

# INTERNAL SCHOOL FUNDS MANUAL MARKUP COPY

*Effective for Fiscal Years Beginning On or After July 1, 2023*



*Office of Local Finance*



*Division of  
Local Government Audit*

*State of Tennessee*

---

**Department of Education**

Office of Local Finance

**Comptroller of the Treasury**

**Division of Local Government Audit**

Effective July 20~~23~~<sup>14</sup>

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

# Table of Contents

Preface.....	ii-1
--------------	------

## Section 1: Introduction

<b>Title 1 History of Internal School Accounting .....</b>	<b>1-1</b>
1959 Internal School Accounting Law.....	1-1
<del>Tennessee Internal School Funds Uniform Accounting Policy Manual.....</del>	<del>1-1</del>
<u>Public Charter Schools .....</u>	<u>1-2</u>
<b>Title 2 The Internal School Accounting Act.....</b>	<b>1-3</b>
<b>Title 3 Purpose, <u>Applicability, Revisions and Waivers, and</u> Exemptions .....</b>	<b>1-4</b>
Purpose and Applicability of the <i>Manual</i> .....	1-4
<del>Revisions and Waivers .....</del>	<del>1-4</del>
Exemptions .....	1-4
<b>Title 4 Accountability, <u>Reporting</u> and General Principles .....</b>	<b>1-5</b>
Accountability .....	1-5
<u>Reporting .....</u>	<u>1-5</u>
General Principles.....	1-65

## Section 2: Audit Requirements

<b>Title 1 School Audit Requirements .....</b>	<b>2-1</b>
Purpose and Frequency of Audits.....	2-1
Auditors .....	2-1
Audit Standards and Approval .....	2-1
Contract to Audit Accounts .....	2-12

## Section 3: Duties and Responsibilities

<b>Title 1 Local Boards of Education.....</b>	<b>3-1</b>
<b>Title 2 Directors of Schools .....</b>	<b>3-32</b>
<b>Title 3 School Principals.....</b>	<b>3-54</b>

<b>Title 4 Tennessee Department of Education .....</b>	<b>3-74</b>
--	-------------

<b>Title 5 Comptroller of the Treasury .....</b>	<b>3-86</b>
--	-------------

<b>Title 6 Commissioner of Finance and Administration .....</b>	<b>3-97</b>
---	-------------

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

<b>Title 1 Internal School Funds .....</b>	<b>4-1</b>
Background.....	4-1
Internal School Funds.....	4-1
Student Activity Funds.....	4-1
General Fund .....	4-2
Restricted Fund.....	4-3
Local Education Agency – School Nutrition Fund .....	4-3
Accounting for Athletics .....	4-34

<b>Title 2 Internal Control.....</b>	<b>4-5</b>
Objectives of Internal Control Systems.....	4-5
Controls Surrounding Electronic Files and Equipment.....	4-6
Revenue/Collection Cycle .....	4-6
Purchasing/Disbursement Cycle.....	4-8
Payroll Cycle .....	4-135
Capital Asset Cycle .....	4-146
Inventory Cycle .....	4-168
Reporting Cycle.....	4-179

<b>Title 3 Insurance/Bonding of Employees.....</b>	<b>4-219</b>
--	--------------

<b>Title 4 Safekeeping of Cash.....</b>	<b>4-202</b>
---	--------------

<b>Title 5 Property Acquisition and Management .....</b>	<b>4-213</b>
Definition.....	4-213
Property Acquisition.....	4-213
Property Management.....	4-224

<b>Title 6 Retention and Disposal of Records .....</b>	<b>4-246</b>
Retention of Records .....	4-246

Disposal of Records.....	4-247
<b>Title 7 Cooperative and Noncooperative Activities .....</b>	<b>4-258</b>
Cooperative Activities .....	4-258
Non-cooperative Activities.....	4-258
<b>Title 8 <u>Resale and</u> Fundraising <del>and Resale</del> Activities .....</b>	<b>4-2730</b>
Resale Activities .....	4-2730
Fundraising Activities.....	4-2831
State Sales Tax.....	4-335
Emphasized Internal Control Features .....	4-346
<b>Title 9 Donations <u>and</u>&amp; Other Miscellaneous Revenues/Receipts .....</b>	<b>4-357</b>
Donations.....	4-357
Premiums (Bonus Incentives).....	4-357
Returned Check Fees .....	4-357
Interest Earned on Bank and Investment Accounts.....	4-368
Teachers’ Materials and Supplies Funds .....	4-368
Grants.....	4-379
Student Fees/Fee Waiver .....	4-379
Extended School Program (ESP).....	4-3740
Student Deposits and Fines Collected for the Board of Education .....	4-3840
<b>Title 10 Loans and Accommodations.....</b>	<b>4-3941</b>
<b>Title 11 Budgets for Internal School Funds .....</b>	<b>4-402</b>
<b><u>Title 12 Uniform Electronic Transactions Act.....</u></b>	<b><u>4-41</u></b>
<b>Section 5: Operating Procedures</b>	
<b>Title 1 Recording Transactions and Documentation.....</b>	<b>5-1</b>

<b>Title 2</b>	<b>Revenues/Receipts .....</b>	<b>5-2</b>
	<u>Definitions .....</u>	<u>5-2</u>
	Separation of Duties .....	5-2
	General.....	5-2
	Collection of Money by Teachers/Others.....	5-3
	Collection of Money by Cashier.....	5-67
	<u>Collection of Money by Electronic Methods .....</u>	<u>5-8</u>
	Recording of Collections by Bookkeeper.....	5-9
<b>Title 3</b>	<b>Purchasing.....</b>	<b>5-10</b>
	Purchase Authorization.....	5-10
	Purchasing Procedures for Teachers/Others.....	5-11
	Purchasing Procedures for Bookkeeper.....	5-121
	Purchasing Procedures by Principal or Designee.....	5-13
	<u>Bid Process and Required Documented Quotes .....</u>	<u>5-14</u>
	Prior Authorization Required .....	5-14
	Limitations on Disbursements .....	5-145
	Expenditures Made by Pupils and Employees .....	5-145
<b>Title 4</b>	<b>Petty Cash.....</b>	<b>5-156</b>
	Authorization .....	5-156
	Establishment of Account.....	5-156
	Petty Cash Vouchers/Invoices .....	5-156
	Replenishing Petty Cash and Recording Expenditures .....	5-156
	Emphasized Internal Control Procedures .....	5-157
<b>Title 5</b>	<b>Refunds and Travel .....</b>	<b>5-178</b>
	Refunds.....	5-178
	Travel and Conferences .....	5-178
	<u>Other Travel.....</u>	<u>5-18</u>
	<u>Travel Advances .....</u>	<u>5-18</u>
<b>Title 6</b>	<b>Salary Supplements, Substitute Teachers, and Contracted Services .....</b>	<b>5-1820</b>
	Salary Supplements .....	5-1820
	Substitute Teachers.....	5-1820
	Contracted Services .....	5-

<b>Title 7</b>	<b>Borrowing, Lending, and Transfers .....</b>	<b>5-202</b>
	Borrowing and Lending.....	5-220
	Transfers of Money from One School Account to Another .....	5-202
	Prohibited Transfers .....	5-202
<b>Title 8</b>	<b>Club and Class Accounts .....</b>	<b>5-213</b>
	General.....	5-213
	Unexpended Account Balances .....	5-231

## Section 6: Banking

<b>Title 1</b>	<b>Bank Accounts and Investments .....</b>	<b>6-1</b>
	Bank Accounts.....	6-1
	Investments .....	6-1
<b>Title 2</b>	<b>Deposits.....</b>	<b>6-2</b>
	Frequency of Bank Deposits.....	6-2
	Intact Deposits .....	6-2
	Deposit Slips.....	6-2
<b>Title 3</b>	<b>Checks.....</b>	<b>6-3</b>
	General.....	6-3
	Signatures on Checks.....	6-3
	Voided Checks.....	6-3
	Outstanding Checks.....	6-4
	“Bad” Checks .....	6-4
	Emphasized Internal Control Features.....	6-4
<b>Title 4</b>	<b>Bank Reconciliations .....</b>	<b>6-5</b>
	General.....	6-5

Procedures .....	6-5
Emphasized Internal Control Features .....	6-6
<b>Title 5 Online Banking .....</b>	<b>6-7</b>
General .....	6-7
Minimum Policies and Procedures .....	6-7
 <b>Section 7: Accounting and Reporting</b>	
<b>Title 1 Information Provided by Accounting System.....</b>	<b>7-1</b>
<b>Title 2 Accounting Records.....</b>	<b>7-2</b>
Revenue and Expenditure Classification.....	7-2
Expanded Reporting Levels.....	7-2
Accounting Records .....	7-3
 <b>Title 3 Financial Reporting.....</b>	 <b>7-4</b>
Periodic Financial Reports.....	7-4
Financial Statements and Accompanying Schedules .....	7-5
<b>Exhibit 1:</b> Table of Contents.....	7- <del>86</del>
<b>Exhibit 2:</b> Combined Balance Sheet, Regulatory Basis, All Schools .....	7- <del>107</del>
<b>Exhibit 3:</b> Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Regulatory Basis, All Schools .....	7- <del>118</del>
<b>Exhibit 4:</b> Notes to the Financial Statements .....	<del>7-9</del>
<b>Exhibit 45:</b> Individual Balance Sheet, Regulatory Basis, High School .....	7- <del>125</del>
<b>Exhibit 56:</b> Individual Statement of Revenues, Expenditures, and Changes in Fund Balances, Regulatory Basis, High School .....	7- <del>136</del>
<b>Exhibit 67:</b> Individual Balance Sheet, Regulatory Basis, Middle School ..	7- <del>147</del>
<b>Exhibit 78:</b> Individual Statement of Revenues, Expenditures, and Changes in Fund Balances, Regulatory Basis, Middle School .....	7- <del>158</del>
<b>Exhibit 89:</b> Individual Balance Sheet, Regulatory Basis, Elementary School .....	7- <del>169</del>
<b>Exhibit 910:</b> Individual Statement of Revenues, Expenditures, and Changes in Fund Balances, Regulatory Basis, Elementary School .....	7- <del>1720</del>
<b>Exhibit 10:</b> Notes to the Financial Statements .....	<del>7-18</del>
<b>Exhibit 11:</b> Schedule of Expenditures of Federal Awards and State Financial Assistance .....	7- <del>241</del>



<b>Exhibit 12:</b> Schedule of <del>Interfund and Interaccount</del> Transfers – <u>By School</u> .....	7-252
<b>Exhibit 13:</b> Schedule of Salary Supplements – <u>By School</u> .....	7-263
<b>Exhibit 14:</b> Schedule of Fidelity Bond Coverage.....	7-274

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

<b>Title 1 General Rules and Regulations</b> .....	<b>8-1</b>
Centralized and Noncentralized Systems .....	8-1
Application .....	8-1
Petty Cash and Change Accounts.....	8-2
Student Prepaid Accounts.....	8-2
Fund Balance .....	8-2
Utilization of School Nutrition Fund Money .....	8-2
Vending Machines-Fundraising .....	8-2
Banquets and Special Functions .....	8-2
Separate Accounting Required .....	8-3
Indirect Costs.....	8-3
Charges .....	8-3
Meals for Cafeteria Employees .....	8-4
State Matching Funds .....	8-4
Retention of Records .....	8-4
Commodities – Accounting and Financial Reporting.....	8-4
Financial Statements and Schedules.....	8-5
<b>Exhibit 1:</b> Table of Contents .....	8-6
<b>Exhibit 2:</b> Management’s Discussion and Analysis .....	8-87
<b>Exhibit 3:</b> Balance Sheet – Governmental Funds .....	8-9
<b>Exhibit 4:</b> Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	8-10
<b>Exhibit 5:</b> Notes to the Financial Statements .....	8-11
<b>Exhibit 6:</b> Schedule of Salary Supplements – <u>By School</u> .....	8-15
<b>Exhibit 7:</b> Schedule of Fidelity Bond Coverage.....	8-16
<b>Exhibit 8:</b> Schedule of Expenditures of Federal Awards and State Financial Assistance .....	8-17

**Section 9: Chart of Accounts**

<b>Title 1 Account Codes</b> .....	<b>9-1</b>
<b>Title 2 General or Restricted Funds</b> .....	<b>9-2</b>

Balance Sheet Accounts .....	9-2
<b>Title 3 General Fund .....</b>	<b>9-3</b>
Revenue Classification (by Source and Subsource).....	9-3
Expenditure Classification (by Function, Subfunction and Object).....	9-5
Explanation of Expenditure by Function.....	9- <del>87</del>
<b>Title 4 Restricted Fund.....</b>	<b>9-9</b>
Revenue/Expenditure Accounts .....	9-9
<b>Title 5 School Nutrition Fund.....</b>	<b>9-10</b>
Balance Sheet Accounts .....	9-10
Revenue Accounts .....	9-10
Expenditure Accounts.....	9-11

## Appendix A: Applicable Laws and Exhibits

State Laws Affecting Internal School Funds.....	A-1
Selected Tennessee Code Annotated References .....	A-1
<b>Exhibit 1: <del>Proposed Fundraising Activities</del> (Fundraiser Authorization <u>Form</u>)..</b>	<b>A-<del>32</del></b>
<b><u>Exhibit 2a: Inventory Analysis Report.....</u></b>	<b><u>A-4</u></b>
<b>Exhibit 2ba: Fundraiser Collections Analysis Report.....</b>	<b>A-<del>53</del></b>
<b>Exhibit 2cb: <u>Yearbook</u> Advertising Sales <del>for Yearbook</del> Collections Analysis Report .....</b>	<b>A-<del>76</del></b>
<b>Exhibit 2de: Yearbook Collections Analysis Report .....</b>	<b>A- <u>109</u></b>
<b><u>Exhibit 2d: Vending Collections Analysis Report .....</u></b>	<b><u>A-11</u></b>
<b>Exhibit 3: Fundraiser Summary Report.....</b>	<b>A- <u>124</u></b>
<b>Exhibit 4: Donation/Allocation Summary Report.....</b>	<b>A- <u>146</u></b>
<b><u>Exhibit 5: Prenumbered Receipts .....</u></b>	<b><u>A-18</u></b>
<b>Exhibit <u>56</u>: Teacher Collection Log .....</b>	<b>A- <u>169</u></b>
<b>Exhibit <u>67</u>: Ticket Reconciliation.....</b>	<b>A- <u>1720</u></b>

<b>Exhibit 78:</b> Count of Collections.....	A- <u>1921</u>
<b>Exhibit 9:</b> <del>Daily Collection Report</del> .....	<del>A-22</del>
<b>Exhibit 810:</b> Purchase Requisition/Authorization.....	A- <u>203</u>
<b>Exhibit 911:</b> <u>Transfer</u> Authorization <del>by Student Organization</del> .....	A- <u>214</u>
<b>Exhibit 102:</b> <del>Claim for</del> Travel Expense <u>Claims</u> .....	A- <u>225</u>
<b>Exhibit 113:</b> Journal Entries for Returned Checks .....	A- <u>236</u>
<b>Exhibit 124:</b> Journal Entries for Change Funds .....	A- <u>269</u>
<b>Exhibit 135:</b> Journal Entries for Reimbursements.....	A- <u>2730</u>
<b>Exhibit 14:</b> <u>Journal Entries for Non-cash Activity</u> .....	<u>A-28</u>
 <b><u>Appendix B: Principles-Based Approach to Board of Education Obligations</u></b> .....	 <b><u>B-1</u></b>
 <b><u>Appendix C: Allowable and Unallowable Expenditures</u></b> .....	 <b><u>C-1</u></b>
 <b><u>Appendix D: Definitions</u></b> .....	 <b><u>D-1</u></b>
 <b><u>Index</u></b> .....	 <b><u>I-1</u></b>

## Preface

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

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

This is the ~~third~~ fifth edition of the *Manual*. The original edition was entitled the *Tennessee Internal School Financial Management Manual* and was released in 1977~~88~~. –Subsequent updated editions were released in 1988, 1999, 2011 and now 2023~~11~~.

**NOTE:** Frequently Asked Questions related to the *Manual* are located here:

<https://comptroller.tn.gov/content/dam/cot/la/documents/manuals/School%20Manual%20FAQs.pdf>

Section **1**

---

# Introduction

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



# SECTION 1

*Introduction*

## INTERNAL SCHOOL FUNDS MANUAL



## Section 1: Introduction

---

### ~~Title~~ TITLE 1; History of Internal School Accounting HISTORY OF INTERNAL SCHOOL ACCOUNTING

#### 1959 Internal School Accounting Law

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

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

#### ~~Tennessee Internal School Funds Uniform Accounting Policy Manual~~

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

The original *Tennessee Internal School Financial Management Manual* encompassed both accounting procedures and administrative policies in an effort to help bring local boards into

compliance with TCA Section 49-2-110, TCA. Subsequent additions to and revisions of the *Manual* continued this dual direction. ~~However, current management trends indicate an increasing~~ Eventually, there was a shift to school-based decision making; ~~recognizing that from the~~ mandated uniform administrative policy for all schools; ~~in such incredibly diverse economic and social situations might not always serve~~ There was an increasing consensus that this approach would serve the best interest of the students, and ultimately, the public. In 1992, to acknowledge this trend, the Tennessee General Assembly ~~acknowledged this trend, and in 1992,~~ provided that local boards could initiate a program of school-based decision making. ~~This trend was also acknowledged during the process of subsequent Manual revisions. Subsequent Manual revisions have incorporated this approach.~~ As a result, the *Manual* frequently refers to board policy, and the board's responsibility for establishing administrative policy.

### **Public Charter Schools**

The Tennessee Public Charter Schools Act of 2002 is contained in TCA Title 49, Chapter 13. This statute allows for the creation and operation of public charter schools. In accordance with TCA Section 49-13-127, public charter schools shall have an annual audit of its accounts and records, including internal school activity and cafeteria funds. This *Manual* should be followed by all public charter schools.

Commonly asked questions and additional guidance regarding public charter schools can be found at the following links:

<https://www.tn.gov/education/families/school-options/charter-schools/charter-school-faq.html>

<https://comptroller.tn.gov/content/dam/cot/la/documents/guidance/general-guidance/WebGuidanceForCharterSchools2023.pdf>



## Section 1: Introduction

### ~~Title TITLE 2; The Internal School Accounting Act~~ THE INTERNAL SCHOOL ACCOUNTING ACT

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

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

## ~~Section 1: Introduction~~

### ~~Title TITLE 3; Purpose PURPOSE, APPLICABILITY, Revisions and Waivers, AND Exemptions EXEMPTIONS~~

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

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

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

## **Revisions and Waivers**

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

## **Exemptions**

### **School Support Organizations (SSOs)**

Organizations composed of parents and teachers or parents and students (including, but not limited to, parent-teacher associations, parent-teacher organizations, band booster clubs, and athletic booster organizations) working in coordination with the schools shall not be required to use or comply with any recordkeeping or accounting requirements provided for in this *Manual*. SSOs or other board of education policy manuals, and are also exempt from the accounting, recordkeeping, and other requirements of TCA Section 49-2-110, *TCA*. However, ~~school support organizations, SSOs,~~ as defined in TCA Section 49-2-603, *TCA*, are required to maintain

financial records for at least four (4) years, as specified in TCA Section 49-2-604, ~~TCA~~. In addition, ~~school support organizations~~ SSOs shall adopt a written policy that specifies reasonable procedures for accounting for its assets as required by ~~( TCA~~ Section 49-2-604, ~~TCA)~~.

