

Date _____

ITEM	BEGINNING INVENTORY	-	ENDING INVENTORY	=	NUMBER SOLD	X	PRICE	=	SALES
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
		-		=		X		=	
							TOTAL SALES		$ *

Prepared by: _____ Date _____

* Enter amount on the daily cash reconciliation report.

_____ CHARTER SCHOOL

CAFETERIA _____

TICKET REFUND SLIP

No. _____
(prenumbered)

Date _____

Ticket Type _____

Ticket Numbers _____ _____

_____ _____

_____ _____

_____ _____

_____ _____

Total Number of Tickets _____

Ticket Price X $_____

Refund Amount = $_____

_____
Parent's or Student's Signature

_____
Cashier's Signature

_____
Cafeteria Manager's Signature

_____ CHARTER SCHOOL

CAFETERIA _____

LOG OF CHARGE SALES

Student Name	Date Issued/Paid	Full-Price Meal*	Reduced-Price Meal*	Ticket Number	Amount Charged	Amount Paid**	Balance Due	Student's Initials
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	
					$	$	$	
						$	$	
						$	$	

* Indicate ticket type by placing an "x" in the appropriate column

** Total amount paid for the date should be recorded on the daily cash reconciliation report

CONTENTS

Topic **Page**

INTRODUCTION....X-B-1

CASH....X-B-2

INVENTORY....X-B-3

RECEIPTS....X-B-4

DISBURSEMENTS....X-B-5

PAYROLL....X-B-6

Charter schools may have auxiliary operations consisting of bookstore and/or athletic activities. Schools should maintain separate accounting records for bookstore and athletic operations in order to determine the results of the operations of each.

Significant amounts of cash may flow into a school through auxiliary operations. The high risk of loss associated with cash transactions requires that schools establish the necessary policies and procedures to adequately safeguard and accurately report cash receipts. Therefore, schools should establish an internal control structure to record, process, summarize, and report auxiliary operations financial data in accordance with the requirements of Arizona Revised Statutes and the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS).

This section addresses specific internal control structure policies and procedures for auxiliary operations cash, inventory, receipts, disbursements, and payroll.

AUXILIARY OPERATIONS BANK ACCOUNT

The governing board of the school may establish an auxiliary operations bank account to account for monies raised in connection with bookstore and athletic activities.

AUXILIARY OPERATIONS REVOLVING BANK ACCOUNT/PETTY CASH ACCOUNT

The governing board may also establish an imprest revolving bank account or petty cash account from which to pay necessary current expenses arising from bookstore and athletic activities. For multicampus schools, such a revolving account or petty cash account may be established at each campus. The accounts should be funded from the auxiliary operations account in an amount determined by the governing board. The custodian of the revolving account should be bonded in an amount equal to twice the imprest amount of the account. Expenses paid from the accounts are limited to postage, freight, fuel taxes, travel, and other minor disbursements. **Employee salaries and wages may not be paid from either account**. However, wages paid for game officials may be paid from the revolving account if the official is considered an independent contractor (see **X-B-6**). Procedures for establishing, processing disbursements from, and replenishing the revolving and petty cash accounts are similar to those described in **§VI-C, Cash**.

CHANGE FUND

Change funds may be established at individual campuses from the auxiliary operations bank account or from the auxiliary operations 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 account from Cash in Bank (object code 0102) to Cash on Hand (object code 0101). Change funds should not be established from cash receipts, and payment of expenses from change funds should not be permitted.

INVESTMENT OF CASH

Administrators 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 should be credited to the auxiliary operations account. Accounts should be maintained in the general ledger for the investment and interest earnings.

Auxiliary operations inventory consists of books, supplies, and materials for sale or rental.

Some bookstores may maintain an inventory of required textbooks; however, these books should not be recorded as capital assets in the school's general ledger. Schools should stamp items for rent with an identification number.

Schools 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 inventory.

The school should implement the following policies and procedures to provide adequate internal control over auxiliary operations receipts.

POLICIES

1. Receipts should be adequately safeguarded and recorded on a timely basis using the account codes prescribed in **§III, Chart of Accounts**.
2. Schools should segregate among employees the duties of receiving, depositing, and recording receipts. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
3. Employees handling significant amounts of cash should be adequately bonded.
4. Cash receipts should be deposited intact daily, when significant, or at least weekly.