A separate manual for SSOs can be found on the Comptroller of the Treasury, Division of Local Government Audit's website at:

<https://comptroller.tn.gov/office-functions/la/resources/manuals.html>

## Section 1: Introduction

### ~~Title TITLE 4; Accountability~~ **ACCOUNTABILITY, REPORTING and General Principles** ~~AND GENERAL PRINCIPLES~~

#### **Accountability**

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

#### **Reporting**

##### **All Public Schools**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, requires the internal school funds be included within the financial statements of the primary government (i.e., county, municipality, or special school district), due to the school's administrative involvement. The Comptroller of the Treasury, Division of Local Government Audit, recommends the primary government report the internal school funds as a non-budgeted special revenue fund.

##### **Public Charter Schools**

GASB Statement No. 84 applies to public charter schools; therefore, all internal school funds should be included within the charter school's financial statements. The Comptroller of the Treasury, Division of Local Government Audit, recommends separate line items for the internal school fund activity. The revenues and expenditures of the internal school funds should be clearly labeled in the financial report as "revenues – internal school funds" and "expenditures – internal school funds." If there is a remaining fund balance at the end of the fiscal year, the balance should be presented as restricted fund balance and restricted net position for the internal school funds.

A Charter Management Organization (CMO) is as a nonprofit entity that manages or operates two or more public charter schools. TCA Section 49-13-127(a)(2) requires CMOs to file an annual reporting form with the Comptroller of the Treasury. This form is available at: <https://comptroller.tn.gov/office-functions/la/resources/charter-management-organization-annual-reporting-form.html>

## General Principles

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

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

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

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

1. Since Tennessee public schools are referred to as being “free” (TCA Section 49-6-3001; TCA), money raised by students must be used to finance normal and legitimate extracurricular activities. Student activity funds should be used to supplement and not replace funds necessary to fulfill the local board’s obligation to provide an instructional program, property, equipment, ~~and~~ salaries, and staff development.
2. Money or property received by a school official, employee, or volunteer, acting ~~in his or her official capacity~~ as a representative of the school, becomes public money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.
3. Activities or events that generate student activity money should, in general, contribute to the educational experience of students and should not conflict with, but add to, the school’s instructional program.
4. School fundraising and the use of school facilities or equipment for the raising of internal school fund money should be in accordance with ~~the school system’s~~ board of education policies. The cost of using school facilities should be considered in drafting these policies. In the absence of related board of education policies, school fundraising is prohibited.

5. Money restricted for the use of a specific group should be spent in such a way as to benefit those students currently in school who have contributed to the accumulation of such money.
6. When ~~ever~~ possible, students should be part of the internal school fund activities to ensure students have student body representation ~~should be required in order to enhance the democratic management of student activity money to be~~ regarding how funds are raised and ~~and~~ expended by, or for, <sup>s</sup> the student body.
7. Activities and events organized to raise funds for either the student body as a whole or for a select or special group or segment of the student body shall be conducted on a voluntary basis only. Students who do not participate in such activities or events shall not be punished or discriminated against in any way. Likewise, a student's grade shall not be affected as a direct result of participation in, or lack of participation in, any fundraising activities or events.

Section **2**

---

# Audit Requirements

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



**SECTION 2**  
*Audit Requirements*

**INTERNAL SCHOOL FUNDS MANUAL**





## Section 2: Audit Requirements

---

### ~~TITLE 1; School Audit Requirements~~ SCHOOL AUDIT REQUIREMENTS

#### Purpose and Frequency of Audits

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

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

#### Auditors

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

#### Audit Standards and Approval

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

## Contract to Audit Accounts

### All Public Schools

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

The board of education should ensure that all special audit procedures (such as USDA procedures for centralized county cafeteria systems) are addressed in the special provisions section of the Contract to Audit Accounts. The supporting audit documentation for these additional procedures should be completed and available for review by the audit staff of the Comptroller of the Treasury, Division of Local Government Audit no later than September 30 after fiscal year end unless prior arrangements are made with the Division of Local Government Audit.

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

### Public Charter Schools

Public charter schools with limited internal school funds activity can request a waiver of the separate internal school funds audit requirement. Audit exemption requests should be submitted to the Comptroller of the Treasury, Division of Local Government Audit, as explained in the annual audit contract request memo, which is sent to charter schools each year.

All internal school funds should be subject to audit as part of the regular school audit (regardless of exemption status).

A Charter Management Organization (CMO) has two options for the annual audit:

1. Complete a separate audit for each individual charter school the CMO governs. These Contracts to Audit Accounts should be executed in the name of each individual school.
2. Complete one combined audit for all schools. This Contract to Audit Accounts should be executed in the name of the CMO.

**NOTE:** If a combined audit is completed for all schools, then a combined audit **must** be completed for the internal school funds.

**CAUTION: FRAUD RISK – Internal school funds are extremely susceptible to fraud. School personnel should ensure all internal school funds are properly accounted for and safeguarded. Independent auditors should consider this risk during their audit.**

Section **3**

---

# Duties and Responsibilities

~~Tennessee~~-Internal  
~~School~~-~~Uniform~~  
~~Accounting~~  
~~Policy~~~~Funds~~  
**M**ANUAL



**SECTION 3**  
*Duties and Responsibilities*

**INTERNAL SCHOOL FUNDS MANUAL**



## Section 3: Duties and Responsibilities

---

### ~~Title~~ TITLE 1; ~~Local Boards of Education~~ LOCAL BOARDS OF EDUCATION

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

- ~~1.~~ 1. ~~Notifying the Comptroller of the Treasury, Division of Investigations, if the board becomes aware of any evidence of fraud related to internal school funds. Additional information regarding the reporting of fraud (or suspected fraud) can be found online at the Division of Investigation's website. A fraud reporting form should be completed and is accessible from this website: <https://comptroller.tn.gov/office-functions/investigations/fraud-waste-and-abuse.html>~~
- ~~1.2.~~ 2. ~~Adopting the Manual prepared by the Tennessee Department of Education in accordance with Tennessee Code Annotated (TCA), Section 49-2-110, Tennessee Code Annotated (TCA).~~
- ~~2.3.~~ 3. ~~Causing all employees who handle money and accounting records in individual schools to be bonded in accordance with TCA Section 49-2-110, TCA.~~
- ~~3.4.~~ 4. ~~Causing an annual audit to be performed of the accounts and records of all schools under the board's jurisdiction in compliance with TCA Sections 49-2-110 and 49-2-112, TCA. Such audit should be awarded and contracted by September 30 of the fiscal year to be audited.~~
- ~~4.5.~~ 5. ~~Reviewing annual audit reports of internal school funds for any audit findings and recommendations and taking appropriate action to resolve any audit findings and recommendations necessary to resolve such findings.~~
- ~~6.~~ 6. ~~Providing~~ Establishing policies concerning the supervision and administration of internal school funds and making such policies available to all personnel. Some of the necessary policies include, but are not limited to:
  - ~~•~~ • ~~purchasing~~ Purchasing;
  - ~~•~~ • ~~fundraising~~ Fundraising;
  - ~~•~~ • ~~internal school fund sponsors (i.e., must be school employees)~~;
  - ~~•~~ • ~~use of school facilities/equipment by outside organizations~~;
  - ~~•~~ • ~~use of electronic collection methods~~;
  - ~~•~~ • ~~direct application for grants by individual schools~~;
  - ~~•~~ • ~~petty cash; and~~
  - ~~•~~ • ~~travel policies pertaining to school personnel; and~~
  - ~~•~~ • ~~sale of competitive foods.~~

~~5.—~~

~~7. Providing to the individual schools the required personnel, supplies, and equipment.~~

~~8. Completing and maintaining all individual school lease agreements, financed purchase agreements, long-term contracts, and any other expenditures exceeding the board's established bid limit.~~

~~9. Purchasing and maintaining all individual school capital assets.~~

~~10. Reimbursing school personnel for employee development or training costs, including travel related to education conferences, seminars, etc.~~

~~6.11. Preparing and distributing all required Form 1099 by the federal filing deadline for individual schools.~~

~~7. Submitting written requests through the director of schools to the Tennessee Commissioner of Education for revisions or waivers to the requirements contained in this Manual.~~

### ~~Section 3: Duties and Responsibilities~~

### ~~Title TITLE 2; Directors of Schools~~ DIRECTORS OF SCHOOLS

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

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



board of any deficiencies, audit findings, or other significant information noted upon review of the financial reports.

- ~~10.11. Filing all statements and reviews for system-wide applications required by the Uniform Electronic Transactions Act, TCA Section 47-10-119, with the Comptroller of the Treasury, Division of Local Government Audit.~~
- ~~11. Submitting written requests to the Commissioner of Education, at the direction of the local board of education, for revisions or waivers to the requirements contained in the Manual.~~

### ~~Section 3: Duties and Responsibilities~~

#### ~~Title TITLE 3, School Principals~~ **SCHOOL PRINCIPALS**

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

1. Notifying the Comptroller of the Treasury, Division of ~~Municipal Investigations Audit~~, at ~~(615) 532-4460~~, if the principal becomes aware of any evidence of fraud related to internal school funds. Additional information regarding the reporting of fraud (or suspected fraud) can be found online at the Division of ~~Municipal Local Government Audit's Investigation's~~ website. A fraud reporting form ~~that~~ should be completed ~~and~~ is accessible from this website: ~~https://comptroller.tn.gov/office-functions/investigations/fraud-waste-and-abuse.html~~
2. Implementing and complying with the regulations, standards, and procedures contained in the *Manual* and any other policies adopted by the local board of education that has jurisdiction over the school.
3. Providing for the safekeeping and handling of all school money and other school property, irrespective of the source of such money or property, in accordance with (TCA Section 49-2-110, TCA).
4. Approving all fundraising activities that do not involve the participation of the general student population in the marketing process of the fundraising effort.
5. Reviewing all annual statements and schedules, including the annual financial report.
- ~~4.6.~~ Submitting reports and other materials to the director of schools or board of education on a timely basis, as directed.
- ~~5.7.~~ Delivering all financial records, books, ledgers, computer files, reports, and supporting documentation, as directed by the director of schools or board of education.
- ~~6.8.~~ Assuming responsibility for equipment located at the school, including equipment security, inventory control, care, and utilization.
9. Complying with purchasing procedures established and prescribed by the board of education; ~~including bid policies and procedures established by the board~~ for student activity and other internal school funds.
10. Authorizing all automatic bank drafts on an annual basis.
11. Supervising the bookkeepers to ensure compliance with all Manual requirements.
- ~~7.12.~~ Informing cashiers and sponsors annually of all required procedures and forms.

~~8.13.~~ Notifying the director of schools, or the director's designee, and appropriate local law enforcement agency when equipment is stolen, misplaced, or destroyed.

~~9.14.~~ Complying with the provisions of TCA Section 49-6-2007, ~~TCA~~, regarding the disposition or transfer of property.

15. Maintaining a current edition of the *Manual* on school premises and making it available to all school personnel.

~~10.16.~~ Filing all statements and reviews for school-wide applications required by the Uniform Electronic Transactions Act, TCA Section 47-10-119, with the Comptroller of the Treasury, Division of Local Government Audit.

~~Section 3: Duties and Responsibilities~~

~~Title TITLE 4; Tennessee Department of Education TENNESSEE  
DEPARTMENT OF EDUCATION~~

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

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

~~Section 3: Duties and Responsibilities~~

~~Title TITLE 5; Comptroller of the Treasury~~ **COMPTROLLER OF THE TREASURY**

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

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

2. Reviewing and approving the uniform Contract to Audit Accounts between boards of education and auditors of internal school funds in accordance with TCA Section 49-2-112, ~~and Section 49-13-127, TCA~~.

~~2.3.~~ Obtaining the annual reporting form from each Charter Management Organization (CMO) in accordance with TCA Section 49-13-127(a)(2).

~~3.4.~~ Reviewing and approving audit reports of internal school funds.

5.4. Providing technical assistance in the administration, interpretation, and implementation of the requirements contained in the *Manual*, upon request by local boards of education.

6. Providing training assistance to school personnel as requested.

~~5. Working in conjunction with the Tennessee Department of Education to consider requests submitted by boards of education for approval of revisions or waivers to certain provisions of the Manual.~~

~~Section 3: Duties and Responsibilities~~

~~Title TITLE 6; Commissioner of Finance and  
Administration~~ **COMMISSIONER OF FINANCE AND ADMINISTRATION**

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

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

Section 4

---

**Administration  
of Internal  
School Funds**

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



**SECTION 4**  
*Administration of Internal School Funds*

**INTERNAL SCHOOL FUNDS MANUAL**





## Section 4: Administration of Internal School Funds

---

### ~~Title TITLE 1; Internal School Funds~~ INTERNAL SCHOOL FUNDS

#### Background

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

#### Internal School Funds

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

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

#### Student Activity Funds

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

1. Derived from a school-sponsored academic, art, athletic, or social event involving students;

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

Internal school accounting requires the establishment of funds to account for specific activities of a school's operation. The differences between internal school fund accounting and generally accepted accounting principles are described in the ~~accounting and reporting s~~Section 7 of this Manual.

~~Generally, Each~~ school has only a maximum of three funds: (1) general fund, (2) restricted fund, and (3) school nutrition fund.

## **General Fund**

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

All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body and supplement, ~~and~~ not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, ~~and~~ salaries, and staff development. Expenditures meeting these criteria are restricted in purpose only as directed by the board of education, general laws and regulations, and school policies. Please refer to Appendix B for a principles-based approach to help determine which expenditures supplement, not replace, the local board's obligation.

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

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

## Restricted Fund

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

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

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

Over time, an account may no longer have activity. An account may be considered inactive if there has been no activity during the preceding 12 months. If an inactive account has a deficit balance, prior to the account being closed, the principal must request the deficit be paid by the board of education's general-purpose school fund or request the director of schools to approve a transfer from the general fund. If an inactive account deficit is eliminated as allowed, this fact should be disclosed either in a footnote to the financial statements or within the supplementary schedule of transfers.

Each restricted fund account must have a sponsor. The principal may be the sponsor of some restricted fund accounts such as legally restricted scholarships, grants, and donations. The principal generally designates other ~~individuals~~school employees as sponsors of club, class, and other restricted fund accounts.

## Local Education Agency ~~(LEA)~~— School Nutrition Fund

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

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

## Accounting for Athletics

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

***Alternative 1***

Establish one primary athletic account. Subsidiary or sub-accounts may be established to account for revenues and expenditures in individual sports (e.g., football, basketball, baseball, softball, soccer, etc.). If such subsidiary accounts are established, one or more of the subsidiary accounts may incur a deficit balance provided that the primary account for athletics (net total of all athletic subsidiary accounts) does not have a deficit balance. Only the primary account should be reported in the audited financial statements. The principal is considered to be the sponsor of the primary athletic account.

***Alternative 2***

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

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

### ~~Title TITLE 2; Internal Control~~ INTERNAL CONTROL

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

TCA Section 9-18-102 requires schools to establish and maintain internal controls. The objectives of internal control systems used in administering internal school funds are to provide management with reasonable, but not absolute, assurance that (1) internal school money is spent and related inventory is used in accordance with laws, regulations, and policies; (2) internal school money and related inventories are safeguarded against waste, theft, loss, and misuse; and (3) accurate and reliable information is obtained, maintained, and fairly presented and disclosed in reports.

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

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

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

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

1. limit the opportunity for theft or unauthorized use of the school's money or related inventories;
2. ensure that school money is collected and spent in accordance with laws, regulations, and policies;
3. detect errors or fraud timely;

4. provide ~~accurate~~correct financial information;
5. provide documentation that all school money handled by individuals ~~who handle money with documentation that they has been~~ properly accounted for ~~all school money they handled and safeguarded~~; and
6. ensure that amounts of money and inventory reported to the public agree with actual amounts of money and inventory ~~at~~in the school or in school bank accounts.

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

## Controls Surrounding Electronic Files and Equipment

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

1. computer data storage, backup (including off-site storage), and disaster recovery;
- ~~1.2.~~physical security and disposal of computer equipment;
- ~~2.3.~~computer access and authorization, including ~~required sign-on~~the assignment of unique usernames and passwords, password lengths, required components, expiration, and revocation on employee separation;
4. assigned computer system user rights that match job functions and responsibilities;
- ~~5.~~security software to protect against viruses and the like;
- ~~6.~~cybersecurity program that includes security awareness training for employees and the use of a virus detection software; and
- ~~5.7.~~protecting Personally Identifiable Information when using electronic collection methods.

## Revenue/Collection Cycle

### *Internal Control Objectives*

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



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

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

### ***Minimum Recommended Internal Controls***

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

- ~~9.10.~~ To the extent possible, the following duties should not be performed by the same individual: bank authorized signatory, receiving cash, making bank deposits, maintaining the accounting records, ~~and reconciling~~ bank accounts.
- ~~10.11.~~ A person who is independent of the receiving, depositing, and recording functions should compare bank deposits with the prenumbered receipts, electronic collection summaries, collections logs, ticket reconciliations, cash register tapes, etc.
- ~~11.12.~~ Bank reconciliations should be prepared ~~and reviewed~~ at least monthly by a person independent of the following functions: receiving and depositing funds, issuing checks, and recording cash transactions. Bank reconciliations should be reviewed at least monthly by a person independent of reconciling the bank account(s) and performing transactions related to cash. Evidence of the review should be documented. Please see Section 6, Title 4, for bank reconciliation procedures and controls. ~~someone who is independent of the receiving and recording functions.~~
13. Individuals who have responsibility for or access to, cash, property, or other assets of internal school funds should be bonded with fidelity insurance coverage.
14. Minimum recommended internal controls related to electronic collection methods are included in Section 5, Title 2 of this Manual.
- ~~12.~~

## Purchasing/Disbursement Cycle

### *Internal Control Objectives*

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

- ~~10.9.~~ Online purchases and payments are for authorized school purposes and are made in accordance with established policies and procedures.
- ~~11.10.~~ Documentation supporting disbursements is canceled in a manner which will prevent duplicate payment.

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

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

### ***Minimum Recommended Internal Controls***

1. The availability of money for the fund/account in question should be determined before requisitions are approved.
2. All requisitions should be properly approved prior to the purchase.
3. Prenumbered purchase orders should be used, and access to blank forms should be controlled by the principal or designee.
4. ~~Competitive bids or~~ Quotes should be required for purchases that exceed the ~~school system's bid~~ limits established by the board of education or applicable state statute.
5. Merchandise received should be opened immediately, physically inspected and counted, and documented on a receiving report to verify that goods were actually received in good condition and in the quantities ordered. Likewise, services performed should be approved

- and accepted and documented on the invoice to verify the service was performed as requested.
6. Invoice prices should be compared to prices shown on purchase authorizations, and invoices should be checked for mathematical accuracy.
  7. Invoices should be compared to purchase authorizations and matched with receiving reports before payment is approved.
  8. When payment is made, the invoice (or other supporting documentation) along with the purchase authorization should be canceled to prevent duplicate payment. The paid check number and account distribution number or code should be stamped or written on the invoice or other supporting documentation.
  9. Unpaid invoices (or other supporting documentation) for goods or services received should be reviewed at least monthly and approved as required.
  10. Access to blank checks and signature stamps, if used, should be restricted to avoid unauthorized use.
  11. All disbursements/expenditures should be accurately and promptly recorded in the school's accounting records.
  12. To the extent possible, the following duties should not be performed by the same person: approving requisitions; preparing purchase authorizations; receiving goods or services; approving payment; preparing checks; signing checks; and preparing bank reconciliations.
  13. ~~Bank reconciliations should be performed on a timely basis. If the person preparing the bank reconciliation performs other cash functions, the reconciliation must be reviewed by someone who is independent of those functions.~~ Bank reconciliations should be prepared at least monthly by a person independent of the following functions: receiving and depositing funds, issuing checks, and recording cash transactions. Bank reconciliations should be reviewed at least monthly by a person independent of reconciling the bank account(s) and performing transactions related to cash. Evidence of the review should be documented. Please see Section 6, Title 4, for bank reconciliation procedures and controls.
  14. A policy should be established that prohibits school employees from using the school's tax-exempt status for making personal purchases.
  15. Establish a policy that at no time should an employee make purchases of personal items using a school's credit card, debit card, check, petty cash, cash collections, etc., even if the intent is to reimburse the school.
  16. When gift cards are given as awards, a listing should be prepared to document and account for all gift cards purchased. At a minimum, the listing must include columns for (1) the dollar amount(s) for each individual card, (2) the individuals who were awarded the respective cards, and (3) the signature of the recipient to indicate that they received the gift card. The reason for the awards should also be clearly documented.

17. The practice of purchasing gift cards that are then given to school employees to make school purchases is strongly discouraged. If gift cards are used in this manner, the same controls enumerated below for debit cards should be followed.
- 16.18. Minimum recommended internal controls related to online banking are included in Section 6, Title 5, of this Manual.
- 17.19. Debit and Credit Cards
- (a) Establish a policy that the use of debit cards is to be limited to small incidental purchases, not normal operating expenditures.
- (a)(b) Establish a policy that the principal is the only employee authorized to apply for a credit card in the name of the school.
- (b)(c) Establish a policy that cash advances from debit and credit cards are prohibited.
- (e)(d) Establish individual transaction and daily dollar limits for each card.
- (d)(e) Allowable and prohibited expenditure types should be established (e.g., personal purchases must be strictly prohibited, regardless of whether the intent is to reimburse the school).
- (f) Establish a policy that employees will be required to reimburse the school for any unauthorized purchases. The policy should address procedures for when an employee fails to reimburse the school after a reasonable amount of time. This may include deducting the amount from the employee's paycheck or holding the employee's paycheck until payment is made. Unauthorized purchases include, but are not limited to, cash advances, personal items, purchases that do not have adequate supporting documentation—that is, (e.g., original itemized invoices and receipts, etc.).
- (e)(g) Establish a policy regarding authorized uses for credit cards. Normally credit cards are only used for transactions in which the use of a standard purchase order is either impossible or would result in a delay of the delivery of goods or services during a time of emergency. Credit cards may also be used to facilitate out-of-town travel by employees or school groups on official school business or school trips. All use of credit cards shall be done in accordance with the school's purchasing policies and procedures.
- (f)(h) Debit and credit cards that have not been issued or are currently not being used should be stored in a safe or in a locked drawer to provide for their safekeeping.
- (g)(i) A listing should be maintained of all issued debit and credit cards and all authorized users.

i. When multiple employees use one debit or credit card, a separate log should be maintained for each ~~debit~~ card. This log should include columns for (1) printed name of user, (2) signature of user, (3) date checked out, and (4) date returned. The bookkeeper should initial the entry twice: at the time the card is checked out and again when the card is turned in.

ii. The listing of issued cards should be checked before final paychecks are issued to departing employees to ensure the debit or credit cards are turned in. The debit or credit card company should be requested to remove their name as an authorized user and school records should be updated accordingly.

ii.  
(h)(j) Actual

~~Actual~~-(original) invoices that support each debit or credit card purchase should be submitted timely. Each individual original invoice, receipt, etc., must have the following information written on it (or written on an attached sheet of paper if the receipt or invoice is too small):

- i. Description of the school purpose for the purchase;
- ii. Nature and description of individual items purchased if not clearly apparent from the invoice/receipt; and
- iii. The name of the person who made the purchase.

~~(j)~~(k) Timely reconciliations of monthly debit or credit card statements should be performed. Reconciliations should be approved by someone other than the preparer of the reconciliation.

- i. When the reconciliation is performed, the bookkeeper shall review individual purchases to determine that (1) the dollar amount reported on the supporting documentation agrees with the corresponding amount on the monthly statement; (2) the date of the supporting documentation is reasonable to the date of the purchase; and (3) the supporting documentation represents items purchased for legitimate school purposes.

~~(i)~~(l) Each person who is issued a debit or credit card or who is authorized to use a debit or credit card should be required to read and sign an acknowledgment form that they are aware of debit or credit card procedures.

~~(k)~~(m) The principal should be notified immediately regarding any lost or stolen cards.

(n) Transactions should be monitored for possible multiple transactions on the same day made to circumvent established dollar limits, individual purchases over established limits, unauthorized purchases, etc.

(o) The bookkeeper shall ensure the credit card statement is paid in full each month so that no finance charges are incurred.

(p) Copies of each month's credit card statement (including supporting documentation required by (j) above) shall be made available to the principal, internal auditors, and/or members of the board of education upon request.

(q) Some credit card agreements offer premium or bonus incentives based upon purchases made with their credit card. Premiums that consist of noncash items should be handled in accordance with the board of education's ethics policy. Premiums that consist of cash should be deposited into the general fund.

18. ~~Gift Cards~~



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

19. ~~Credit Cards~~

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

~~information written on it (or written on an attached sheet of paper if the receipt or invoice is too small):~~

- ~~i. Description of the school purpose for the purchase;~~
- ~~ii. Nature and description of individual items purchased if not clearly apparent from the invoice/receipt; and~~
- ~~iii. The name of the person who made the purchase.~~

~~(j) Timely reconciliations of monthly credit card statements should be performed. Reconciliations should be approved by someone other than the preparer of the reconciliation.~~

- ~~i. When the reconciliation is performed, the bookkeeper shall review individual purchases to determine that (1) the dollar amount reported on the supporting documentation agrees with the corresponding amount on the monthly statement; (2) the date of the supporting documentation agrees with the date of the purchase; and (3) the supporting documentation represents items purchased for legitimate school purposes.~~

~~(k) Each person who is issued a credit card or is authorized to use a credit card should be required to read and sign that they are aware of credit card procedures.~~

~~(l) The principal should be notified immediately regarding any lost or stolen cards.~~

~~(m) Transactions should be monitored for possible multiple transactions on the same day made to circumvent established dollar limits, individual purchases over established limits, unauthorized purchases, etc.~~

~~(n) The bookkeeper shall ensure that the credit card statement is paid in full each month so that no finance charges are incurred.~~

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

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

~~20. Online Banking~~

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

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

### ***Internal Control Objectives***

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

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

1. An excessive number of persons are hired.
2. Duplicate payments are made.
3. Employee time sheets are not accurate or are not maintained.
4. Employees are paid for work not performed.
5. Payroll expenditures exceed the budget authorization.
6. Employees are over or underpaid; deductions are incorrect.
7. Paychecks or direct deposits are not received by the correct employees.
8. Paychecks or direct deposits are issued for fictitious employees.
9. Vacation and sick leave records are not accurate or are not current.
10. Payroll amounts are recorded incorrectly.
11. Payroll is recorded in the ~~wrong~~incorrect fund or account.
12. Payroll is recorded for the ~~wrong~~incorrect payroll period.

### ***Minimum Recommended Internal Controls***

1. Cumulative payroll costs are compared to the budget authorization, if applicable, prior to disbursement.
2. Payroll computation for new employees and changes in deductions for existing employees are calculated by one person and reviewed by a different person, whenever possible.

3. Personnel files include current documentation of employees' authorized pay rates and ~~for~~ ~~all~~ payroll deductions.
4. Attendance records, time sheets, or time cards are signed by the employee, approved by a designated person, and submitted to the payroll clerk ~~where the records are used to compute payroll.~~
- 4.5. Direct deposit summary is reviewed by someone other than the preparer, prior to being processed by the bank.
- 5.6. Payroll checks are distributed by an employee who is independent of the payroll function.
- 6.7. The person who distributes payroll checks should require identification from any employee not personally known by him or her.
- 7.8. Employee vacation and sick leave records are current and are reviewed periodically by both the supervisor and the employee.
- 8.9. Payroll disbursements are promptly and accurately recorded in the proper fund.

## Capital Asset Cycle

This section applies to capital assets located at the individual schools. The board of education is responsible for purchasing all capital assets. Schools may also receive donations for the purchase of capital assets or donated capital assets. Although capital assets ~~should~~ ~~are~~ not ~~required to~~ be recorded in the financial statements of internal school funds, the school's property records provide the basis for recording capital assets in the financial statements of the county, municipality, ~~or~~ special school district, or charter school. Therefore, this cycle addresses not only controls related to the safekeeping of capital assets, but also controls over the recording of such assets.

### *Internal Control Objectives*

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

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

1. The cost of capital assets is recorded incorrectly.
2. Capital assets are purchased that do not benefit the school.
3. Capital assets no longer in use have not been removed from the books.
4. The school's capital assets are used for personal benefit or other unallowable purposes.
5. Donated assets are not recorded or are recorded incorrectly.
6. The school is unaware of stolen capital assets.
- 5.7. The location of a capital asset is incorrectly reported (e.g., location of asset has changed from one school to another).

### ***Minimum Recommended Internal Controls***

1. ~~Formal approval of the director of schools should be required for a~~ All capital asset purchases; ~~and items costing in excess of a specified amount~~ should be approved by the board of education.
2. Detailed property and equipment records should be maintained that include asset description, date purchased or received by donation, cost or fair value of donation, location, etc.
3. Applicable laws and school policies should be followed when disposing of capital assets.
4. Designated individuals are responsible for assuring compliance with the terms of restricted donations or property purchased with grants.
5. At least annually, a physical inspection and count of capital assets should be performed and compared with the school's records.
  - a. School records should be updated to agree to the physical count.
  - b. A Reconciliation of the capital asset listing maintained by the individual school to the board of education records should be prepared. ~~Any~~ discrepancies should be immediately investigated and followed up and explained.
  - cb. Reconciliations should be reviewed by a ~~responsible designated~~ individual and reconciliation results should be reported to the board of education.
6. Equipment and other applicable property should be properly identified by numbered ~~metal~~ tags or other means of identification.
7. Items should be kept secure and safeguarded from loss due to fire, theft, or misplacement.

## Inventory Cycle

### *Internal Control Objectives*

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

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

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

### ***Minimum Recommended Internal Controls***

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

## **Reporting Cycle**

### ***Internal Control Objectives***

1. The financial statements are prepared in accordance with a regulatory basis of accounting, which is an ~~an~~ "other comprehensive basis of accounting" as shown in ~~the accounting and reporting section~~ Section 7 of this Manual.
2. Transactions are properly classified and summarized by account activity, and balances are properly stated.
3. Financial statements are prepared on a basis consistent with ~~that of the previous year~~ Manual requirements. Notes to financial statements call attention to any differences between the school's financial statement presentations and generally accepted accounting principles.
4. Financial statements and accompanying notes are complete, accurate, and provide adequate informative disclosures.
5. Adequate procedures exist to provide a clear cutoff of transactions at year end.
- ~~6.~~ Adequate control is exercised over the preparation of financial statements.
- 6.



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

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

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

### ***Minimum Recommended Internal Controls***

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 3; Insurance/Bonding of Employees~~ **INSURANCE/BONDING  
OF EMPLOYEES**

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

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

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

### ~~Title TITLE 4; Safekeeping of Cash~~ **SAFEKEEPING OF CASH**

~~TCA Sections 5-8-207 and 6-56-111 require internal school fund money must to be deposited intact (in the form and amount in which collected) in banks within three banking-business days after the money is received.- Deposits must be made intact (in the form and amount in which collected).~~ When possible, school money should be deposited daily. A night deposit should be used as necessary to comply with these provisions.

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

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

Each principal must know the amount of insurance coverage for the school to ensure the amount of money left overnight in the building does not exceed the insured amount. In the event the school incurs a loss in cash or property, the principal must communicate the loss immediately to the appropriate law enforcement officials and director of schools to allow the board of education to report the loss to appropriate insurance companies in a timely manner. **NOTE: If loss is related to fraud, waste, or abuse, the Comptroller of Treasury fraud reporting requirements should be followed.**

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 5; Property Acquisition and Management PROPERTY ACQUISITION AND MANAGEMENT~~

**Definition**

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

*Capital Assets and Sensitive Minor Equipment*

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

*Inventory*

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

**Capital asset purchases are the responsibility of the board.**

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

**Property Acquisition**

*General Fund*

As noted previously, student activity funds should be used to supplement and not replace money necessary to fulfill the local board’s obligation to provide an instructional program, property, equipment, salaries, and staff development. Therefore, the purchase of property ~~from the general~~

~~fund~~ is limited only in that all expenditures ~~from the general fund~~ must supplement, not replace, the board's required contributions. Please refer to Appendix B for a principles-based approach to help determine which expenditures supplement, not replace, the local board's obligation.

### ***Restricted Fund***

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

## **Property Management**

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

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

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

5. Conduct physical counts periodically, compare results with property records, and investigate differences noted. Any differences should be communicated to the board.
6. Record purchases, donations, and disposals as they occur.

***Inventory***

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 6; Retention and Disposal of Records~~ **RETENTION AND DISPOSAL OF RECORDS**

**Retention of Records**

*Custodian of Records*

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

**Retention Period**

TCA Sections 10-7-404 and 10-7-702, authorize County Technical Assistance Service (CTAS) and Municipal Technical Advisory Service (MTAS), respectively, to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by officials in establishing retention schedules. These record retention manuals are located on CTAS and MTAS websites at the following links:

<https://www.ctas.tennessee.edu/eli/retention-schedules>

<https://www.mtas.tennessee.edu/reference/records-retention-schedules> ***Payroll Records***

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

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

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

- ~~1. Prenumbered cash receipts~~
- ~~2. Collection logs, ticket reconciliations, signed recorded counts, remittance advices, and other collection documentation~~
- ~~3. Ledgers~~
- ~~4. Journals~~
- ~~5. Audit reports~~
- ~~6. Capital asset and inventory records (retain five (5) years after disposal of property)~~
- ~~7. Purchase orders~~
- ~~8. Vendor invoices~~



~~9. Fire prevention reports~~

~~10. Lunchroom reports (except payroll records)~~

~~11. Daily attendance records~~

~~12. Bids~~

~~13. Gross profit analysis documentation~~

~~14. Bank statements and canceled checks~~

~~(a) — If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.~~

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

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

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

~~15. Contracts, agreements, and other authorizations~~

~~16. Superseded individual school policies~~

***Current Individual School Policy Manual***

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

***Extension of Retention Period***

If desired, local boards have the authority to extend the retention time beyond that period **stated in the *Manual*** suggested by CTAS or MTAS.

***Current Individual School Policies***

Individual school policies should be continually updated and maintained.

**Disposal of Records**

Records ~~not listed above~~ may be destroyed at the end of the retention period designated by the local board. If the individual school has records not addressed in the board's record retention policy, contact the board for guidance prior to destroying any records. However, nNo records should be destroyed for at least one year or until the audit related to those records is completed and all applicable audit findings and recommendations are resolved, whichever is later.

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 7; Cooperative and Noncooperative Activities~~  
~~COOPERATIVE AND NONCOOPERATIVE ACTIVITIES~~

## Cooperative Activities

### *Definition*

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

### *Agreement*

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

### *Proceeds*

The school shares directly in a percentage of the proceeds of a cooperative activity or receives a commission. These proceeds should be accounted for within the general fund.

### *Accounting for Proceeds*

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

## Noncooperative Activities

### *Definition*

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

*Agreement*

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

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

### ***Accounting for Rental Fees***

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 8;~~ **RESALE AND Fundraising and Resale Activities**  
**FUNDRAISING ACTIVITIES**

**Resale Activities**

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

***Required Authorization***

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

***Records***

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

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

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

## **Fundraising Activities**

There are two types of fundraising activities—: (1) school-sponsored; and (2) those conducted by school support organizations. ~~First, this Section will detail school sponsored fundraising activities and later describe school support organization fundraising efforts.~~

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

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

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

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

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

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

#### ***General Principle***

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

#### ***Required Authorization***

The school board shall adopt policies regarding school-sponsored fundraising activities, including crowdfunding. Those policies must address: (1) the participation of the general student population and the use of school facilities and property in fundraising efforts; (2) procedures for

approving, tracking, and monitoring each fundraising event from beginning to end; (3) board limitations, if any, on the expenditure of money thus raised; (4) disciplinary action, such as personal financial sanctions and/or formal reprimands, applicable to principals and/or sponsors of student organizations who knowingly authorize/allow unapproved fundraising activities [NOTE: individual school policies may address disciplinary action applicable to sponsors of student organizations]; and (5) other requirements or limitations that the board may choose to impose.



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

The principal must obtain written approval from the director of schools or \_designee for all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal.

<u>Participation in Fundraising Effort</u>	<u>Required Authorization</u>	<u>Type of Authorization</u>
<u>General student population</u>	<u>Director of Schools (or designee)</u>	<u>Written</u>
<u>Specific portion of student population (e.g., Beta Club)</u>	<u>Principal</u>	<u>Written</u>

Authorization should include the following information:

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

***Records for Fundraisers Involving Resale Activities***

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

***Records for Fundraisers not Involving Resale Activities***



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

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

Any non-cash profits (e.g., vendor credit) generated by a fundraiser should be recorded as a journal entry with a debit to other asset and a corresponding credit to revenue. A journal entry should be used to record the expenditure when these non-cash profits are expended. Refer to Appendix A – Exhibit 14 for illustrative journal entries.

### **Records for all Fundraisers**

To document that profits from school-sponsored fundraising activities were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time the money is expended. The disposition of excess proceeds or a change in authorized purpose must be approved by the director of schools.

### **Crowdfunding**

For purposes of this *Manual*, crowdfunding is the practice of fundraising via the internet. More than one vendor should be considered when evaluating potential crowdfunding websites. Items to consider include available reports to support the fundraiser results and validity of the services offered (i.e., have other schools used the service with satisfactory results, Better Business Bureau rating, etc.). Additionally, the board of education must approve crowdfunding and establish related policies and procedures, as noted under the heading "Required Authorization" above. The number of crowdfunding vendors and the number of authorized users should be **limited**.

The use of crowdfunding is discouraged but not prohibited. However, this method of fundraising may be prohibited by board of education policy. Unless adequate internal controls can be established, crowdfunding **should not** be used.

The following requirements apply to crowdfunding:

1. A time limit should be placed on the fundraiser (i.e., there should be clear beginning and end dates for the fundraiser).

2. A control account in the school's name that all teachers will be required to utilize for school-related fundraising should be established with the crowdfunding website. The number of authorized users should be limited, and usernames and passwords should be safeguarded. Usernames and passwords cannot be delegated to other school employees.
3. Donations are property of the school and should be directly deposited into the school's bank account.
4. The payer should receive a receipt. The receipt must identify the payer, the amount paid, date, and purpose for payment. If the receipt itself does not identify the purpose(s) for the payment and the corresponding amount(s), other documentation must be attached to permit the bookkeeper to record the transaction. The receipt may be in any form (e.g., email, PDF, text message, etc.). If the crowdfunding website is not capable of issuing a receipt, then it **should not** be used.
5. The bookkeeper should be able to independently review activity in the crowdfunding online account.
6. Online reporting provided by the crowdfunding vendor should be utilized to facilitate independent verification of activity from the fundraiser account. These reports should provide supporting detail for all transactions.