Auxiliary operations consist of bookstore operations, athletic operations, and miscellaneous school-related operations (e.g., deposits for use of school equipment, rental charges for books and materials, course fees). Auxiliary operations cash collections should be processed through a central location at each campus. The location should be either the bookstore or principal's office.

Auxiliary operations receipts may include the following.

1. Sale of books, supplies, and materials
2. Fees for optional, noncredit, educational, or recreational activity that supplements the education program of the school, whether offered before, during, or after regular school hours or when school is not in session
3. Fees for fine arts and vocational education courses for high school students
4. Fees for optional services, equipment, and materials offered to high school students beyond those required to successfully complete any course
5. Deposits for the use of school equipment (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
7. Gate receipts from athletic events
8. Class or student pictures (at discretion of governing board)
9. Reasonable fees for the student use of school-provided parking facilities
10. Interest on investments of auxiliary operations monies
11. Miscellaneous

Sales or Rentals

The governing board may establish a reasonable price for sale or rental of books, supplies, and materials. The markup on cost should be at least an amount sufficient to recover bookstore operating costs.

Materials and Usage Fees

Schools may charge certain types of materials and usage fees to students (see list on **X-B-4.1**). 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 pupil.

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, and amount of refundable deposits.

Credit Sales

The governing board may establish a policy to allow credit sales for necessary supplies to needy students. Students should be required to sign a student charge record (**X-B-4.7**) indicating a schedule of repayment. All charges should be collected by the end of the fiscal year. The governing board should establish policies for collecting outstanding charges and for writing off uncollectible charges after a reasonable period of time.

PROCEDURES

The following procedures and sample forms present one acceptable method of accounting for bookstore and athletic activity receipts.

BOOKSTORES

Receipts 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. A student charge record (**X-B-4.7**), showing charges and deposits paid, should be maintained for each student. 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-B-4.8**) 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-B-4.12**), if applicable, in duplicate for the change fund amount and retains 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 and cash collections into the cash register.
	7. Gives a copy of the cash receipt form or register receipt to the customer.
	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 used or ending cash register reading and adjustments (refunds, voids, etc.) on the daily sales report.
	11. Reconciles sales to cash collections, 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.
	14. Submits the daily sales reports, cash collections, change fund, receipt book, 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 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).

Performed by	Procedure
Bookstore Manager or Designee	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. An athletic ticket sales report (**X-B-4.9**) should be prepared for tickets sold at athletic events. The sales report format enables schools 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
School Clerk	1. Issues the prenumbered tickets to be used for athletic events to the athletic director or bookstore manager. Records the beginning and ending ticket numbers on the auxiliary operations ticket log (**X-B-4.10**).
Athletic Director or Bookstore Manager	2. Records the beginning and ending ticket numbers in the auxiliary operations campus ticket log (**X-B-4.11**).
	3. Indicates the report number, change fund amount, and beginning and ending ticket numbers on the athletic ticket sales report.
	4. Prepares a prenumbered change fund receipt (**X-B-4.12**) in duplicate for the change fund amount and retains on file until after the event.
	5. Issues the prenumbered tickets, change fund, and athletic ticket sales report to the ticket seller (or bookstore cashier).
Ticket Seller/ Cashier	6. Signs for the change fund on the change fund receipt.
	7. Completes 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 or Bookstore Manager	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 in a locked cash box or safe, and secures change fund.

Performed by	Procedure
Athletic Director or Bookstore Manager	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. Records the change fund receipt number on the athletic ticket sales report.
	15. Issues the original change fund receipt to the ticket seller/cashier.
	16. Files the athletic ticket sales report and duplicate copy of the change fund receipt.

END OF DAY PROCEDURES

If there has been only one daily sales report or athletic ticket sales report, schools may skip this section and follow the applicable steps in the CASH DEPOSIT PREPARATION AND CAMPUS ACCOUNTING and SCHOOL OFFICE sections.

At the end of each day, a daily cash collections summary (**X-B-4.13**) 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.

Performed by	Procedure
Athletic Director or Bookstore Manager	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 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.

CASH DEPOSIT PREPARATION AND CAMPUS ACCOUNTING

Performed by	Procedure
Athletic Director or Bookstore Manager	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 bank account.

Performed by	Procedure
Athletic Director or Bookstore Manager	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 school office.
	6. Files the duplicate copies of the daily sales reports and athletic ticket sales reports.

SCHOOL OFFICE

For multicampus schools, each campus should submit the daily cash collection summaries and supporting documentation to the main school office where centralized records are updated and maintained.

Performed by	Procedure
Recording Clerk	1. Reviews the daily cash collections summary for mathematical accuracy and correct account codes. Signs and dates the summary to indicate review.
	2. Compares the cash count on the summary to the deposit slip and validated bank deposit receipt.
	3. Records the cash collections in the cash receipts journal from each report.
	4. Files all documents.

_____ CHARTER SCHOOL

STUDENT CHARGE RECORD

Campus: _____
Student Name: _____
Student I.D. Number: _____
Grade: _____

Period	Teacher	Course	Rental No.	Rental	Sale	Fees	Rental Deposit	Other Deposits	Other Charges
				$	$	$	$	$	
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. _____

_____ CHARTER SCHOOL

DAILY SALES REPORT

CAMPUS _____

ACCOUNT NAME _____ ACCOUNT CODE _____

EVENT _____ DATE _____

CASHIER _____

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 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

Change Fund Receipt Number _____

REPORT NO. _____

_____CHARTER SCHOOL

ATHLETIC TICKET SALES REPORT

Campus _____
Account Name _____ Account Code _____ Date _____
Event _____
Ticket Seller _____

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	$ _____

Total Cash to Account for $_____
Less Change Fund _____
Less Total Sales _____
Cash Overage (Shortage) _____
Total deposit $_____

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

Change Fund Receipt Number _____

_____ CHARTER SCHOOL

AUXILIARY OPERATIONS TICKET LOG

CAMPUS	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

_____ CHARTER SCHOOL

AUXILIARY OPERATIONS CAMPUS TICKET LOG

CAMPUS _____

ORGANIZATION	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

NUMBER (Prenumbered)

_____ **CHARTER SCHOOL**

CHANGE FUND RECEIPT

Completed When Change Fund Issued:

Date _____

Campus _____

Account Name _____

Change Fund Amount Issued $_____

Change Fund Issued To: _____ Date:_____

Ticket Seller/Cashier Signature

Completed When Change Fund Returned:

Cash Received $_____

Change Fund Amount Returned (_____)

Net Cash Collections $_____

Cash Received By: _____ Date:_____

Bookstore Manager or Designee Signature

_____ CHARTER SCHOOL

CAMPUS_____

AUXILIARY OPERATIONS DAILY CASH COLLECTIONS SUMMARY

_____, 20___
Month Day

Part I—Cash Collections Held for Deposit to the Auxiliary Operations 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

Schools should follow the policies and procedures discussed in **§VI-G, Disbursements**, for processing auxiliary operations disbursements.

CASH ADVANCES

Cash advances may be necessary for certain expenses such as trips for athletic events away from home. To obtain a cash advance, a requisitioner should prepare and submit a requisition (**VI-G-10**) and cash advance form (**X-B-5.2**) to the athletic director or bookstore manager for approval. The requisition and cash advance form should be approved and initialed by the school clerk after it is determined that the budget balance and cash balance are sufficient to cover the advance. The requisition should be recorded on a voucher for approval by the governing board or paid out of an auxiliary operations revolving account if a more immediate cash outlay is required.

Receipts for expenses should be returned to the bookstore promptly after the trip, along with any remaining cash.

EXPENSES FROM THE SCHOOLWIDE PROJECT

Expenses may be incurred from the schoolwide project in support of auxiliary operations including salaries for bookstore employees, supplies, and miscellaneous expenses.

Auxiliary operations expenses made from a schoolwide project or a separate auxiliary operations project should be coded with the following program and function codes to identify expenses. 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.

No. _____

_____ **CHARTER SCHOOL**

AUXILIARY OPERATIONS CASH ADVANCE

Purchase Req. No. _____

Check issued to _____ Amount $ _____

Mailing Address _____

_____

_____

Purpose _____

_____

Authorizing signatures:

Requisitioner	Date
Athletic Director/Bookstore Manager	Date
School Clerk	Date

Charter schools should follow established payroll policies and procedures (see **§VI-H, Payroll**) for auxiliary operations. If schools make payments to employees for additional duties such as ticket selling, scorekeeping, and game officiating, they should determine if the payments are supplemental wages or independent contractors' pay. Generally, if the school directly engages a school employee to perform additional services, and the school maintains control or oversight of the employee, payments for these services are considered supplemental wages and are subject to payroll withholdings.

If the Arizona Interscholastic Association assigns a school employee to provide game officiating, payments for these services generally would not be considered supplemental wages and would not be subject to payroll withholding, because the game official is considered an independent contractor.