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

~~To document that profits from school sponsored fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the money is expended. The disposition of excess proceeds or a change in authorized purpose must be approved by the director of schools.~~

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

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

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

The policy must address:

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

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

***School Support Organizations—Defined***

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

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

***School Representative—Defined***

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

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

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

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

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

A separate manual for SSOs can be found on the Comptroller of the Treasury, Division of Local Government Audit's website at:

<https://comptroller.tn.gov/office-functions/la/resources/manuals.html>

## State Sales Tax

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

~~(H)~~ Notwithstanding the exemptions provided by sections 67-6-322 and 67-6-329 for sales to schools, "retail sale" and "sale at retail" subject to tax include any sale of tangible personal property or taxable services to a public or private school, grades kindergarten through twelve (K-12) or school support group, where ~~such the~~ property or services are intended for resale by the school or school support group. Resales of ~~such the~~ tangible personal property or taxable services by ~~such the~~ school or school support group shall not be subject to tax. If for any reason a vendor does not collect and remit tax to the department on the sale of these items to the school or school support group, then the school or school support group shall be liable for use tax based on the purchase price of the items. This ~~subsection (23) (H)~~section does not apply to sales of ~~school bookstextbooks and workbooks. This section does not apply to food and food ingredients or prepared food, when sold pursuant to programs authorized by a federal, state or local government entity or by the school governing body, that provides meals for public or private school students in grades kindergarten through twelve (K-12). and school lunches.~~

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

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

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

## Emphasized Internal Control Features

### *School-sponsored Fundraisers and Resale Activities*

1. Someone who is not involved in the collections or recordkeeping for the fundraiser should ~~prepare~~ verify the ~~profit-completed collection~~ analysis report.
2. For vending operations, when the vendor does all product work and the school only receives a percentage, a counter controlled by school personnel should be placed on the machines. If a counter is not used, cash must be counted by school personnel (preferably two persons should be present) when removed from machines in order to establish the amount of collections to be used in calculating the division of profits per the written agreement. Other procedures may be employed which accomplish the independent verification.
3. A responsible school employee should verify the receipt of all incoming items for resale by comparing the items received to the invoiced amounts and descriptions, noting any discrepancies on the invoice, and signing the invoice.

~~3.~~

~~5.4.~~ In instances where schools have large quantities of items for resale or maintain bookstores or school stores, controls should be established to reconcile sales with inventory. We recommend this reconciliation be performed weekly for ongoing sales (i.e., bookstores or school stores), or immediately upon completion of a fundraiser. At a minimum, a physical count of the inventory should be taken at the end of each school year. Such an inventory should consist of a listing indicating the merchandise on hand, the number of units on hand, unit cost and total cost of all units on hand and signature(s) of person(s) responsible for the physical count.

~~Section 4: Administration of Internal School Funds~~

~~Title **TITLE 9**; Donations & Other Miscellaneous~~  
~~Revenues/Receipts~~ **DONATIONS AND OTHER MISCELLANEOUS**  
**REVENUES/RECEIPTS**

## **Donations**

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

Local board of education allocations must be accompanied by an approved budget. These allocations must supplement, not replace, board obligations and must not include items that have been determined to be a board responsibility. **NOTE:** All purchases requiring bids or contracts (including leases) must be approved, executed, and maintained by the board of education. Please refer to Appendix B for a principles-based approach to help determine which expenditures supplement, not replace, the local board's obligations.

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

## **Premiums (Bonus Incentives)**

Credit card companies, banks, office supply stores, fundraiser companies, and other vendors may offer gifts as premium or bonus incentives to conduct business with their organization. Such premium or bonus incentives must benefit the school as a whole, not an individual. Additionally, premium or bonus incentives must not violate any state statutes (such as conflict of interest laws) or influence the vendor selection. Any cash (or cash equivalent) incentives should be deposited into the general fund. Other non-cash premium incentives should be handled in accordance with the board of education's ethics policy ~~of the respective city or county.~~

## **Returned Check Fees**



Any fees charged for returned checks by the school to a customer should be recorded as revenue in the fund or account in which the bank fee was recorded. If the bank charges fees which the school does not try to recoup, the fees should be recorded as an expenditure in the fund or account in which the returned check was originally recorded. If the school charges a fee in excess of the bank fee, such excess fees should be recorded in the general fund. Refer to Appendix A – Exhibit 1~~13~~ for illustrative journal entries.

## Interest Earned on Bank and Investment Accounts

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

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

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

## Teachers' Materials and Supplies Funds

The Tennessee Investment in Student Achievement Act (TISA) Basic Education Program (BEP), as detailed in TCA Section 49-3-359(a) ~~TCA~~, provides two hundred dollars (\$200) for every teacher in kindergarten through grade twelve (K-12). This section states:

This money must be used by the teachers for instructional supplies and must be given to each teacher by October 31 of each school year so that the teacher may spend it at any time during that school year on instructional supplies as determined necessary by the teacher. The purpose of these funds is to permit purchase of items of equipment for the benefit and enhancement of the instructional program. The funds cannot be used for basic building needs such as HVAC, carpets, furniture, items or equipment for the teachers' lounge, or the like. Any funds not spent by the end of the school year must be pooled at the school level and used for the purchase of items of equipment for the benefit of all teachers. Pooled funds cannot be used for basic building needs such as HVAC, carpets, furniture, items or equipment for the teachers' lounge, or the like.

~~This money is to be used by teachers for instructional supplies. One hundred dollars (\$100) shall be spent as the individual teacher directs. The remaining \$100 per teacher shall be pooled for the benefit of the school and spent as determined by a committee of teachers. The purpose of this pool is to permit purchase of items or equipment that may exceed \$200 in value to benefit the instructional program for all such teachers at the school.~~

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

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

- ~~1. Allocate \$200 per eligible teacher to each school.~~
- ~~2. Allocate \$100 of the above amount to each eligible teacher.~~
- ~~3.1.~~ Notify all teachers and principals of ~~the~~ allocation and the procedures for expending these funds.
- ~~4.2.~~ Send the appropriate amount of funds to each school to be deposited in a restricted account of the internal school funds. The title of this restricted account shall be ~~the~~ "Teachers' Materials and Supplies (TISA) Account." Allocate \$200 to each eligible teacher in the school. Sub-accounts must be maintained to ensure proper allocation to individual teachers, ~~and to "school pools."~~
- ~~5.3.~~ Expend the funds through the restricted account according to current purchasing or reimbursement procedures.

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

If a teacher does not expend the entire ~~\$2~~100 allocated by the end of the school year, the remainder shall go into ~~the teacher~~TISA pooled funds. ~~Teacher pooled funds can be carried over to subsequent school years if determined by the committee of teachers at such school. Otherwise, the remainder will revert back to the General Purpose School Fund.~~

## Grants

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

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

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

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

## Extended School Program (ESP)

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

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

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

These funds should be audited by the board of education's auditor for internal control and compliance requirements.

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

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 10; Loans and Accommodations~~  
~~LOANS AND~~  
~~ACCOMMODATIONS~~

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

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

~~Section 4: Administration of Internal School Funds~~

~~Title TITLE 11; Budgets for Internal School Funds~~  
**BUDGETS FOR INTERNAL SCHOOL FUNDS**

The budget is an estimated plan of anticipated revenues and proposed expenditures for a fiscal year. (Tennessee public schools have a fiscal year beginning July 1 and ending June 30.) ~~The internal school funds budget is not considered legally adopted.~~ For the general fund, the budget should present the beginning general fund balance, estimated revenues, proposed expenditures, and the estimated ending general fund balance. For each restricted fund account, the budget should present separately the beginning account balance, estimated revenues, proposed expenditures, and the estimated ending account balance.

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

**NOTE: Internal school funds budgetary schedules are not required to be presented within the primary government's (i.e., county, municipality or special school district) financial report because the internal school funds budget is not considered legally adopted.**

~~Local Education Agency—School Nutrition Funds are a special revenue fund(s) of the respective county government. As a result, T~~the budgeting process of School Nutrition Funds is the responsibility of the ~~b~~Board of ~~e~~Education. All revenues and expenditures should be budgeted in accordance with applicable laws and regulations. The noncentralized school nutrition funds budget is adopted at the board of education as part of the general purpose school fund. Therefore, budgetary schedules are not required to be presented within the individual school level-noncentralized school nutrition funds financial statements.

## **TITLE 12: UNIFORM ELECTRONIC TRANSACTIONS ACT**

TCA Section 47-10-119 requires local governments using an electronic business system that provides for the sending/receiving of electronic records that contain electronic signatures and/or authorizations file a pre-implementation statement and a post-implementation review. These statements and reviews should be submitted to the Comptroller of the Treasury, Division of Local Government Audit, at LGA.web@cot.tn.gov. This section states:

(a) Any local government...implementing an electronic business system that provides for the sending and receiving of electronic records that contain electronic signatures and/or authorizations shall file a statement with the Comptroller of the Treasury at least thirty (30) days prior to offering such service. The statement shall contain the following information:

- (1) A description of the computer hardware and software to be utilized;
- (2) A description of the policies and procedures related to the implementation of the system;
- (3) Documentation of the internal controls that will ensure the integrity of the system;
- (4) A description of the local governmental public official's personnel who will be responsible for the implementation of the system;
- (5) A description of the types of records and transactions to be electronically communicated, as well as a description of the transaction and/or record authorization process including a description of any electronic signatures to be used;
- (6) The estimated cost of the system including development and implementation costs; and
- (7) The expected benefits and/or the estimated cost savings, if any, of conducting business by electronic means.

(b) A local governmental public official who implements an electronic business system shall provide to the Comptroller of the Treasury a post-implementation review of the system between twelve (12) and eighteen (18) months after the date a statement described in this section has been filed with the Comptroller. The review shall include:



- (1) An assessment of the system by the local governmental public official;
- (2) Responses from a survey of users of the system; and
- (3) Any recommendations for improvements to the electronic business system.

Examples of such electronic business systems include, but are not limited to, online ticket sales, electronic collection methods, electronic signatures, etc.

Section **5**

---

# Operating Procedures

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



**SECTION 5**  
*Operating Procedures*

**INTERNAL SCHOOL FUNDS MANUAL**



## Section 5: Operating Procedures

---

### **Title-TITLE 1; Recording Transactions and DocumentationRECORDING TRANSACTIONS AND DOCUMENTATION**

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

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

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

## Section 5: Operating Procedures

### TITLE 2: Revenues/Receipts REVENUES/RECEIPTS

#### **Definitions**

For purposes of this title, the following definitions apply:

##### ***Bookkeeper***

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

##### ***Cashier***

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

##### ***Teachers/Others***

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

##### ***Day/Daily***

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

#### **Separation of Duties**

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

**When at all possible, someone other than the  
bookkeeper should collect money and write receipts.**

#### **General**

Money within an individual school may be obtained from many sources including athletics, concessions, plays, publications, stores, gifts, vending machines, etc. Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the

designated school employee. The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity.

Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability. The use of teacher assistants and other support staff could be considered, as well as schedules designating the time of day for collecting and remitting the collections to the central-school's office. This schedule should be developed with the understanding that all money must be deposited within three days of the initial collection. The principal should never authorize or require any collection which cannot be adequately accounted for.

**NOTE:** Please refer to the heading “Collection of Money by Electronic Methods” further in this title for procedures regarding electronic collections. The headings “Collection of Money by Teachers/Others” and “Collection of Money by Cashier” are primarily intended to address cash or check collections. Controls in these sections should be considered in combination with the controls detailed within the electronic methods section.

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

### ***General***

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

### ***Records***

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

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

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

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

- (d) The receipt must identify the payer, the amount remitted, method of payment, and the date. If the receipt itself does not identify the purpose(s) for the payment and the corresponding amount(s), other documentation must be attached to permit the bookkeeper to record the transaction.

## 2. *Collection Logs*

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

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

## 3. *Ticket Reconciliations*

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

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



### ***Ticket Reconciliation Procedures***

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

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

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

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

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

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

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

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

~~1. When fees are waived, collection documentation must include the student name, amount of fee, and purpose of fee for all waived amounts. This list of waived fees can be included on the collection log. When prenumbered receipts are used, a separate list must be prepared and submitted with the collections.~~

~~2.1. Daily collections from any source should never be used for the purpose of providing change for events.~~ When additional money is needed for the purpose of providing change for events, a check should be written to the individual responsible for the change. The change received should be recorded in the “Cash on Hand Account.” The exact amount of the change should be redeposited as soon as feasible and the deposit slip marked “Redeposit.” (Refer to Appendix A – Exhibit 1~~2~~4 for illustrative journal entries.)

~~3.2.~~ The principal should prohibit teachers/others from turning money over (leaving money on the cashier’s desk) without receiving a receipt.

## Collection of Money by Cashier

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

### 1. *Receipt procedures*

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

### 2. *Other Procedures by Cashier*

- (a) The cashier should record the amount, receipt number, and receipt date on each collection log, and initial the information on the collection log.
- (b) The cashier should restrictively endorse all checks, e.g., “~~FOR DEPOSIT ONLY~~For Deposit Only/Tennessee High School.”
- (c) Someone other than the cashier or bookkeeper should open all mail daily, list all checks received on a collection log, and restrictively endorse the checks. A copy of the log should accompany the money when it is remitted to the cashier each day. The cashier must issue a receipt to the person remitting the money and include the checks in the daily deposit.

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

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

1. Cashiers should not allow teachers/others to turn money over (leaving money on the cashier's desk) without receiving a receipt.
2. **Daily collections from any source should never be used for the purpose of providing change for events.** When additional money is needed for the purpose of providing change for events, a check should be written to the individual responsible for the change. The change received should be recorded in the "Cash on Hand Account." The exact amount of the change should be redeposited as soon as feasible and the deposit slip marked "Redeposit." (Refer to Appendix A-Exhibit 124 for illustrative journal entries.)

## **Collection of Money by Electronic Methods**

Tennessee Code Annotated (TCA) Section 47-10-119 requires all electronic collection methods be filed in advance with the Comptroller of the Treasury, Division of Local Government Audit. More than one vendor should be considered when evaluating potential electronic collection methods. Additionally, the board of education must approve the electronic collection method and establish related policies and procedures. The number of electronic collection methods and the number of people authorized to use them should be **limited**.

The use of electronic collection applications is discouraged but not prohibited. However, this method of receipting may be prohibited by board of education policy. Unless adequate internal controls can be established, electronic collection methods **should not** be used.

The following requirements apply to electronic collection methods:

1. The electronic collection method should provide adequate supporting documentation. This includes a record that shows individual sequential transactions (such that each individual transaction can be audited) and a total daily receipt summary. This summary should include the vendor's service fee, the total amount received, and amount deposited.
2. The payer should receive a receipt from the electronic collection method. The receipt must identify the payer, who issued the receipt, the amount paid, method of payment, date, and purpose for payment. If the receipt itself does not identify the purpose(s) for the payment and the corresponding amount(s), other documentation must be attached to permit the bookkeeper to record the transaction. The receipt may be in any form (e.g., email, PDF, text message, etc.). However, if the electronic collection method is not capable of issuing a receipt, then a manual (i.e., handwritten) receipt must be issued.
3. Relevant details regarding any voided receipts must be provided by the electronic collection method and available for inspection.
4. When daily electronic collections are completed, the amounts charged and deposited should be reconciled with the total daily receipt summary. A separate person should be assigned to perform this reconciliation.

Processing fees may be assessed by the electronic collection vendor for processing the electronic collections. TCA Section 9-1-108 provides that the school may set and collect a processing fee in an amount that is equal to the amount paid to the electronic collection vendor. Such processing fee may be waived by approval of the board of education.

## **Recording of Collections by Bookkeeper**

The bookkeeper should obtain all applicable collection documentation from the cashier, such as the bookkeeper's copies of the receipts and any other supporting documentation, including:

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

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

## ~~Section 5: Operating Procedures~~

### TITLE ~~3;~~ Purchasing PURCHASING

#### **Purchase Authorization**

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

**Purchases exceeding the bid threshold are the responsibility of the board of education.**

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

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

~~**NOTE:** Although disbursements for educational and professional development could be considered to indirectly benefit the welfare of the student body, these disbursements are the responsibility of the board of education and would not be legitimate expenditures of money raised by students (i.e., student activity funds). As noted previously in the *Manual*, since Tennessee schools are referred to as being free, (Section 49-6-3001, *Tennessee Code Annotated*), money raised by students must be used to finance normal and legitimate extracurricular activities. This money should be used to supplement and not replace money for activities and services provided by the board. Staff development is the responsibility of the board. Refer to Appendix B for a principles-based approach to help determine which expenditures supplement, not replace, the board of education's obligation.~~

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

~~Although disbursements for educational and professional development could be considered to indirectly benefit the welfare of the student body, these disbursements are the responsibility of the board of education and would not be legitimate expenditures of money raised by students (i.e., student activity funds). As noted previously in the *Manual*, since Tennessee schools are referred to as being free, (TCA Section 49-6-3001), money raised by students must be used to finance normal and legitimate extracurricular activities. This money should be used to~~

supplement, not replace, money for activities and services provided by the board. Staff development is the responsibility of the board.

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

A purchase requisition is a request to make a purchase. A purchase authorization is a prior written authorization by the principal, or designee, approving the purchase of goods and services. A prenumbered purchase authorization is required for each purchase of goods and/or services of \$100 or more except for emergency repairs or purchases, reimbursements from restricted accounts not sponsored by the principal, and purchases of goods and services made under contract. Please note that all online payments and purchases should have a purchase requisition that has been approved by the bookkeeper and principal (or designee) before a purchase is made, *regardless of amount*. Formal documented approval from the board of education must be obtained and on file at the school before a school begins the practice of making online payments and purchases.

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

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

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

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

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

To initiate a purchase which does not require advertised bids, including purchases from other school accounts, a prenumbered purchase requisition should be completed. The purchase requisition should include the date of request, the name of the individual requesting the purchase, the fund/account to be charged, the items/services to be purchased, and the amount of each



item/service. Any documented quotes required by the board of education~~school system~~'s purchasing policy should be attached to the purchase requisition.

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

The prenumbered purchase requisition is given to the bookkeeper.

## **Purchasing Procedures for Bookkeeper**

When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is available. If sufficient money is available, the bookkeeper should sign and date the form, and, if the purchase is over \$100, or if it is an online payment or purchase, *regardless of the amount*, forward it to the principal for approval. After the prenumbered purchase requisition form is signed by the principal, it becomes a **purchase authorization**. This form also can be used as a **purchase order**, if one is needed for the purchase. The original should go to the vendor, one copy should be filed in the outstanding purchase requisition/purchase authorization folder, and the other copy should be given to the individual initiating the purchase request.

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

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

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

When a vendor invoice or other invoice documentation is received, the bookkeeper should match the related purchase authorization and accompanying receiving report/delivery receipt with the invoice to verify that the items/services shown on the invoice were actually ordered and received, and that prices charged are correct. Before payment is made, the bookkeeper should check the mathematical accuracy of amounts charged (unit costs multiplied by quantities), and should ensure that sales tax is not charged or paid for tax-exempted purchases. Payment should be made in time to take advantage of any discounts allowed for early payment.

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

Purchases and reimbursements from one school account to another (such as the senior class reimbursing the football account for a portion of the football homecoming flowers) **are not equity transfers**, and should not be reported as transfers in the school's operating statement. Purchases (arm's-length transactions) should be recorded as revenue in the account selling the items/services and as an expenditure in the account purchasing the items/services. Reimbursements should be recorded as an expenditure in the reimbursing account and as a reduction of expenditures in the account receiving the reimbursement. Since no check is being issued, these entries would be made in the general journal. (Refer to Appendix A–Exhibit 135 for illustrative journal entries.)

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

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

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

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

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

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

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

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

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

### **Prior Authorization Required**

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

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

~~1. The local board must approve the purchase of a single piece of equipment costing more than \$5,000, or a lesser amount, if mandated by the board, or by a public or private act.~~

12. The local board must approve the purchase of equipment (regardless of cost) that is to be attached to or that requires the alteration of the building.