The school should refer to Internal Revenue Service (IRS) Publication 15, *Employer's Tax Guide*, which lists factors the school should use as guidelines to determine whether sufficient control is present to establish an employer-employee relationship. The school should consider all relevant factors before making a determination and no one factor should be decisive. If after considering all factors, the school is unable to determine whether an employer-employee relationship exists, it can ask the IRS to make the determination. The school should complete and file Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*.

If an employer-employee relationship does not exist, the individual is considered to be an independent contractor, and the school is not required to withhold income, social security, and Medicare taxes from the payments for the additional services rendered. However, the school should issue a Form 1099-MISC to each independent contractor paid $600 or more by the school in a calendar year. The school may pay the wages of independent contractors from the auxiliary operations revolving account. If an employer-employee relationship exists and supplemental wages are paid, the school should pay the supplemental wages of the employee through the normal payroll system. Federal income taxes may be withheld on supplemental wages in one of two ways. The school should either 1) withhold a flat 28 percent of supplemental wages or 2) calculate the tax withholding based on the regular salary and supplemental wages as a single payment. Subtract the tax already withheld from regular wages and withhold the remaining amount from the supplemental wages.

Supplemental wages are also subject to state income taxes, and social security and Medicare taxes.

CONTENTS

Topic	Page
INTRODUCTION	X-C-1
CASH	X-C-2
RECEIPTS	X-C-3
DISBURSEMENTS	X-C-4
TRANSFERS	X-C-5
ACCOUNTING RECORDS	X-C-6
FINANCIAL STATEMENTS	X-C-7

Student activities are defined as student clubs, organizations, school plays, or other student entertainment. Student activities monies are raised by the efforts of students with the approval of the governing board. These monies should be accounted for separately and distinctly from school operations.

Student activities accounting functions are governed by the following principles.

1. School administrators should participate in developing policies, procedures, and regulations for the supervision and administration of student body financial activities.
2. The student council and each student club or organization should have a sponsor.
3. Disbursement of monies derived by the efforts of a specific student club or organization should be approved by that group. Any monies generated by the student body as a whole should be administered by the student council.
4. In elementary schools, for certain grades, the principal may authorize a sponsor to approve club disbursements.
5. Monies should be expended in a manner beneficial to those students currently in school. Students should actively participate in the management of their funds.
6. Sealed competitive bidding may be used for purchases in excess of $100,000. Policies and procedures in the State Board of Education Rules for sealed competitive bidding may be followed or alternative policies and procedures may be established.
7. Guidelines for competitive purchasing below the dollar limits required for sealed bids, as prescribed by the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) (**§VI-G**, **Disbursements**), may be followed for purchases of $100,000 or less.

A strong system of internal control is required for transactions involving cash. Therefore, the student activities treasurer should ensure that the following prescribed policies are followed consistently schoolwide.

POLICIES

1. Monies should be physically safeguarded.
2. Segregation of duties between cash handling and recordkeeping should be maintained. (Schools unable to adequately segregate duties due to insufficient staff size should implement additional supervisory review at appropriate points in the process, to help ensure that adequate internal control is maintained.)
3. The student activities treasurer, assistant student activities treasurers, and other employees who handle significant amounts of cash should be bonded and the related expense charged to the school.
4. Disbursements should be made by serially prenumbered checks.
5. Void checks should be stamped to prevent reuse and numerically filed with the canceled checks.
6. Bank reconciliations should be prepared monthly, preferably by an employee not responsible for handling cash or issuing checks. In small schools where an employee performs both functions, reconciliations should be reviewed and approved by a school administrator. Bank reconciliations should be signed and dated when reviews are completed.
7. Student activities monies should not be used to pay any school expenses.

STUDENT ACTIVITIES BANK ACCOUNT

The governing board should establish a student activities bank account and appoint an employee as a student activities treasurer who is responsible for the account. In schools with multiple campuses, the governing board may designate an assistant student activities treasurer for each campus and may authorize a student activities bank account for each campus.

Monies should be deposited in the bank accounts intact daily, if material, or at least weekly. Disbursements from the student activities bank account should 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 should maintain a current record of the balance due each club or organization. The balance due each club or organization should be maintained in the cash receipts and disbursements journals (**X-C-6.4**).

CHANGE FUNDS

Change funds may be established from the student activities 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 on the school's records from Cash in Bank (object code 0102) to Cash on Hand (object code 0101). Since a disbursement has not 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-C-6.4**).

Interest earned on investments should be allocated on a pro rata basis to clubs and organizations 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.

Student activities monies are derived from a variety of sources including the following examples.

1. Dues
2. Concessions
3. Interest
4. Ticket sales
5. Publications
6. Salvage drives
7. Gifts (do not include gifts to the school)
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.

The student activities treasurer is ultimately responsible for all monies. Therefore, the student activities treasurer should initiate policies and procedures that establish adequate internal control. The accounting policies and procedures should be designed to ensure transmittal of all monies to the student activities treasurer or assistant student activities treasurers for deposit in the student activities bank accounts.

The following policies and procedures, and sample forms, presume a multicampus school that utilizes assistant student activities treasurers and a bank account for each campus. These are sample policies and procedures, and documents, and they present only one of many methods for controlling student activities monies. Schools having high school grade levels may utilize the bookstore in the collection of cash, while other schools 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 (**X-C-3.6**) 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 in the student activities school ticket log (**X-C-3.7**).
Assistant Student Activities Treasurer	2. Records the beginning and ending ticket numbers in the student activities campus ticket log (**X-C-3.8**).
	3. Issues the tickets to the bookstore manager or designee.
Bookstore Manager or Designee	4. Indicates the report number, change fund amount, and beginning and ending ticket numbers issued on the Activity Report.
	5. Prepares a prenumbered change fund receipt (**X-C-3.9**) in duplicate for the change fund amount and retains on file until after the event.
	6. Issues the prenumbered tickets, change fund, and activity report to the club officer/sponsor.
Club Officer/Sponsor	7. Signs and dates the change fund receipt for receipt of the change fund.
	8. Completes the activity report in duplicate after the event.
	9. Signs and dates 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 into a cash register or safeguards in a locked cash box or safe, and secures change fund.
	13. Signs and dates the activity report.
	14. Records and signs for the net cash collections and change fund on the change fund receipt.
	15. Records the change fund receipt number on the activity report.
	16. Issues the original change fund receipt and activity report to the club officer/sponsor.
	17. Files the duplicate copies of the activity report and change fund receipt.

OTHER RECEIPTS

The cash collection report (**X-C-3.10**) is prepared to account for cash collected when tickets are not utilized (e.g., for such events as T-shirt sales, and candy and bake sales). In some instances, prenumbered cash receipts will be practicable and the cash collection report may be used to reconcile those cash receipts to cash collected. Receipt books used should contain duplicate, prenumbered receipt forms. When a sale is completed, the original receipt is given to the buyer and the duplicate retained.

Performed by	Procedure
Bookstore Manager or Designee	1. Completes a cash collection report in duplicate for the report number and change fund amount. Enters beginning and ending receipt numbers issued if a receipt book is used.
	2. Prepares a prenumbered change fund receipt in duplicate for the change fund amount and retains on file until after the event.
	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.
	5. Collects cash and completes cash collection report.
	6. Signs and dates 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 and dates the cash collection report.
	11. Places the cash collected into a cash register or safeguards in a locked cash box or safe, and secures change fund.
	12. Records and signs for the net cash collections and change fund on the change fund receipt.
	13. Records the change fund receipt number on the cash collection report.
	14. Issues the original change fund receipt and cash collection report to the club officer/sponsor.
	15. 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, schools may skip this section and follow the applicable steps in the CASH DEPOSIT PREPARATION AND CAMPUS ACCOUNTING section.

At the end of each day, a daily cash collections summary should be prepared in order to reconcile the amount of cash collected to change fund receipt forms 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 change fund receipts.
	2. Prepares a daily cash collections summary (**X-C-3.11**) to reconcile the amount of total cash collected for the day to issued change fund receipts. Resolves any differences.
	3. Files the summary and change fund receipts by date and places the cash collections in a locked cash box or safe until deposit.

CASH DEPOSIT PREPARATION AND CAMPUS 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 intact into the student activities bank account.
	4. Attaches the 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.
Assistant Student Activities Treasurer	6. Reviews the summary for mathematical accuracy and correct account names. 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.

Performed by	Procedure
Assistant Student Activities Treasurer	8. Records the cash collections in the cash receipts and disbursements journal (**X-C-6.4**) of the appropriate club or organization.
	9. Files the summary, deposit slip, and validated bank deposit receipt by date and other documents by student club or organization.