23. The local board must approve the construction or installation of permanent fixtures.

34. The local board must approve accounts payable that will not be liquidated during the current fiscal year.

~~5. The Local Legislative Body must approve lease purchase agreements or other contracts that will have the effect of creating long term liabilities, since schools are prohibited from recording long term liabilities in the school accounts.~~

## Limitations on Disbursements

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

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

## Expenditures Made by Pupils and Employees

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

## ~~Section 5: Operating Procedures~~

### ~~TITLE 4: Petty Cash~~ **PETTY CASH**

#### **Authorization**

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

#### **Establishment of Account**

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

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

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

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

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

## **Emphasized Internal Control Procedures**

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

## ~~Section 5: Operating Procedures~~

### ~~Title TITLE 5; Refunds and Travel~~ REFUNDS AND TRAVEL

#### **Refunds**

Refunds in excess of \$~~102~~ should be disbursed ~~only~~ by check or other approved payment method and should not be paid from a petty cash account. Refunds are reductions of revenue, rather than new expenditures.

#### **Travel and Conferences**

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

#### ~~Other Travel~~

~~This limitation does not apply to employee travel expenses associated with club or class activities, such as the Beta Club, Senior Class, etc. As noted above, the board of education is responsible for establishing all travel policies pertaining to school personnel.~~ All requests for travel reimbursements to authorized school functions should be submitted on a travel expense claim and should be in accordance with board policies. Except for authorized per diem charges or standard mileage amounts, all claims must be supported by invoices, cash receipt tickets, or other adequate supporting documentation, which should be filed as required for other school disbursement documentation.

**Travel advances are prohibited.**

#### ~~Travel Advances~~

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

~~Traveler's checks should be used by the employee to reduce the risk associated with carrying large amounts of cash, and to avoid possible difficulty in cashing school checks. Within three days after returning from the trip, a travel expense claim should be completed and submitted to~~

~~the bookkeeper, along with invoices and other supporting documentation. Unexpended balances of advances and unused traveler's checks should be remitted to the cashier for receipt when the travel expense claim is submitted to the bookkeeper.~~

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

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



Section 5: Operating Procedures

~~Title TITLE 6;~~ **SALARY SUPPLEMENTS, SUBSTITUTE TEACHERS, AND CONTRACTED SERVICES**

## Salary Supplements

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

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

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

## Substitute Teachers

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

## Contracted Services

The United States *Internal Revenue Code*, Section 6041(a)2, ~~paragraph 6667~~, requires anyone engaged in a trade or business who makes payments totaling \$600 or more during a calendar year to a ~~noncorporate recipient~~ person (such as an individual working as a sole proprietor or a partnership) to report such payments to the Internal Revenue Service (IRS) and to provide the payee with a Form 1099-MISC.

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

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

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

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

~~Section 5: Operating Procedures~~

~~Title TITLE 7: Borrowing, Lending, and Transfers~~  
**BORROWING,  
LENDING, AND TRANSFERS**

**Borrowing and Lending**

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

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

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

**Prohibited Transfers**

Each primary account in the restricted fund must be self-supporting. Therefore, transfers may not be made ~~from the general fund to a restricted fund account~~ to eliminate an account deficit. See Section 4, Title 1 of this Manual, for procedures for closing an inactive restricted fund account with a deficit balance.

~~Section 5: Operating Procedures~~

~~Title TITLE 8;~~ **CLUB AND CLASS ACCOUNTS**

**General**

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

**Unexpended Account Balances**

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

The same guidelines apply to the remaining balance of any activity group account that has become inactive, after the activity group has had an opportunity to determine the disposition of the balance, but failed to do so. An account may be considered inactive if there has been no activity during the preceding 12 months.

Section 6

---

# Banking

Tennessee-Internal  
School Uniform  
Accounting  
PolicyFunds  
**M**ANUAL



# SECTION 6

*Banking*

INTERNAL SCHOOL FUNDS MANUAL



## Section 6: Banking

---

### **TITLE 1; BANK ACCOUNTS AND INVESTMENTS**

#### **Bank Accounts**

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

*NOTE:* For additional information regarding collateral requirements and the State of Tennessee Bank Collateral Pool, you may call the Department of Treasury at (615) 532-8722 or visit their website at <https://treasury.tn.gov/Investments/Investment-Management/Bank-Collateral-Pool>. You may also call the Comptroller of the Treasury, Division of <http://treasury.tn.gov/bank/> -Municipal-Local Government Audit at (615) [401-7841532-4460](tel:401-7841532).

~~Most banks offer interest bearing checking accounts. The principal should review the various account options provided by their bank to ensure maximum returns on all cash balances. TCA Sections 5-8-201(a) and 6-56-110(a) detail bank contracting procedures. These procedures include receiving and evaluating bids or proposals. The evaluation should consider service charges, interest rates, liquidity, etc. Additionally, these TCA sections require banking contracts to be reevaluated every four years.~~

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

#### **Investments**

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

## ~~Section 6: Banking~~

### ~~TITLE 2: Deposits~~ **DEPOSITS**

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

Collections should be deposited daily, if possible, but no more than three days after the initial collection, as required by TCA Sections 5-8-207 and 6-56-111. Night deposits may be necessary to avoid large sums of cash being on hand overnight.

#### **Intact Deposits**

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

#### **Deposit Slips**

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



## Section 6: Banking

### TITLE 3: Checks

#### General

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

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

#### Signatures on Checks

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

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

#### Voided Checks

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

## Outstanding Checks

Outstanding checks should be investigated timely and reissued as necessary. For any unclaimed outstanding checks, The school should follow the guidelines for unclaimed property in Tennessee located at <https://treasury.tn.gov/Unclaimed-Property/Report-Unclaimed-Property/Process-at-a-Glance>.<http://www.tn.gov/treasury/unclaim/>.

## “Bad” Checks

Some checks deposited by the school may be returned by the bank for various reasons. (Refer to Appendix A–Exhibit 113 for illustrative journal entries for “bad” or returned checks.) The proper procedure for handling checks of this type is as follows:

1. *Checks Made “Good”*

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

2. *Checks Never Made “Good”*

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

## Emphasized Internal Control Features

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

## Section 6: Banking

### Title 4: Bank Reconciliations

#### General

Bank statements must be reconciled with the cash balances presented in the accounting records (general ledger) as of the end of each month. Bank reconciliations should be prepared within 130 days after the bank statements are received from the bank. Canceled checks and deposit slips must be retained on file with the applicable bank statements for future reference and audit purposes and should not be filed with paid invoices or purchase authorizations. If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.

#### *NOTE:*

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

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

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

#### Procedures

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

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

## Emphasized Internal Control Features

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

## Section 6: Banking

### Title 5; ONLINE online BANKING anking

#### General

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

#### Minimum Policies and Procedures

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

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

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

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

Section 7

---

# Accounting and Reporting

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





**SECTION 7**  
*Accounting and Reporting*

**INTERNAL SCHOOL FUNDS MANUAL**



## Section 7: Accounting and Reporting

---

### **TITLE 1; INFORMATION Provided BY ACCOUNTING SYSTEM**

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

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

~~Section 7: Accounting and Reporting~~

~~TITLE 2: ACCOUNTING RECORDS~~

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

**Revenue and Expenditure Classification**

***General Fund***

Accounts in the ~~g~~General ~~f~~Fund may be classified as follows:

- ~~\_\_\_\_\_~~ Revenues ~~\_~~ by source and subsource
- ~~\_\_\_\_\_~~ Expenditures ~~\_~~ by function, subfunction, and object

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

***Restricted Fund***

Revenues and expenditures must be recorded by activity, such as Beta Club, Class of 202X00, Band ~~Club~~, etc.

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

***School Nutrition Fund***

Accounts in the ~~s~~School ~~n~~Nutrition ~~f~~Fund should be classified as follows:

- Revenues ~~\_~~ by source
- Expenditures ~~\_~~ by object

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

## **Expanded Reporting Levels**

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

## **Accounting Records**

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

### ***General Journal***

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

### ***Cash Receipts Journal***

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

### ***Cash Disbursements Journal***

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

### **Cash Journal**

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

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

### ***General Ledger***

The general ledger provides a summary of the journalized activity in the school's accounts, which includes assets, liabilities, fund balance, revenues, and expenditures. Individual schools do not record capital assets and long-term liabilities in the general ledger because these transactions are accounted for by the board of education.

## ~~Section 7: Accounting and Reporting~~

### ~~Title 3: FINANCIAL REPORTING~~

#### **Periodic Financial Reports**

##### *Trial Balance*

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

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

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

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

##### *Other Reports*

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

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

## Financial Statements and Accompanying Schedules

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

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

### —General Report Outline

—All audit reports shall include the following information, as applicable, and should conform to the following outline:

1. Table of Contents

2. Roster of Officials

- a. Should include board members, director of schools/superintendent, management officials who are responsible for the financial statements, and audit committee members (if applicable)
- b. Principals may be listed for each school (optional)

3. Independent Auditor’s Report

- a. Refer to the sample auditor’s opinion letter on the Comptroller of the Treasury, Division of Local Government Audit’s website under the General Guidance tab at <https://comptroller.tn.gov/office-functions/la/resources/information.html>.
- b. An opinion on the combined and individual school financial statements is required.
- c. The auditor should address all supplementary information presented in the financial report. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the financial statements taken as a whole is preferred for all supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.
- d. The auditor should address any accompanying other information presented in the financial report (e.g., roster of officials) in the other information section of the



Independent Auditor's Report. This does not include management's corrective action plan, for which no opinion is required.

4. Combined Financial Statements

5. Individual School Financial Statements

6. Notes to the Financial Statements

7. Supplementary Information

a. Schedule of Expenditures of Federal Awards and State Financial Assistance

i. This schedule is required regardless of the amount of state and/or federal funding received.

b. Schedule of Transfers (By School)

c. Schedule of Salary Supplements (By School)

i. Include employee name, amount, and source of funds for each salary supplement.

ii. Document if each salary supplement was board approved and had proper withholdings.

iii. This schedule may be limited to salary supplements exceeding \$500 per person. If this threshold is utilized, it should be indicated by a disclosure on the schedule.

iv. If no salary supplements were paid from internal school funds, that fact should be disclosed either in the notes to the financial statements or in supplementary information.

d. Schedule of Fidelity Bond Coverage

8. Internal Control and Compliance Report

9. Schedule of Findings (if applicable)

10. Schedule of Prior Year Findings

11. Management's Corrective Action Plan (if applicable)

***~~Noncentralized School Nutrition Internal School Funds~~***

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

***Illustrative Financial Statements and Schedules***

The exhibits on the following pages are organized as they should be in the annual audit report. It is recognized that accounting systems are diverse and the resulting financial records may require

modification to develop external financial statements. While the basic format should be adhered to, modifications which present all required information will generally be considered to meet the requirements of this *Manual*. School officials should contact the Comptroller of the Treasury, Division of Municipal-Local Government Audit, if there are questions or concerns regarding such modifications.

The preparation of the financial statements and related schedules is the responsibility of school personnel and **not** the independent public accountant who contracts for the annual audit. All accounting records should be organized, closing entries posted, and financial statements and schedules prepared as soon after the fiscal year end as possible. These records are required to be available for audit no later than two months after fiscal year end, in accordance with TCA Section 9-2-102. The audit report must be submitted by December 31 following the fiscal year end. The school system is responsible for ~~getting~~ submitting a copy of this report to the Department of Education. To meet this deadline, records must be organized and financial statements and schedules must be prepared on a timely basis. Any applicable Governmental Accounting Standards Board (GASB) reporting requirements not addressed in this *Manual* and that do not conflict with the principles set forth in this *Manual* should continue to apply.

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

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

**Typical School System - Internal School Funds  
Annual Financial Report  
Table of Contents**

Table of Contents .....	1
<u>Roster of Officials .....</u>	<u>3</u>
Independent Auditor’s Report .....	<u>42</u>
Financial Statements	
Combined Balance Sheet – Regulatory Basis - All Schools .....	<u>83</u>
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis - All Schools .....	<u>94</u>
<del>    Notes to the Financial Statements .....</del>	<del>5-10</del>
<u>Individual School Financial Statements</u>	
Central High School	
Balance Sheet – Regulatory Basis .....	<u>1041</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis .....	<u>1142</u>
Central Middle School	
Balance Sheet – Regulatory Basis .....	<u>1243</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis .....	<u>1344</u>
Central Elementary School	
Balance Sheet – Regulatory Basis .....	<u>145</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis .....	<u>156</u>
<u>    Notes to the Financial Statements .....</u>	<u>16</u>
Supplementary Information	
<del>    Schedule of Fidelity Bond Coverage .....</del>	<del>17</del>
<del>    Schedule of Salary Supplements .....</del>	<del>18</del>
Schedule of Expenditures of Federal Awards and State Financial Assistance .....	<u>2219</u>
<u>    Schedule of Transfers – By School.....</u>	<u>23</u>
<u>    Schedule of Salary Supplements – By School .....</u>	<u>24</u>
<u>    Schedule of Fidelity Bond Coverage .....</u>	<u>25</u>

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	<del>269</del> 21
Schedule of Findings .....	<del>282</del> 21
<u>Schedule of Prior Year Findings</u> .....	<u>29</u>
<u>Management's Corrective Action Plan</u> .....	<u>30</u>

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

	Central High School	Central Middle School	Central Elementary School	Total
<b>ASSETS</b>				
Cash on hand	\$ 69	\$ 13	\$ 35	\$ 117
Cash in bank-checking	6,000	3,800	700	10,500
Cash in bank-savings	10,000	15,000	4,000	29,000
Inventory	994	372	-	1,366
Other assets	<u>35</u>	<u>60</u>	<u>-</u>	<u>95</u>
<b>Total assets</b>	<b><u>\$17,098</u></b>	<b><u>\$19,245</u></b>	<b><u>\$4,735</u></b>	<b><u>\$41,078</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 78	\$- 12366	\$ 22	\$ 223+66
<del>Due to Board of Education</del>	<del>_____</del>	<del>_____57</del>	<del>_____</del>	<del>_____57</del>
Total liabilities	\$ 78	\$ 123	\$ 22	\$ 223
Fund Balances:				
<del>General Fund:</del>				
<del>Nonspendable</del>	<del>\$ 994</del>	<del>\$ 135</del>	<del>\$ _____</del>	<del>\$ 1,129</del>
<del>Assigned</del>	<del>-</del>	<del>-</del>	<del>2,000</del>	<del>-2,000</del>
<del>Unassigned</del>	<del><u>-8,795</u></del>	<del><u>-13,989</u></del>	<del><u>-1,000</u></del>	<del><u>-23,784</u></del>
<del>Total general fund</del>	<del><u>\$ 9,789</u></del>	<del><u>\$14,124</u></del>	<del><u>\$3,000</u></del>	<del><u>\$26,913</u></del>
<del>Restricted Fund:</del>				
Restricted	\$ 58517,020	\$ 32919,122	\$ 4,713-	\$ 91440,8
<del>Assigned</del>	<del><u>-6,646</u></del>	<del><u>-4,669</u></del>	<del><u>-1,713</u></del>	<del><u>-13,028</u></del>
<del>Total restricted fund</del>	<del><u>\$ 7,231</u></del>	<del><u>\$ 4,998</u></del>	<del><u>\$1,713</u></del>	<del><u>\$13,942</u></del>
Total fund balances	\$17,020	\$19,122	\$4,713	\$40,855
<b>Total liabilities and fund balances</b>	<b><u>\$17,098</u></b>	<b><u>\$19,245</u></b>	<b><u>\$4,735</u></b>	<b><u>\$41,078</u></b>

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

Exhibit 3

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

	Central High School	Central Middle School	Central Elementary School	Total
Fund balances, July 1, 20X1	\$ 8,111		\$ 2,000	\$ 30,379
Prior period adjustment (Note 7E)	-	\$20,268	<u>233</u>	<u>233</u>
		=		
Adjusted fund balances, July 1, 20X1	<u>\$ 8,111</u>	<u>\$20,268</u>	<u>\$ 2,233</u>	<u>\$ 30,612</u>
Revenues	\$47,545		<del>\$3850,073</del>	\$15365,0
Expenditures	<u>38,935</u>	\$67,472	<del>3547,593</del>	90
		<u>68,538</u>		<u>14355,06</u>
				<u>6</u>
Excess of revenues over (under) expenditures	\$ 8,610		\$ 2,480	\$ 10,024
		\$(1,066)		
Other financing sources (uses):				
Operating transfers in	\$ 3,309	\$ 583	\$ -	\$ 3,892
Operating transfers out	<u>(3,309)</u>	<u>(583)</u>	<u>-</u>	<u>(3,892)</u>
Total other financial sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
		=		
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 8,610</u>	<u>\$(1,066)</u>	<u>\$ 2,480</u>	<u>\$ 10,024</u>
Changes in reserve for inventory	\$ 299	\$ (80)	\$ -	\$ 219
<b>Fund balances, June 30, 20X2</b>	<b><u>\$17,020</u></b>	<b><u>\$19,122</u></b>	<b><u>\$ 4,713</u></b>	<b><u>\$ 40,855</u></b>

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

	Fund Balances 7/1/20X1	Prior Period Adjustments	Adjusted Fund Balances 7/1/20X1	Revenues	Expenditures	Other Financing Sources (Uses)		Change {Increase (Decrease)} in Inventory	Fund Balances 6/30/20X2
						Transfers In	Transfers Out		
General Fund:									
<del>Board of Education Allocation</del>				\$ 13,287	\$ —				
Fund Drives				\$ 10,430	\$ 6,377				
Sale of Supplies				9,787	8,200				
T-shirts				4,000	2,000				
Fines, Fees & Dues				1,648	-				
Fall Festival				5,495	-				
Administration				-	3,500				
Instruction				-	4,000				
Operation and Maintenance				-	900				
Books				-	600				
Field Trips				-	5,016				
Total General Fund	\$ 2,000	\$ 233	\$ 2,233	\$ 31,360	\$ 30,593	\$ -	\$ -	\$ -	\$ 3,000
Restricted Fund:									
Athletic Accounts:									
Athletics	-	-	-	\$ 5,013	\$ 3,300	-	-	-	\$ 1,713
Other Accounts:									
BEPTISA funds	-	-	-	700	700	-	-	-	-
Grant - Arts Commission	-	-	-	1,000	1,000	-	-	-	-
Total Restricted Fund	\$ -	\$ -	\$ -	\$ 6,713	\$ 5,000	\$ -	\$ -	\$ -	\$ 1,713
Total General & Restricted Funds	\$ 2,000	\$ 233	\$ 2,233	\$ 38,073	\$ 35,593	\$ -	\$ -	\$ -	\$ 4,713

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

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

**Background**

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

**Note ~~1A~~ – Summary of Significant Accounting Policies**

**A. ~~1.~~ Financial Reporting Entity**

This report includes only the internal school funds of Typical School System. The internal school funds are included in the Typical School System’s financial report as (insert appropriate fund, such as a special revenue fund or within the general purpose school fund). Internal school funds consist of financial resources accounted for at the individual schools.

**NOTE:** The Comptroller of the Treasury, Division of Local Government Audit, internal school funds reporting recommendations are detailed in Section 1, Title 4 of the Manual.

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

**Internal School Funds**

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

**Student Activity Funds**

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

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



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



- Received from a commission for the direct sale of items to students pursuant to a cooperative agreement between the school and an outside organization;
- Received for the direct sale of items to students from a school-run bookstore located on school grounds;
- Raised from fees charged to students;
- ~~Raised from fees charged to students;~~

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

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

**B2. – Other Comprehensive Regulatory Basis of Accounting (OCBOA)**

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

The financial statements consist of balance sheets and statements of revenues, expenditures and

changes in fund balances.

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

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



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

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

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

**C3. —Measurement Focus and Basis of Accounting**

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

**D4. —Fund Structure**

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

**General Fund**

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

**Restricted Fund**

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

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

**E5. \_—Inventory**

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

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

**F6. \_—Fund Balances**

**Nonspendable Fund Balance**

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

**Restricted Fund Balance**

Fund balances reported as restricted are the result of externally imposed restrictions placed upon certain resources accounted for in the restricted funds. ~~This includes BEP (Basic Education Program) funds and grant funds.~~ All internal school fund activity is restricted in accordance with TCA Section 49-2-110.