REPORT NO. _____

_____ CHARTER SCHOOL

ACTIVITY REPORT

Campus _____

Account Name _____ Date_____

Event _____

Club Officer/Sponsor _____

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	$

Total Cash to Account For $_____

Less Change Fund _____

Less Total Sales _____

Cash Overage (Shortage) _____

Total Deposit $_____

Reason for Overage (Shortage):

_____

_____

_____

Reconciliation Completed by:

_____

Club Officer/Sponsor Signature

_____

Date

Change Fund, Tickets, and Cash Collections Received by:

_____

Bookstore Manager or Designee

_____

Date

Change Fund Receipt Number _____

_____ CHARTER SCHOOL

STUDENT ACTIVITIES SCHOOL TICKET LOG

CAMPUS	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

_____ CHARTER SCHOOL

STUDENT ACTIVITIES CAMPUS TICKET LOG

CAMPUS _____

CLUB OR ORGANIZATION	TICKET NUMBERS			
	DATE	FROM	TO	TOTAL

NUMBER (Prenumbered)

_____ **CHARTER SCHOOL**

CHANGE FUND RECEIPT

Completed When Change Fund is Issued:

Date _____

Campus _____

Account Name _____

Change Fund Amount Issued $_____

Change Fund Issued To: _____ Date: _____

Club Officer/Sponsor

Completed When Change Fund Returned:

Cash Received $_____

Change Fund Amount Returned (_____)

Net Cash Collections $_____

Cash Received By: _____ Date: _____

Bookstore Manager or Designee

REPORT NO. _____

_____ CHARTER SCHOOL

CASH COLLECTION REPORT

Campus _____

Account Name _____

Event _____ Date _____

Club Officer/Sponsor _____

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 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): _____

_____

_____

Reconciliation Completed by:

_____
Club Officer/Sponsor Signature

_____
Date

Change Fund, Receipts, and Cash Collections Received by:

_____
Bookstore Manager or Designee

_____
Date

Change Fund Receipt Number _____

_____ CHARTER SCHOOL

CAMPUS _____

STUDENT ACTIVITIES DAILY CASH COLLECTIONS SUMMARY

_____, 20___

Month Day

Part I—Cash Collected and Held for Deposit to the Student Activities 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	_____
.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 _____

The Arizona Administrative Code R7-2-1002(E) exempts student activities purchases from the school district procurement rules prescribed by the State Board of Education, unless school monies are involved or if purchases are made from school employees regardless of the source of the monies or the dollar amount. However, to provide for maximum purchasing power, schools should consider following the procurement rules or similar policies and procedures for student activities purchases in excess of $100,000. Additionally, schools should consider following the purchasing guidelines on page **VI-G-6** for student activities purchases of $100,000 or less.

The following procedures and sample forms presume a multicampus school that utilizes assistant student activities treasurers. These are sample procedures and documents and present only one of many methods for controlling student activities disbursements. The student activities treasurer should develop written accounting procedures for the necessary control over disbursement transactions.

Performed by	Procedure
Club	1. Approves the disbursement and documents approval in the club's minutes.
Club Officer/Sponsor	2. Prepares a student activities requisition form in duplicate (**X-C-4.3**).
	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-C-4.4**) and records the purchase order number on the requisition. Student activities purchase orders should be signed by the assistant student activities treasurer. 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.
	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 in an open purchase order file.

Performed by	Procedure
Club Officer/Sponsor	11. Files the receiving report (**X-C-4.5**) 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. Submits the receiving report and packing slip to the bookstore manager or designee.
Bookstore Manager or Designee	14. Compares quantity on the receiving report to requisition and Copy 1 of the purchase order.
	15. Attaches the receiving report and packing slip to the requisition and Copy 1 of the purchase order.
	16. Receives the vendor's invoice and compares quantity and price to the packing slip, receiving report, and Copy 1 of the purchase order.
	17. Verifies the mathematical accuracy of the documents, and initials and dates the documents as evidence of the check.
	18. Attaches the vendor's invoice to the packing slip, receiving report, requisition, and Copy 1 of the purchase order.
	19. Prepares a check. Notes the purchase order number and student activity account name on the check.
	20. Records the check number on the vendor's invoice.
	21. Stamps the vendor's invoice "paid" or otherwise cancels the invoice.
Assistant Student Activities Treasurer	22. Records the disbursement in the cash receipts and disbursements journal (**X-C-6.4**) of the appropriate club or organization.
	23. Signs the check and submits the supporting documentation along with the check for cosignature.
Authorized Cosigner	24. Reviews supporting documentation and signs the check.
	25. Mails the check to vendor.
Assistant Student Activities Treasurer	26. Files the documents by student activities club or organization.