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

**Assigned Fund Balance**

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

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

### **Unassigned Fund Balance**

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

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

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

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

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

**Note 2 – Budgetary Information**

Legally appropriated budgets have not been adopted at the individual school level. Therefore, presentation of budgetary comparison information is not required.

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

**Note 3B – Deposits**

**Legal Provisions**

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

**Cash Deposits**

Cash in bank represents funds on deposit in various depositories.

**Custodial Credit Risk**

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

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

**Note 4 – Accounts Payable**

Accounts payable balances represent amounts due to vendors at year-end. All accounts payable balances were approved by the Board of Education.

**Note 5 – Transfers**

Transfers completed during the fiscal year were for interfund donations and residual fund balance transfers.

**Note ~~€6~~ – Long-Term Leases and Commitments**

All long-term lease contracts that obligate a school for more than one school year are approved and accounted for by the Board of Education.

**Long-Term Noncancelable Leases**

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

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

**Minimum lease payments:**

~~20X3 — \$2,360~~

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

**Minimum lease payments:**

~~20X3 — \$3,200~~

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

**Note ~~7D~~ – Capital Assets**

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

**Note ~~8E~~ – Prior Period Adjustment**

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

**Note 9 – Risk Management**

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



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

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

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

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

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

**Central High School**

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

**Central Middle School**

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

**NOTE:**

If an inactive account deficit is eliminated by an approved transfer as allowed by Section 4, Title 1 of this Manual, this fact should be disclosed either in a footnote or within this schedule.

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

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

**NOTE:**

If no salary supplements were paid from internal school funds, that fact should be disclosed (either in a supplementary schedule or within the notes to the financial statements).

This schedule may be limited to salary supplements exceeding \$500 per person. If this threshold is utilized, it should be indicated by a disclosure on the schedule.

**Exhibit 14**

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

Company: Tennessee School Boards Liability Trust

Type of Coverage: Employee Fidelity Bond

Amount: \$150,000 each and every loss  
\$500 deductible, each occurrence

Period Covered: 07/01/X1 - 07/01/X2

Positions Covered: All Employees

Section 8

---

**Local Education  
Agency School  
Nutrition Funds**

**M** ~~Tennessee~~-Internal  
School ~~Uniform~~  
~~Accounting~~  
~~Policy~~Funds  
ANUAL



## SECTION 8

*Local Education Agency School Nutrition Funds*

INTERNAL SCHOOL FUNDS MANUAL



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

---

### **TITLE 1, GENERAL RULES AND REGULATIONS**

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

##### ***Centralized Systems***

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

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

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

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

##### ***Noncentralized Systems***

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

#### **Application**

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



## **Petty Cash and Change Accounts**

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

## **Student Prepaid Accounts**

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

## **Fund Balance**

A deficit balance in a cafeteria fund is ~~prohibited~~not allowable.

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

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

## **Vending Machines – Fundraising**

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

## **Banquets and Special Functions**

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

documentation that the funds received by the school nutrition fund for ~~the~~ banquets and special functions cover all costs.

The school nutrition fund must have complete documentation. The cost of nonfood supplies and foods in inventory (other than USDA commodities) could be determined with an issue record. These issue records, along with invoices, time sheets, allocation summaries for utilities, and documentation for other costs should be filed with each record of payment and contract. Other charges for facilities, use of facilities and equipment, damage deposit, etc., may or may not be included. If the cost for the special function includes a profit, the local board should decide its disposition. The school nutrition fund must be reimbursed for all costs.

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

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

## **Separate Accounting Required**

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

## **Indirect Costs**

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

## **Charges**

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

## Meals for Cafeteria Employees

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

## State Matching Funds

State matching funds must be used solely in the school nutrition program. Tennessee Code Annotated (TCA) Section 49-3-313 requires at least ten percent of the state matching funds shall to be applied to the costs of one or more of the following:

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

## Retention of Records

TCA Section 10-7-404 authorizes County Technical Assistance Service (CTAS) to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by officials in establishing retention schedules. CTAS retention schedules are located on their website at: <https://www.ctas.tennessee.edu/eli/retention-schedules>. The board record retention policy may require a longer retention period. Records should be retained in accordance with CTAS guidelines, audit purposes, and in accordance with the board's record retention policy, whichever is later.

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

## Commodities – Accounting and Financial Reporting

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

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

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

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

Guidance from the Tennessee Department of Agriculture regarding ~~a single inventory system for food inventory commodities allocations~~ can be found on the Comptroller of the Treasury, Division of Municipal Local Government Audit's, Comptroller of the Treasury's website under the subject "Commodities" in the Topical Index Guidance and Forms section. at <https://comptroller.tn.gov/office-functions/la/e-services/confirmations/commodities-allocation.html>.

## **Financial Statements and Schedules**

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

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

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

The preparation of the financial statements and related schedules is the responsibility of school personnel and **not** the independent public accountant who contracts for the annual audit. All accounting records should be organized, closing entries posted, and financial statements and

schedules prepared as soon after the fiscal year end as possible. These records are required to be available for audit no later than two months after fiscal year end, in accordance with TCA Section 9-2-102. The audit report must be submitted by December 31 following the fiscal year end. The school system is responsible for ~~getting~~ submitting a copy of the report to the Department of Education. To meet this deadline, records must be organized and financial statements and schedules must be prepared on a timely basis. Any applicable GASB reporting requirements not addressed in this *Manual* continue to apply. Any changes in GAAP subsequent to the issuance of this *Manual* should be implemented by the school system.

Refer to the General Report Outline within Section A of the *Audit Manual*. The supplementary information section included within the General Report Outline in Section 7 of this *Manual* is also required. The *Audit Manual* can be found at: <https://comptroller.tn.gov/office-functions/la/resources/manuals.html>

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

Table of Contents	1
.....	.....
<u>Roster of Officials</u> .....	<u>3</u>
Independent Auditor’s Report	<u>42</u>
.....	.....
Management’s Discussion and Analysis	<u>3-74</u>
.....	.....
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	<u>95</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	<u>106</u>
.....	.....
Notes to the Financial Statements	<u>7-11</u>
.....	.....
Supplementary Information	
Schedule of <del>Fidelity Bond Coverage</del> Salary Supplements	<u>152</u>
.....	.....
Schedule of <del>Salary Supplements</del> Fidelity Bond Coverage	<u>163</u>
.....	.....
Schedule of Expenditures of Federal Awards and State Financial Assistance	<u>174</u>
.....	.....

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	<del>185-</del> 16
Report on Compliance <del>with Requirements Applicable to</del> Each Major Program and on Internal Control Over Compliance <del>in</del> <del>Accordance with OMB Circular A-133</del> Required by the Uniform Guidance .....	<del>2017-</del> 18
Schedule of Findings and Questioned Costs .....	<del>19-22</del> <b>Exhibit 1</b> Page 2 of 2
Schedule of Prior Audit Findings.....	23
<u>Management's Corrective Action Plan.....</u>	<u>24</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Typical County School System should prepare the Management's Discussion and Analysis (MD&A). The MD&A should include all components required by the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.

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

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

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

### **Fund Financial Statements**

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

### **Governmental Funds**

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

### **Individual Funds**

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

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

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

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

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

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

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

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

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

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

## **4. Economic Factors**

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

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

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

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

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

	<b>Central High School</b>	<b>Central Middle School</b>	<b>Central Elementary School</b>	<b>Total Governmental Funds</b>
Fund Balance, July 1, 20X1	\$ 39,353	\$ 56,035	\$ 27,355	\$122,743
Prior Period Adjustment (See Note 7G)	536	-	-	536
Adjusted Fund Balance, July 1, 20X1	\$ 39,889	\$ 56,035	\$ 27,355	\$123,279
<b>Revenues:</b>				
Lunch Payments – Students	\$ 28,657	\$ 18,051	\$ 20,083	\$ 66,791
Lunch Payments – Adults	5,125	2,979	2,982	11,086
Breakfast Payments – Students	1,420	1,418	2,516	5,354
Breakfast Payments – Adults	208	5	297	510
USDA Reimbursements	<del>290,877</del>	<del>188,132</del>	<del>141,479</del>	<del>620,488</del>
USDA Commodities	<del>59,131</del>	<del>57,332</del>	<del>54,557</del>	<del>1721,020</del>
Fresh Fruit and Vegetable Program	7,222	8,485	9,002	24,709
Special Milk	3,211	-	-	3,211
Supplemental Income	2,909	2,678	26,370	31,957
Interest Income	545	608	410	1,563
All Other Income	400	25	1,334	1,759
<b>Total Revenues</b>	<b><del>\$149,70539</del> 9,705</b>	<b><del>\$129,71327</del> 9,713</b>	<b><del>\$109,03025</del> 9,030</b>	<b><del>\$388,448938,</del> 448</b>
<b>Expenditures:</b>				
Food	\$ <del>163,196</del>	\$ <del>1057,012</del>	\$ <del>949,120</del>	<del>\$169,328369,</del> 328
Labor	<del>160,795</del>	<del>1056,028</del>	<del>948,506</del>	<del>162,329365.3</del> 29
USDA Commodities	<del>59,131</del>	<del>57,332</del>	<del>54,557</del>	<del>2171,020</del>
Operations and Maintenance	2,388	4,144	3,802	10,334
Equipment	9,859	18,704	6,324	37,887
Nonfood supplies	7,919	7,411	4,338	19,668
<b>Total Expenditures</b>	<b><del>\$153,28840</del> 3,288</b>	<b><del>\$150,63130</del> 0,631</b>	<b><del>\$116,64726</del> 6,647</b>	<b><del>\$420,566970,</del> 566</b>
Excess (Deficiency) of Revenues over Expenditures	\$ (3,583)	\$ (20,918)	\$ (7,617)	\$(32,118)
Change in Reserve for Inventory	(151)	879	305	1,033

<b>Fund Balance, June 30, 20X2</b>	<b>\$ 36,155</b>	<b>\$ 35,996</b>	<b>\$ 20,043</b>	<b>\$ 92,194</b>
------------------------------------	------------------	------------------	------------------	------------------

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

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

**Note 1A – Summary of Significant Accounting Policies**

**A. 1. Reporting Entity**

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

**B2. Financial Statement Presentation**

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

**C3. Fund Structure**

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

**D4. Measurement Focus and Basis of Accounting**

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

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

**E5. – Fund Balances**

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

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

Any deficit balances are classified as unassigned fund balance.

**F6. – Inventory**

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

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

**Note 2B – Stewardship, Compliance, and Accountability**

**Budgetary Information**

Legally appropriated budgets have not been adopted for the noncentralized school nutrition funds at the individual school level. Therefore, presentation of budgetary comparison information is not required.

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

**Note ~~3C~~ – Deposits**

**Legal Provisions**

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

**Cash Deposits**

Cash in bank represents funds on deposit in various depositories.

**Custodial Credit Risk**

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

**Note ~~4D~~ – Long-Term Leases and Commitments and Contingencies**

All long-term lease contracts that obligate a school for more than one school year are approved and accounted for by the Board of Education.

**Note 5 – Capital Assets and Long-Term Debt**

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

**Long-Term Noncancelable Leases**

~~Typical School System has entered into certain noncancelable leases, which have been approved by the local legislative body, for the school nutrition program. These leases are~~



~~reported as a part of the primary government's long term debt. However, the various school nutrition funds are obligated to make the monthly payments on these leases.~~

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

~~**Minimum lease payments:**~~

~~— 20X3 — \$2,360~~

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

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

~~**Minimum lease payments:**  
—20X3— \$3,200~~

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

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

~~**Note 6F – Retirement Plan and Other Postemployment Benefits**~~

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

~~**Note 7G – Prior Period Adjustment**~~

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

~~**Note 8H – Risk Management**~~

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

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

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

NOTE:

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

If no salary supplements were paid from school nutrition funds, that fact should be disclosed (either in a supplementary schedule or within the notes to the financial statements).

This schedule may be limited to salary supplements exceeding \$500 per person. If this threshold is utilized, it should be indicated by a disclosure on the schedule.

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

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

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

Federal Grantor/ Pass-Through Grantor	<u>Assistance Listing CFDA Number</u>	<u>Contract/Pass- through Entity Identifying Number</u>	Expenditures
US Department of Agriculture / TN Department of Education / (National School Lunch Program)	10.555	<del>(3)</del> N/A	<del>\$171,617</del> <u>441,957</u>
US Department of Agriculture / TN Department of Education / ( <del>National</del> School Breakfast Program)	10.553	<del>(3)</del> N/A	<del>48,871</del> <u>178,531</u>
US Department of Agriculture / TN Department of Education / (Special Milk Program <u>for Children</u> )	10.556	<del>(3)</del> N/A	<del>3,211</del> <u>3,211</u>
<u>US Department of Agriculture / TN Department of Agriculture / (Commodity Assistance)</u>	<u>10.555</u>	<u>GRx207367</u>	<u>171,020</u>
<u>Total Child Nutrition Cluster</u>			<u>\$794,719</u>
US Department of Agriculture / TN Department of Education / (Fresh Fruit and Vegetable Program)	10.582	<del>(3)</del> N/A	<u>24,709</u>
<del>US Department of Agriculture / TN Department of Agriculture (Commodity Assistance)</del>	<del>10.555</del>	<del>GRx207367</del>	<del>21,020</del>
TOTAL FEDERAL AWARDS			<u>\$269,428</u> <u>19,428</u>

Note 1 – Basis of Presentation: The schedule is presented using the modified accrual basis of accounting.

Note 2 – Indirect Cost Rate: The Typical School System has elected to use the 10-percent de minimis indirect cost rate.

Note 3 – Information not available.

Section 9

---

# Chart of Accounts

~~Tennessee~~ Internal  
School ~~Uniform~~  
~~Accounting~~  
~~Policy~~ Funds  
MANUAL



# SECTION 9

*Chart of Accounts*

INTERNAL SCHOOL FUNDS MANUAL





## Section 9: Chart of Accounts

---

### TITLE 1: ACCOUNT CODES ODES

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

Account No.	Accounts	Fund		
		General	Restricted	School Nutrition
1-99	Balance Sheet	X	X	X
101-199	Revenue			X
201-299	Expenditure			X
301-399	Revenue	X		
401-499	Expenditure	X		
601- <del>96</del> 99	Revenue & Expenditure		X	

Section 9: Chart of Accounts

**TITLE 2; GENERAL OR RESTRICTED Funds UNDS**

**Balance Sheet Accounts**

*Assets*

Account Number	Account
11	Cash on hand
12	Cash in banks - checking
13	Cash in banks - savings
21	Other investments
<u>30</u>	<u>Other assets</u>
31	Accounts receivable
41	Inventory

*Liabilities and Fund Balance*

Account Number	Account
61	Due to board of education
71	Accounts payable
81	Accrued expenses payable
91	General fund balance
92	Restricted fund balance

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

Section 9: Chart of Accounts

**TITLE 3; GENERAL FUND**

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

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

<b>307</b>	<b>Unrestricted gifts, <del>bequests,</del> and donations</b>
307.1	—Gifts
<del>307.2</del>	— <del>Bequests</del>
307. <del>2</del> 3	—Donations
307. <del>4</del> 3-9	—Other gifts, <del>bequests</del> or donations (specify)
<b>309</b>	<b>Board of education allocations</b> <i>(Refer to Section 4, Title 9 for requirements.)</i>
309.1	—For supplies
309.2	—For books
309.3	—For <u>non-capital</u> equipment
309.4	—For services
309.5-9	—Other board allocations (specify)
<b>310</b>	<b>Fines, fees, and dues</b>
310.1	—Library fines
310.2	—Breakage fees
<del>310.3</del>	— <del>Class dues</del>
<del>310.4</del>	— <del>Club dues</del>
310.5-9	—Other fines, fees, or dues (specify)
<b>311</b>	<b>Interest income</b>
<b>312</b>	<b>Rent</b>
312.1	—For school facilities
312.2-9	—For other facilities (specify)
<b>313-399</b>	<b>Other revenue (designate)</b>

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

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

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

<b>Account Number</b>	<b>Account</b>
<b>408</b>	<b>Field trips and other off-campus events</b>
408.02	Contracted services
408.03	Supplies and materials
408.07	Equipment
408.09	Other
<b>409</b>	<b>Items for resale</b>
409.03	Supplies and materials
409.07	Equipment
409.09	Other
<b>411</b>	<b>Fundraising</b>
411.11	Carnivals
411.12	Car washes
411.13	Candy sales
411.14	Other
<b>412-<u>499</u></b>	<b>Other (list function)</b>





## **Explanation of Expenditure by Function**

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

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

Section 9: Chart of Accounts

**TITLE 4; RESTRICTED FUND**

Revenue/Expenditure Accounts

601-999 All Restricted Accounts

Account Number	Account
<b>601-699</b>	<b>Athletic <u>Accounts</u> * s</b>
601	AAthletics -- (general ledger account or not used)
602	Basketball --(subsidiary ledger account or general ledger account)
603	Baseball --(subsidiary ledger account or general ledger account)
604	Football --(subsidiary ledger account or general ledger account)
605	Golf --(subsidiary ledger account or general ledger account)
<del>606</del>	<del>Tennis --(subsidiary ledger account or general ledger account)</del>
607	Track --(subsidiary ledger account or general ledger account)
608	Swimming --(subsidiary ledger account or general ledger account)
609-699	Other -- (name)
<b>701-799</b>	<b>Class accounts</b>
701	Class of 20X3
702	Class of 20X4
703	Class of 20X5
704	Class of 20X6
<b>801-899</b>	<b>Club accounts</b>
801	Beta club
802	FFA club
<del>803</del>	<del>Forensic club</del>
804	Journalism club
805	Science club
<del>807</del>	<del>FHA club</del>
809	Yearbook club
<b>901-999</b>	<b>Other activities (name)</b>
901	Band
902	Jane Smith Scholarship
903	Teachers <u>M</u> aterials and <u>S</u> upplies ( <u>TISABEP</u> ) <u>A</u> ccount

904	Wellness Grant
-----	----------------

\*: All individual sports are either a subsidiary ledger account (Alternative 1) or a general ledger account (Alternative 2).