Assets purchased with student activities monies should not be included on the school's capital assets list since they are not school property; however, the school may choose to maintain a separate list for student activities assets above a certain dollar amount. If a student club chooses to donate an asset to the school, 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 school's capital assets list at fair value at the time of donation.

REQUISITION NO. _____

_____ **CHARTER SCHOOL**

STUDENT ACTIVITIES REQUISITION

CAMPUS _____

ACCOUNT NAME _____ 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 of Bookstore Manager or Designee :_____

_____ **CHARTER SCHOOL**

STUDENT ACTIVITIES PURCHASE ORDER

CAMPUS _____ P. O. No. _____ (Prenumbered)

Req. No. _____

Date _____

TO: _____ FROM: _____

(Vendor) (School)

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	
Account Code	Amount
TOTAL	$ _____

This purchase order is a claim against the Student Activities account only. The School assumes no liability in the purchase transaction.

By _____ _____

Student Activities Treasurer or Assistant Student Activities Treasurer — Date

Vendor (Original)
School (Copies 1 and 2)

_____ **CHARTER SCHOOL**

STUDENT ACTIVITIES PURCHASE ORDER

CAMPUS _____

P.O. No. _____ (Prenumbered)

Req. No. _____

Date _____

TO: _____ (Vendor)

FROM: _____ (School)

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 Individual

_____ Received by Requisitioner

_____ Date

Dates (If more than one delivery indicate dates by items above)

Receiving Report (Copy 3)

Transfers normally 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 or organization to another club or organization (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 or organization sponsor and officer.

Transfers should be accounted for on the student activities journal entry (**X-C-6.2**) by the student activities treasurer or assistant student activities treasurer. The entry should then be recorded in the cash receipts and disbursements journals of the appropriate clubs or organizations.

An example of the transfer entry for an allocation of money to Club A (JE 1) is illustrated on **X-C-6.4**. 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 basic accounting records that should be maintained for student activities are the cash receipts and disbursements journals and the cash/investments ledger (**X-C-6.4**). Multicampus schools utilizing assistant student activities treasurers and a bank account for each campus should maintain these basic accounting records at each campus.

Cash receipts and disbursements journals are used to record cash, transfers, interclub transactions, and other entries for each student activity. The cash balance of each activity is maintained separately. Individual clubs should maintain their own cash balances to facilitate their stewardship.

The cash/investments ledger is used to record monthly totals of receipts and disbursements that have been recorded in the cash receipts and disbursements journals. In addition, investments are recorded in the ledger. Examples of entries to the ledger are presented on **X-C-6.4**.

The cash balances recorded in the cash receipts and disbursements journals should equal the combined balances of cash and investments in the cash/investments ledger.

CASH RECEIPTS ENTRIES

Cash receipts are entered in the cash receipts and disbursements journal of the appropriate club or organization. Each cash receipt is entered as a credit (increase) in the journal. The offsetting entry in the journal is a debit (increase) to the activity's cash balance.

For example, if Club A receives cash from ticket sales, the amount is entered in the receipts column as a credit as shown on **X-C-6.4**. The offsetting entry is a debit (increase) to cash.

At the end of the month, the receipts are totaled and the total of all clubs should equal the receipts in the cash/investments ledger.

CASH DISBURSEMENTS ENTRIES

Cash disbursements are entered for each transaction in the cash receipts and disbursements journal of the appropriate club or organization. Disbursements are entered as debits (increases) to the disbursements accounts while the offsetting credits (decreases) are to the activity's cash balance.

For example, if Club A buys supplies, the amount spent is entered as a debit (increase) in the cash receipts and disbursements journal as shown on **X-C-6.4**. The offsetting credit (decrease) entry is made to cash.

At the end of the month, the disbursements are totaled and the total of all clubs should equal the disbursements recorded in the cash/investments ledger.

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 journals.

TRANSFERS

Transfers should be accounted for on the student activities journal entry by the student activities treasurer or assistant student activities treasurer and recorded in the cash receipts and disbursements journals of the appropriate clubs or organizations. Transfers may be made by entries to both accounts in the journals with no physical exchange of money.

The following entry demonstrates an example of cash allocation.

STUDENT ACTIVITIES JOURNAL ENTRY

		Amount	
Club/Organization	**Transaction/Description**	**Debit**	**Credit**
Club B	Transfer—Out	$100	
Club B	Cash		$100
Student Council	Cash	100	
Student Council	Transfer—In		100

To transfer the remaining cash balance of a defunct club to the student council.