**Section 9: Chart of Accounts**

**TITLE 5; SCHOOL NUTRITION FUND**

**Balance Sheet Accounts**

*Assets*

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

*Liabilities and Fund Balance*

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

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

**Revenue Accounts**

*Lunch*

Account Number	Account
111	Students
112	Adults
113	Other
114	USDA



**Breakfast**

Account Number	Account
121	Students
122	Adults
123	Other
124	USDA

**Milk**

Account Number	Account
131	Students
132	Adults
133	Other
134	USDA (Special Milk)

**Other Programs**

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

**Expenditure Accounts**

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

Appendix **A**

---

**Applicable Laws  
and Exhibits**

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





**APPENDIX A**  
*Applicable Laws and Exhibits*

**INTERNAL SCHOOL FUNDS MANUAL**



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

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

### Selected Tennessee Code Annotated References

Section 5-8-207 & Section 6-56-111	Three day deposit law; Requirement that all funds be disbursed by prenumbered check.
<u>Section 5-8-201</u> <u>&amp; Section 6-56-110</u>	<u>Bank contracting requirements</u>
<u>Section 9-1-108</u>	<u>Credit card processing fees</u>
<u>Section 9-2-102</u>	<u>Closing of books</u>
Sections <u>9-2-103</u> –104	Consecutively prenumbered receipts required
<u>Section 9-18-102</u>	<u>Internal controls</u>
<u>Section 10-7-404</u> <u>&amp; Section 10-7-702</u>	<u>Record retention schedules</u>
Section 12-4-101	Conflict of interest statute
<u>Section 47-10-119</u>	<u>Uniform Electronic Transactions Act (UETA)</u>
Section 49-2-110	Student activity funds— <del>authority and responsibility</del>
Section 49-2-112	School audits
Section 49-2-601 et seq	School Support Organizations (PTO’s, booster clubs, etc.)
<u>Section 49-3-313</u>	<u>School lunch program</u>
Section 49-3-359(a)	<del>Basic Education Program (BEP)</del> <u>Tennessee Investment in Student Achievement Act (TISA)</u>
Section 49-6-2003	Teacher conflicts of interest
Section 49-6-2007	<del>Disposition Sale</del> or transfer of <u>surplus</u> property

Section 49-6-3001 Tennessee public schools referred to as being “free”

Section 49-13-127 Public charter school audit requirements

Section 66-29-101 et seq Unclaimed funds

Section 67-6-~~229~~402 State sales tax on resale items

**Exhibit 1**

**PROPOSED FUNDRAISING ACTIVITIES FUNDRAISER AUTHORIZATION FORM**

School \_\_\_\_\_

Fund/account \_\_\_\_\_ club/class \_\_\_\_\_ account name \_\_\_\_\_

Expected timeframe of fundraiser \_\_\_\_\_

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

\_\_\_\_\_

Method of fundraising (in-person, crowdfunding, etc.) \_\_\_\_\_

Purpose of funds raised\* \_\_\_\_\_

\_\_\_\_\_

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

\_\_\_\_\_

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

\_\_\_\_\_

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

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

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

[\\* Any change in proposed uses of funds raised must be approved by the Director of Schools](#)

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

**INVENTORY ANALYSIS REPORT**

(To be completed by sponsor)

Fundraising/Resale activity \_\_\_\_\_

Fund/club/class account \_\_\_\_\_

Sponsor \_\_\_\_\_

Approval date \_\_\_\_\_ Start date \_\_\_\_\_ End date \_\_\_\_\_

**INVENTORY ANALYSIS**

Item 1: _____	Quantity
Beginning Inventory	
Less: Quantity Sold	
Calculated Ending Inventory	
Actual Ending Inventory	
Overage/shortage*	

Item 2: _____	Quantity
Beginning Inventory	
Less: Quantity Sold	
Calculated Ending Inventory	
Actual Ending Inventory	
Overage/shortage*	

Item 3: _____	Quantity
Beginning Inventory	
Less: Quantity Sold	
Calculated Ending Inventory	
Actual Ending Inventory	
Overage/shortage*	

Item 4: _____	Quantity
Beginning Inventory	
Less: Quantity Sold	
Calculated Ending Inventory	
Actual Ending Inventory	
Overage/shortage*	

\* Attached detailed documentation or explanation of this amount

Beginning inventory count performed by \_\_\_\_\_ Date \_\_\_\_\_

Beginning inventory count verified by \_\_\_\_\_ Date \_\_\_\_\_

Ending inventory count performed by \_\_\_\_\_ Date \_\_\_\_\_

Ending inventory count verified by \_\_\_\_\_ Date \_\_\_\_\_

Remaining inventory disposition: \_\_\_\_\_

\_\_\_\_\_

**FUNDRAISER COLLECTIONS ANALYSIS REPORT**  
 (To be completed by sponsor)

Fundraising activity \_\_\_\_\_

Fund/club/class account \_\_\_\_\_

Sponsor \_\_\_\_\_

Approval date \_\_\_\_\_ Start date \_\_\_\_\_ End date \_\_\_\_\_

**EXPECTED COLLECTIONS** (Items sold at the same price can be grouped together)

Item Description*	Quantity Available to Sell*	Selling Price	Expected Collections
		\$	\$
		\$	\$
		\$	\$
<b>Total Expected Collections</b>			<b>\$</b>

**ACTUAL COLLECTIONS**

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

Fundraising activity \_\_\_\_\_

Fund/club/class \_\_\_\_\_

Sponsor \_\_\_\_\_

Approval date \_\_\_\_\_ Beginning date \_\_\_\_\_ Ending date \_\_\_\_\_

**EXPECTED COLLECTIONS**

Date	Check #	Item Purchased	Quantity	X	Selling Price	=	Expected Collections

<b>Subtotal</b>	\$
<b>Total from page 2</b>	\$
<b>GRAND TOTAL</b>	\$

**ACTUAL COLLECTIONS**

Date	Cash Receipt Number	Amount

<b>Subtotal</b>	\$
<b>Total from page 23</b>	\$
<b>GRAND TOTAL</b>	<u>Grand Total</u> \$

<u>(from Expected Collections above)</u>				

**ENDING INVENTORY** (Items sold at the same price can be grouped together)

<u>Item Description*</u>	<u>Actual Ending Inventory*</u>	<u>Selling Price</u>	<u>Ending Inventory Value</u>
		\$	\$
		\$	\$
		\$	\$
<b><u>Total Ending Inventory Value</u></b>			<b>\$</b>



**ENDING INVENTORY**

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

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

**COLLECTION ANALYSIS**

	Expected collections	\$ _____
	Less: actual collections	\$ _____
	Less: <u>ending ending inventory inventory value</u>	\$ _____
	Overage/shortage**	\$ _____

\* From Inventory Analysis Report

\*\*Attach detailed documentation or explanation of this amount for this amount.

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

Verified by \_\_\_\_\_ Date \_\_\_\_\_

**EXPECTED COLLECTIONS**

Date	Check #	Item Purchased	Quantity	xX	Selling Price	=	Expected Collections





**YEARBOOK ADVERTISING SALES**  
**FOR YEARBOOK COLLECTIONS ANALYSIS REPORT**

**EXPECTED COLLECTIONS**

Size of Ad	No. of Ads Printed in Publication	<del>xx</del>	Selling Price	Expected Collections
<b>Subtotal</b>				\$
<b>Total from page 2</b>				\$
<b><del>GRAND TOTAL</del>Grand Total</b>				\$

**ACTUAL COLLECTIONS**

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

**ANALYSIS**

Expected collections      \$ \_\_\_\_\_  
 Less: actual collections    \$ \_\_\_\_\_  
 Overage/shortage\*        \$ \_\_\_\_\_

\*Sponsor should provide explanation for any variance

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Verified by: \_\_\_\_\_ Date: \_\_\_\_\_





**YEARBOOK COLLECTIONS ANALYSIS REPORT**

**EXPECTED COLLECTIONS**

<u>Expected Collections Calculation</u>	
<u>Yearbooks ordered</u>	
<u>Free yearbooks received</u>	
<u>Total yearbooks</u>	
<u>x Selling price</u>	\$
<u>Total expected collections</u>	\$

**NOTE:** Total quantity of yearbooks received should be verified upon receipt. See Inventory Analysis Report (Exhibit 2a).

**SCHOOL COLLECTIONS**

**EXPECTED COLLECTIONS**

Number of yearbooks received from the printer	Ordered	_____
		_____
	Free	_____
		_____
	Total Received	_____
		_____

Total yearbooks received X selling price = expected collections

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

**ACTUAL COLLECTIONS**

Date	Cash Receipt Number	Amount
		Subtotal
		Total from page 2
		<del>GRAND TOTAL</del> <u>Grand Total</u>
		\$
		\$
		\$

**ENDING INVENTORY**



<b>Ending Inventory Calculation</b>	
Ending yearbook inventory	
x Selling price	\$
Ending inventory value	\$

**NOTE:** Total ending yearbook inventory should be verified. See Inventory Analysis Report (Exhibit 2a).

Remaining inventory disposition: \_\_\_\_\_

\_\_\_\_\_

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Verified by: \_\_\_\_\_ Date: \_\_\_\_\_

**VALUE OF INVENTORY ON HAND**

Number of yearbooks on hand X selling price = inventory value

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

**Exhibit 2d**  
 Page 2 of 2

**ANALYSIS**

	Expected collections	\$ _____
Less: <del>actual school</del> collections <del>(from page 2)</del>		\$ _____
	* <del>Less: online sales</del>	_____
	Less: <del>ending</del> inventory <del>value of hand</del>	_____
** <del>Less: value of</del> yearbooks given away*		_____
	*** <del>Overage/shortage*</del>	\$ _____

\* ~~Attach support from online sales vendor.~~

\*\* ~~Attach a detailed list of recipients of free yearbooks, including and an explanations therefor.~~

\*\*\* ~~Also, attach detailed documentation or explanation for any overage or shortage.~~



**VENDING COLLECTIONS ANALYSIS REPORT**

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

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

**ENDING INVENTORY**

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

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

**ANALYSIS**

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

\*Attach detailed documentation or explanation for this amount.

**EXPECTED COLLECTIONS**

Date	Check #	Item Purchased	Quantity	X	Selling Price	=	Expected Collections
						<b>TOTAL (THIS PAGE)</b>	\$



**FUNDRAISER SUMMARY REPORT**  
**(Page 1 of 2)**

School \_\_\_\_\_

Fundraising \_\_\_\_\_ Activity \_\_\_\_\_

Fund/Club/Class Account \_\_\_\_\_ Name Account \_\_\_\_\_

Sponsor \_\_\_\_\_

Date(s) \_\_\_\_\_ of \_\_\_\_\_ Fundraiser \_\_\_\_\_

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

Total Collections \_\_\_\_\_  
\$ \_\_\_\_\_

Less: Total Expenses \_\_\_\_\_  
\$ \_\_\_\_\_

Total Fundraiser Profit \_\_\_\_\_  
\$ \_\_\_\_\_

Total Purchases with Fundraiser Profit (from page 2) \$ \_\_\_\_\_

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

\*If the amount spent is less than the profit, please provide explanation and intended disposition of balance. (The disposition of excess proceeds or a change in authorized purpose must be approved by the director of schools.)

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







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

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

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

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

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

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

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

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

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

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

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

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

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



**TEACHER COLLECTION LOG**

School \_\_\_\_\_ Date \_\_\_\_\_

Teacher \_\_\_\_\_ Collected For \_\_\_\_\_

Student Name	Date			Date		
	Cash Amount	Check Amount	Check Number	Cash Amount	Check Amount	Check Number
	\$	\$		\$	\$	
<b>TOTAL</b>	\$	\$		\$	\$	
<b>To be completed by cashier</b>						
Date						
Total Collections	\$	\$		\$	\$	
Total Amount Counted	\$	\$		\$	\$	
Receipt Number						
Cashier's Initials						

Exhibit 5

**PRENUMBERED RECEIPT- CASHIER**

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

**PRENUMBERED RECEIPT-TEACHER/OTHER**

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

**Exhibit 7**  
**TICKET RECONCILIATION**

Date \_\_\_\_\_ Type of event: \_\_\_\_\_ vs. \_\_\_\_\_

\_\_\_\_\_ Type of event For athletic events: \_\_\_\_\_ vs. \_\_\_\_\_

**STUDENT TICKETS** \_\_\_\_\_ Ticket color \_\_\_\_\_  
 Ticket Sale price \$ \_\_\_\_\_

	<u>Roll Ending No.</u>	<u>Roll Beginning No.</u>		
After sales	_____	_____		
Before sales	_____	_____		
-Difference	_____	_____	X \$ _____	= \$ _____ sales

**ADULT TICKETS** \_\_\_\_\_ Ticket color \_\_\_\_\_  
 Ticket Sale price \$ \_\_\_\_\_

	<u>Roll Ending No.</u>	<u>Roll Beginning No.</u>		
After sales	_____	_____		
Before sales	_____	_____		
-Difference	_____	_____	X \$ _____	= \$ _____ sales

**RESERVE/SPECIAL TICKETS** Ticket color \_\_\_\_\_ Ticket Sale price \$ \_\_\_\_\_

**TICKET SALES CALCULATION**

	<u>Student</u>	<u>Adult</u>	<u>Reserve/Special</u>
<u>Ending Ticket Number</u>			
<u>Less: Beginning Ticket Number</u>			
<u>Tickets Sold (Difference)</u>			

<u>x Ticket Price</u>	\$ _____	\$ _____	\$ _____
<u>Total Sales</u>	\$ _____	\$ _____	\$ _____
<b>Total Ticket Sales</b>			<b>\$ _____</b>

Roll Ending No.:      Roll Beginning No.:  
 After sales \_\_\_\_\_      \_\_\_\_\_  
 Before sales \_\_\_\_\_      \_\_\_\_\_  
 -Difference \_\_\_\_\_      \_\_\_\_\_      X \$ \_\_\_\_\_ = \$ \_\_\_\_\_ sales

**BEGINNING CHANGE FUND**

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

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

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



**TICKET RECONCILIATION (continued)**

Beginning change fund	\$	_____
Add: -Total ticket sales	\$	_____
Add: - <del>Athletic fund</del> <u>d</u> Donations received by ticket seller	\$	_____
Total due in ticket sales box <u>(expected)</u>		_____ \$
		_____ <b>(Ex</b>
		<b>pected)</b>
Cash collections	\$	_____
Add: Check <u>c</u> Collections <u>(attach list of checks)</u>	\$	_____
Total in ticket sales box <u>(actual)</u>		_____ \$
		_____ <b>(Ac</b>
		<b>tual)</b>
<b><u>BOX OVERAGE</u> or <u>(SHORTAGE)</u></b>	\$	_____

Explanation of overage or shortage:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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

\_\_\_\_\_

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

Signature of Ticket Seller

**COUNT OF COLLECTIONS**

Activity \_\_\_\_\_

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

Sponsor \_\_\_\_\_

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

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

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

Amount Collected: \_\_\_\_\_ : \_\_\_\_\_

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

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

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

\$ \_\_\_\_\_

\* Attach listing of checks collected

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

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

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

Date

**PURCHASE REQUISITION/AUTHORIZATION**

No. \_\_\_\_\_

School \_\_\_\_\_

Address \_\_\_\_\_

Purchased \_\_\_\_\_

Date \_\_\_\_\_

From \_\_\_\_\_

Account to  
be Charged \_\_\_\_\_

Quantity	Item/Service and Description	Unit	Unit Price	Amount

Requested by \_\_\_\_\_ Date \_\_\_\_\_

This account has a sufficient balance to make this purchase.

Bookkeeper \_\_\_\_\_ Date \_\_\_\_\_

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

Date of Payment \_\_\_\_\_ Check No. \_\_\_\_\_

**TRANSFER AUTHORIZATION BY STUDENT ORGANIZATION**

Date \_\_\_\_ - \_\_\_\_ - \_\_\_\_

Name \_\_\_\_\_ of \_\_\_\_\_ Student Class \_\_\_\_\_ or \_\_\_\_\_ Organization

Sponsor \_\_\_\_\_

The following expenditures/transfers have been authorized by the membership of this organization:

Item/Service/Transfer To	Expected Cost/Amount

\_\_\_\_\_  
\_\_\_\_\_  
President of Organization - Date

\_\_\_\_\_  
\_\_\_\_\_  
Treasurer of Organization Date

\_\_\_\_\_  
\_\_\_\_\_  
Sponsor of Organization Date

**Exhibit 9**

**DAILY COLLECTION REPORT**

**Central High School**

\_\_\_\_\_ Date \_\_\_\_\_

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

**FOR FISCAL USE ONLY**  
 FUND: \_\_\_\_\_  
 DEPT/DIV: \_\_\_\_\_  
 ACCOUNT: \_\_\_\_\_

**~~CLAIM FOR~~ TRAVEL EXPENSES CLAIM**

SCHOOL \_\_\_\_\_  
 FOR PERIOD FROM : \_\_\_\_\_ TO \_\_\_\_\_

THIS CLAIM MUST BE PREPARED IN ACCORDANCE WITH TRAVEL POLICIES

TYPE OR PREPARE IN INK

DATE	PLACE LEFT-DEPARTURE LOCATION	TIME LEFT AM/PM	PLACE ARRIVED-ARRIVAL LOCATION	TIME ARRIVED AM/PM	TRANSPORTATION				LODGING	SUBSISTENCE MEALS			ITEMIZED OTHER EXPENSES ITEMIZED-ATTACH RECEIPTS AND EXPLAIN EXPENSES-LEGITIMATE-TRAVEL	TOTAL
					MILES	FARE/FARE-ADJUSTMENT	AIRLINE/ OTHER	TAXI OR LIMOUSINE		BREAK-FAST	LUNCH	DINNER		
TOTALS														

TYPE OR PRINT COMPLETE HOME ADDRESS:  
 NAME: \_\_\_\_\_  
 SSN: \_\_\_\_\_  
 ADDRESS \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

ADDITIONAL EXPLANATION:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_ **—GROSS TOTAL AMOUNT DUE CLAIMANT**  
 \_\_\_\_\_ **LESS TEMP. TRAVEL ADVANCE**  
 I CERTIFY THAT THIS CLAIM IS TRUE AND CORRECT. \_\_\_\_\_ **—AMT. DUE CLAIMANT.**  
 \_\_\_\_\_ **—AMT. DUE SCHOOL**  
 SIGNATURE \_\_\_\_\_  
 SCHOOL \_\_\_\_\_ DATE \_\_\_\_\_  
 APPROVED \_\_\_\_\_ DATE \_\_\_\_\_  
 APPROVED \_\_\_\_\_ DATE \_\_\_\_\_

**ATTACH ITEMIZED RECEIPTS TO SUPPORT ALL EXPENSES**  
**ORIGINAL - SCHOOL OFFICE DUPLICATE- FILE TRIPLICATE-CLAIMANT**

## Journal Entries for Returned Checks

### Returned Checks

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

### Entries for ~~r~~Returned ~~c~~Checks for ~~School Activity and i~~Internal ~~s~~School ~~f~~Funds other than ~~s~~School ~~n~~Nutrition ~~F~~funds:

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

	Debit	Credit
<del>Returned c</del> Checks <del>r</del> Receivable	\$30.00	
Cash		\$30.00

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

	Debit	Credit
<del>Expenditures - b</del> Bank <del>f</del> Fee for <del>r</del> Returned <del>c</del> Checks	\$20.00	
Cash		\$20.00

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

	Debit	Credit
Cash	\$30.00	
<del>Returned c</del> Check <del>r</del> Receivable		\$30.00



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

	Debit	Credit
Cash	\$30.00	
Revenues – <del>r</del> Returned <del>c</del> Checks <del>s</del> Service <del>c</del> Charge		\$10.00
Expenditures – <del>b</del> Bank <del>f</del> Fee for <del>r</del> Returned <del>c</del> Checks		\$20.00

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

	Debit	Credit
Revenues – <del>r</del> Revenue <del>a</del> Account <del>o</del> Originally <del>r</del> Recorded or a Receivable from the <del>b</del> Board of <del>e</del> Education (1)	\$30.00	
Returned <del>c</del> Checks <del>r</del> Receivable		\$30.00

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

6. When ~~p~~Payment is subsequently received from the ~~b~~Board of ~~e~~Education:

	Debit	Credit
Cash	\$30.00	
Receivable from <del>b</del> Board of <del>e</del> Education		\$30.00

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

	Debit	Credit
Cash	\$30.00	
Revenue <del>a</del> Account <del>o</del> Originally <del>r</del> Recorded or a Due to the <del>b</del> Board of <del>e</del> Education (1)		\$30.00

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

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

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

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

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

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

9. Payment is received from the Board of Education:

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

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

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

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

**Journal Entries for Change Funds**

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

	<b>Debit</b>	<b>Credit</b>
Cash on <del>h</del> Hand	\$100.00	
Cash		\$100.00

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

	<b>Debit</b>	<b>Credit</b>
Cash	<del>\$100.00</del>	
Cash on <del>h</del> Hand		<del>\$100.00</del>

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

Note 1

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

Note 2

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

**Journal Entries for Reimbursements**

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

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

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

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

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

**Entry in General Fund:**

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

**Entry in Athletic Account:**

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

**Journal Entries for Non-cash Activity**

1. A vendor issues fundraiser profit as vendor credit in lieu of cash payment to the school:

	<b>Debit</b>	<b>Credit</b>
<i>Other Asset – Vendor Credit</i>	<i>\$125.00</i>	
<i>Revenues – Fundraising</i>		<i>\$125.00</i>

2. The school utilizes the vendor credit to purchase books for classrooms:

	<b>Debit</b>	<b>Credit</b>
<i>Expenditures – Instruction</i>	<i>\$125.00</i>	
<i>Other Asset – Vendor Credit</i>		<i>\$125.00</i>

3. A bookfair vendor offers an incentive which doubles fundraiser profit. This additional amount is issued as a vendor credit. If a school takes advantage of this offer, the following journal entry should be made to record the incentive:

	<b>Debit</b>	<b>Credit</b>
<i>Other Asset – Bookfair Vendor Credit</i>	<i>\$500.00</i>	
<i>Revenues – Fundraising</i>		<i>\$500.00</i>

4. The school utilizes the bookfair incentive credit to purchase books for classrooms:

	<b>Debit</b>	<b>Credit</b>
<i>Expenditures – Instruction</i>	<i>\$500.00</i>	
<i>Other Asset – Bookfair Vendor Credit</i>		<i>\$500.00</i>

5. A school supply company operates a fundraiser which, instead of purchasing items, allows parents to purchase gift cards for the school’s benefit. These gift cards are issued in the form of a vendor credit directly to the school’s account with the school supply company:

	<b>Debit</b>	<b>Credit</b>
<i>Other Asset – Gift Card Credit</i>	<i>\$35.00</i>	
<i>Revenues – Fundraising</i>		<i>\$35.00</i>

6. The school utilizes the vendor credit (gift card) to purchase school supplies for classrooms:

	<b>Debit</b>	<b>Credit</b>
<i>Expenditures – Instruction</i>	<i>\$35.00</i>	
<i>Other Asset – Gift Card Credit</i>		<i>\$35.00</i>

Note 1

If a check is used for the purchase, the appropriate Other Asset account along with the appropriate Expenditure account should be selected for allocating payment. This would eliminate the need for posting the expenditure journal entry.