Note that while cash in the total account is unaffected, cash in the individual accounts is redistributed and should be adjusted.

Transfers need not be posted to the cash/investments ledger since the net effect to the student activities cash balance is zero.

INTERCLUB TRANSACTIONS

Interclub transactions include sales of supplies between clubs and organizations. The transactions should be accounted for on the student activities journal entry and recorded in the cash receipts and disbursements journals of the appropriate clubs or organizations.

Examples of both an interclub sale (JE 2) and purchase of supplies (JE 3) are presented on **X-C-6.4**.

SCHOOL ACCOUNTING

Student activities operations should not be reported in the records of the school. The school's records should reflect only the balance of student activities monies held by the school and a corresponding liability in accordance with the **Chart of Accounts (§III)**. The school should use the monthly report of cash receipts, disbursements, transfers and cash balances (**X-C-7.2**) prepared by the student activities treasurer to adjust the school's records.

The following is a sample journal entry to adjust the school's accounting records.

GENERAL JOURNAL					Page 10
Date 20XX	Account Number	Account Description	Posted to General Ledger	Amount Debit	Credit
4/30	1000-000-0000-0216	Due to Student Groups	X	$150	
	1000-000-0000-0102	Cash in Bank	X		$150
To adjust the school's accounting records for student activities operations for the month of April.					

EXHIBITS

CASH RECEIPTS AND DISBURSEMENTS JOURNAL

Campus: Sample
Account Name: Club A
Period: October 20XX

Reference				Receipts		Disbursements		Transfers		Cash		
Date 20XX	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

CASH/INVESTMENTS LEDGER

				Investments			Cash		
Posting Date	**Receipts**	**Disbursements**	**Description**	**Debit**	**Credit**	**Balance**	**Debit**	**Credit**	**Balance**
Bal. Fwd.									$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
11/30/XX			Check #45 – TCD 108572	$1,000		$1,000		1,000	$1,590

The school should prepare a balance sheet and a statement of changes in assets and liabilities annually for student activities.

A Report of Cash Receipts, Disbursements, Transfers and Cash Balances (**X-C-7.2**) should be prepared monthly by the student activities treasurer. In a multicampus school, a report should be prepared monthly by the assistant student activities treasurer at each campus, if separate bank accounts are maintained, and submitted to the student activities treasurer.

All financial statements should be submitted in a timely manner to the governing board.

EXHIBITS

SAMPLE CHARTER SCHOOL
STUDENT ACTIVITIES
BALANCE SHEET
JUNE 30, 20XX

ASSETS		
Cash		$ 450
Certificates of deposit		$1,400
	Total Assets	$ 1,850
LIABILITIES		
Accounts Payable		$ 200
Due to student groups		$1,650
	Total Liabilities	$ 1,850

SAMPLE CHARTER SCHOOL
STUDENT ACTIVITIES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 20XX

	Balance July 1, 20XX	Additions	Deductions	Balance June 30, 20XX
ASSETS				
Cash	$ 600	$2,900	$3,050	$ 450
Certificates of deposits	1,000	1,400	1,000	1,400
Total Assets	$1,600	$4,300	$4,050	$ 1,850
LIABILITIES				
Accounts payable	$ 100	$ 100	0	$ 200
Due to student groups	1,500	4,200	$4,050	1,650
Total Liabilities	$1,600	$4,300	$4,050	$1,850

SAMPLE CHARTER SCHOOL
STUDENT ACTIVITIES
REPORT OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS AND CASH BALANCES
MONTH ENDED APRIL 30, 20XX

Club/Organization	Cash Balance March 31, 20XX	Receipts	Disbursements	Transfers In	Transfers Out	Cash Balance April 30, 20XX
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

Schools should refer to the guidebook, *School Finance Procedures Manual*, issued by ADE for student enrollment and attendance accounting and reporting policies, procedures, and forms. The guidebook **must** be followed as part of the *Uniform System of Financial Records for Arizona Charter Schools*. Copies of the guidebook and forms are available from ADE School Finance, 1535 W. Jefferson St., Phoenix, AZ 85007, telephone (602) 542-5695 or 1-800-352-4558, or www.azed.gov. If you need assistance, please call ADE School Finance or the Accounting Services Division of the Office of the Auditor General at (602) 553-0333.

For guidance on records management, charter schools 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**.