## **APPENDIX B**

*Principles-Based Approach to Board of Education Obligations*

**INTERNAL SCHOOL FUNDS MANUAL**



## **PRINCIPLES-BASED APPROACH TO BOARD OF EDUCATION OBLIGATIONS**

### **Board of Education Obligations – Supplement vs. Replace**

These principles should be used to determine whether purchases from the general fund merely supplement, not replace, funds necessary for the local board of education to fulfill its obligation to provide an instructional program, property, equipment, and salaries. Each individual scenario needs to be evaluated using a blend of integrity, common sense, and a close reading of the *Manual*, board of education policies and fund budgets.

Example board of education responsibilities include, but are not limited to:

- Paying teachers, principals, bus drivers, counselors, etc.
- Providing teachers with the necessary materials and supplies to do their jobs
- Building/providing a school building/utilities
- Providing bus transportation
- Maintaining and repairing school buildings and grounds
- Providing janitorial services for school buildings, and
- Similar expenditures necessary to provide a free and equal education

### **Overarching General Rules**

1. The general fund should not be used to replace board of education obligations as stated in Section 4, Title 1, page 4-2 of this *Manual*.
2. The student activity funds should not be used to replace board of education obligations as stated in Section 1, Title 4, page 1-7 of this *Manual*.
3. The general fund or school nutrition fund having a large fund balance does not allow the school to spend money to replace board of education obligations.
4. The board of education cannot make policies that violate the “supplement, not replace” requirements of state statutes and the *Manual*.



## Supplement vs. Replace – Principles

For each scenario, these principles should be considered:

- Does the *Manual* provide guidance about the expenditure?
- Does the purchase attempt to circumvent the board of education purchasing procedures? It is often more difficult to utilize the board of education purchasing process than to approve and pay for the expenditure at the individual school level through the general fund. The real question is: “Is it the right thing to do?”
- Is the school attempting to spend money because a large fund balance has accumulated in the general fund or school nutrition fund? Spending money for board obligations is **not** right even if the school has accumulated significant fund balances.
- Are these types of expenditures included in the board of education fund budgets? If so, this will give an indication of what types of expenditures represent board obligations.
- Does the board of education have any policies related to these expenditures? If so, this will provide guidance as to whether or not the expenditures are considered board or school obligations. However, the board of education **cannot** delegate board obligations to schools by issuing a board policy. This would violate the *Manual’s* clear guidance.
- Does the project require bids? This would generally indicate a board of education obligation.
- Does the project require a long-term commitment (such as a five-year lease)? This would generally indicate a board of education obligation.
- Is the purchase amount material to the amount the board is obligated to spend at the individual school level (i.e., through the budget process)? If the purchase amount is small in comparison, this **may** indicate the expenditure would **not** replace a board of education obligation.
- Is this a one-time expenditure or a recurring expenditure? Infrequent or occasional expenditures, especially based on extenuating circumstances, **may** indicate the expenditure would **not** replace a board of education obligation.

## Supplement vs. Replace – Example Scenarios

**It is very important to utilize integrity and common sense for each scenario.**

### 1. Can the school buy side chairs for the school office for students/others to utilize while waiting to transact school business?

**Assumptions:** It is the board of education’s responsibility to provide furniture for school buildings. The board does not have policies about this matter. The purchase is not large enough to require bids. The purchase amount is not material to the amount of expenditures the board has budgeted for furniture for the school. The purchase is a one-time purchase that will not recur in the near future.

**Conclusion:** This expenditure is likely supplementing, not replacing, a board of education obligation.

**NOTE:** If three chairs would be sufficient, the school should not purchase 10 chairs. These chairs should be added to the school inventory of furniture and equipment.

### 2. Can the school pay for buffing the hallway floors?

**Assumptions:** It is the board of education’s responsibility to maintain school buildings. The board’s budget includes maintenance salaries, school repairs and maintenance costs (including buffing floors), and janitorial supplies. The board does not have policies about this matter. The purchase is not large enough to require bids and does not involve a contract. The purchase amount is not material to the amount of expenditures the board spends for annual building maintenance costs for the school. The purchase is a one-time purchase because of heavy special event traffic and the fact that a parent teacher meeting is taking place in two days. This is an infrequent occurrence.

**Conclusion:** This expenditure is likely supplementing, not replacing, a board of education obligation.

**NOTE:** If the regular maintenance staff could be utilized, hiring outside staff should not be considered.

### 3. Can the school pay for new cafeteria tables?

**Assumptions:** It is the board of education’s responsibility to provide cafeteria furniture. The board has not budgeted for new furniture in several years and some of the furniture is damaged and needs to be replaced. The board does not have policies about this matter. Since the board has **not** budgeted for cafeteria furniture in the current budget, the purchase amount would be material to the amount of expenditures the board plans to spend for cafeteria furniture. This is a rare occurrence. The school normally does not purchase cafeteria furniture.

**Conclusion:**

(1) The purchase does not involve a significant portion of the cafeteria furniture. The purchase is not large enough to require bids and does not involve a long-term contract. Purchasing a table or replacing a **few** broken chairs would not be replacing a board of education obligation. The number of replacements plus the amount spent are important factors.

(2) The purchase involves all or a significant portion of the cafeteria furniture. The purchase is large enough to require bids or involves a long-term contract. If the purchase involves replacing all or a significant portion of the cafeteria furniture, is large enough to require bids, or involves a long-term purchase agreement or note payable, this is replacing a board of education obligation.

**NOTE:** If only a few broken tables or chairs need to be replaced, replacing **all** the tables or chairs would not be appropriate. These tables or chairs should be added to the school inventory of furniture and equipment.

### 4. Can the school pay for painting the cafeteria?

**Assumptions:** It is the board of education’s responsibility to maintain buildings, including painting buildings. The board has not budgeted for painting the cafeteria in several years. Some of the paint is beginning to peel off and is dirty from student traffic. The board does not have policies about this matter. Since the board has **not** budgeted for painting the cafeteria in the current budget, the purchase amount would be material to the amount of expenditures the board plans to spend for cafeteria painting. Painting is only required approximately every 5-7 years. The school does not normally pay for painting.

**Conclusion:**

(1) The painting does not involve the entire cafeteria but only involves a small repair job and touch up in high traffic areas. The purchase is not large enough to require bids (it is always a good idea to at least get quotes for this type of service). This would not be replacing a board of education obligation.

**NOTE:** The amount of money necessary to repair and paint under this scenario is important. This scenario assumes that the purchase amount is relatively small. Also, if only a small area needs repair and a touch-up of certain areas would suffice, then painting the

entire cafeteria would not be justified, even if the general fund or school nutrition fund has a significant fund balance.

(2) The job involves significant repairs, painting the entire cafeteria, and the purchase amount is relatively large (or the purchase is large enough to require bids). This is replacing a board of education obligation.

## 5. Can the school pay off cafeteria meal balances?

**Assumptions:** The board of education voted for the school to pay off unpaid cafeteria balances left by students. This is addressed in Section 8, Title 1, page 8-3 of this *Manual*. It is the board of education's responsibility to establish a meal charge policy (i.e., a policy about charging meals rather than paying with cash). This page further states, "Uncollected charges must be recouped from other than school nutrition program funds." Therefore, the noncentralized school nutrition program **cannot** fund unpaid meal balances. Section 4, Title 1, page 4-2 of this *Manual* defines general fund allowable expenditures as those that must benefit the school or must contribute to the welfare of the student body. Therefore, the school's general fund **cannot** fund uncollected cafeteria balances. This follows the same principle set forth by Section 1, Title 4, page 1-7 of this *Manual* that does not allow student activity fund money to be used to pay uncollected cafeteria balances. In this case, we have a board policy that **conflicts** with the *Manual*. The board policy appears to instruct that funds be taken from the school's general fund to pay for uncollected cafeteria balances.

**Conclusion:** The uncollected cafeteria balances should be paid by the board of education's general fund, rather than the school's general fund.



**APPENDIX C**  
*Allowable and Unallowable Expenditures*

**INTERNAL SCHOOL FUNDS MANUAL**



## **Allowable Expenditures**

This is a guideline and **not an all-inclusive list** of allowable expenditures for internal school funds. All expenditures must be reasonable in nature and completed in accordance with the procedures set forth in the *Manual*. This includes adequate supporting documentation.

1. Awards such as merit certificates, trophies, plaques, or other means of recognition for behavior, athletic, or academic achievement for students;
2. Student incentives for athletics, specialized area performance, school spirit, involvement, academics, and other achievements;
3. Supplies, band instruments, and materials used by a student organization;
4. Entry fees and other expenses associated with competitions and meetings for student groups;
5. Travel expenses and meals consumed by the student members and their sponsors and bus drivers during an official school trip;
6. Membership in related organizations for student groups;
7. Charitable contributions and donations made with funds collected specifically for that purpose (refer to Section 4, Title 8, page 4-28 of the *Manual* for guidance regarding fundraising on behalf of an outside party);
8. Purchases using promotional credits from vendors must benefit students, not coaches and sponsors;
9. Equipment and maintenance costs that do not replace board responsibility. For example, purchasing playground equipment with funds donated for this specific purpose. Refer to Appendix B for assistance in determining if a purchase is a board responsibility.

## **Unallowable Expenditures**

This is a guideline and **not an all-inclusive list** of unallowable expenditures for internal school funds.

1. Personal purchases for staff members even with a reimbursement agreement;
2. Routine renovation or maintenance of school facilities or buildings; regular care and upkeep of school property (refer to Appendix B for assistance in determining allowable expenditures);
3. Gifts, services, donations, or bonuses to district employees or external support/booster organizations;
4. Loans to employees, parents, students, sponsors, or organizations for any reason;
5. Any purchase that benefits the sponsors or district personnel and not the student organization;
6. Alcoholic beverages, tobacco products, controlled substances;
7. Structural additions or improvements to the buildings or grounds that replace the local board's obligation;
8. Books, magazines, and memberships not benefiting the students;
9. Travel expenses for employee development, conferences, seminars, registration fees, etc. of school personnel;
10. Any expenditure prohibited by federal, state, or local laws or regulations.

**APPENDIX D**  
*Definitions*

**INTERNAL SCHOOL FUNDS MANUAL**



## Definitions

**NOTE:** Some terms are linked to the most applicable section of the *Manual*.

**Accounts Payable** – Goods or services that have been received but have not been paid for by year end.

**Accounts Receivable** – An asset created when goods or services are delivered prior to the end of the reporting period, but for which payment has not yet been received.

**Bank Reconciliation** – A schedule prepared at the end of each month explaining any differences between the bank’s and the school’s records of cash. The bank statement balance is to be reconciled to the school’s general ledger.

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

**Canceled** – Documentation supporting disbursements should be marked in a manner which will prevent duplicate payment (i.e., invoices marked paid).

**Cashier** – An individual in the school’s office who collects money and writes receipts.

**Change Fund** – An amount of money obtained by issuing a check to a designated individual for the purpose of making change for a specific event or series of events where an admission fee is charged or goods are sold. The change received should be recorded in the “Cash on hand” account. Entries surrounding change funds should not impact the school’s revenue and expenditures accounts.

**Charter Management Organization (CMO)** – nonprofit entity that manages or operates two or more public charter schools.

**Club (Student Organization)** – Group of students organized into a single body for the purpose of pursuing common goals and objectives including various types of student clubs and class organizations, which are under the direct supervision of authorized personnel.

**Collection Analysis Reports (Exhibit 2b-2d)** – Example schedules to compare expected and actual collections for fundraiser and yearbook activities. Any overage or shortage should be explained.

**Cooperative Activity** – Activity in which the school shares directly in the proceeds of the activity.

**Count of Collections (Exhibit 7)** – Form documenting total collections for a specific activity that did not utilize ticket sales.

**Crowdfunding** – Fundraising via the internet.

**Day/Daily** – Refers to business days, i.e., Monday through Friday excluding banking holidays.

**Delivery Receipt** – Document that accompanies a delivery and itemizes the items delivered. The delivery receipt is used, in conjunction with the invoice and/or receiving report, to record the disbursement in the financial records.

**Donation** – Any gift or contribution of money, materials, property or securities from any nongovernmental source received by a school official or employee for the benefit of a school district, school, school club, or academic, arts, athletic or social activity related to a school.

**Donation/Allocation Summary Report (Exhibit 4)** – Form detailing date, source, purpose, and use of donated or allocated funds.

**Fiscal Year** – A consecutive 12-month period for which financial statements are prepared to detail results of operations. Schools and school districts operate on a July 1 – June 30 fiscal year.

**Fundraiser** – An organized activity conducted by the school or student organizations intended or designed to generate a profit.

**Fundraiser Authorization Form (Exhibit 1)** – Approval form for each individual fundraising activity. The approval form must be signed to indicate approval. The signature necessary depends on fundraiser participation.

**Fundraiser Summary Report (Exhibit 3)** – Summary form documenting all receipts and expenditures related to a specific fundraising activity.

**General Fund** – Accounts for all money to be used for the general operation of the school or for the welfare of the student body. Revenues must be recorded by source and expenditures must be recorded by function.

**General Ledger** – An accounting of bookkeeping entries in which all transactions are recorded.

**Inactive Account** – An account which has had no activity during the preceding 12 months.

**Intact** – Collections are deposited in the form and amount in which they are collected.

**Internal Control** – TCA Section 9-18-102 requires internal controls to be established and maintained. The objectives of internal control systems used in administering internal school funds are to provide management with reasonable, but not absolute, assurance that (1) internal school money is spent and related inventory is used in accordance with laws, regulations, and policies; (2) internal school money and related inventories are safeguarded against waste, theft, loss and misuse; and (3) accurate and reliable information is obtained, maintained, and fairly presented and disclosed in reports.

**Internal School Funds** – Any and all money received and accounted for at the individual schools.

**Inventory** – A detailed list or record showing quantities, descriptions, and values of property on hand at a given time. A physical inventory is the actual count of the items.

**Inventory Analysis Report (Exhibit 2a)** – Example schedule to verify inventory received, verify ending inventory count, and reconcile calculated ending inventory to actual ending inventory.

**Invoice** – An itemized document from a third party that describes in detail the type, quantity, and charges for goods and services purchased. The invoice is used, in conjunction with the receiving report and/or delivery receipt, to record the disbursement in the financial records.

**Noncooperative Activity** – Activity in which the school generally permits the use of school equipment or facilities without charge. However, there may be activities for which the school charges a rental fee. The school does not share in the proceeds of the activity.

**Outstanding Checks** – Checks issued and recorded which have not yet been recorded (“cleared”) by the bank.

**Personally Identifiable Information (PII)** – Any data that could potentially identify a specific individual. Examples include social security number, financial account number, credit card number, home address, e-mail address, and telephone number.

**Professional Development** – Includes such activities as seminars and conferences, continuing professional education, courses for college credit, and other activities related to the ongoing growth and development of personnel. This is considered a board responsibility and should not be paid by internal school funds.

**Property** – Includes all items necessary for the education of the students and for administration and operation of the school.

**Purchase Order** – A prenumbered document issued to an authorized vendor approving the purchase of goods or services which indicates funds have been obligated.

**Purchase Requisition/Authorization (Exhibit 8)** – A prenumbered purchase requisition is a request to make a purchase. Once the requisition has been approved in writing, it becomes a purchase authorization.

**Receipt** – A prenumbered document (physical or electronic) issued to an individual specifying the amount of money received, method of payment, and the date.

**Receiving Report** – Document prepared by the school to record the verification of items/services received and accepted. The receiving report is used, in conjunction with the invoice and/or delivery receipt, to record the disbursement in the financial records.

**Reconciliation** – Process of explaining, usually with the preparation of a schedule, the differences between expected and actual amounts.

**Reimbursement** – Repayment of authorized expenditures. Reimbursements between accounts should be recorded as an expenditure in the reimbursing account and as a reduction of expenditure in the account from which the original payment was made.

**Resale Activity** – Any activity involving the disbursement of money by the school for goods for resale.

**Restricted Fund Account** – Used to account for all money which is restricted for the use of a specific group (club, class, etc.) or legally restricted for a specific purpose (TISA funds, scholarship donations, etc.).

**School Nutrition Fund** – Fund used to account for state and/or federal nutrition money for the purpose of financing cafeteria operations.

**School Representative** – Includes a school board member, director of schools, a principal, any person primarily responsible for accounting for either school system or individual school funds, any school system employee who is charged with directing or assisting in directing the related school club or activity. School representative does specifically include coaches, assistant coaches, band directors or any other school sponsor of a related club or activity.

**School Support Organization (SSO)** – Organizations composed of parents and teachers or parents and students (e.g., parent-teacher associations, parent-teacher organizations, booster clubs, etc.). Funds of these organizations should not be maintained within the school's records. The tax exemption status or federal employer identification number of the district or school shall not be used in conjunction with a school support organization.

**School-wide Fundraiser** – A fundraiser benefiting all students of a school with expected involvement of all students.

**Separation of Duties** – Organizational structure and alignment of job duties that provide adequate separation of duties to prevent a single individual from controlling or processing transactions from beginning to end. This will reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of the duties.

**Sponsor** – The individual responsible for supervising, planning, and implementing activities of the student organization or activity to ensure compliance. The sponsor must be a school employee. The sponsor will work with the principal and bookkeeper to maintain financial records in a timely and accurate manner. Each account must have a sponsor.

**Student Activity Funds** – Money received from any source for school-sponsored student activities or school-sponsored events held at or in connection with a school. The receipts and expenditures are maintained separately for each activity account. Examples of school activity accounts include: Beta Club, Band, Library, Class of 20XX, etc. Students not only participate in the activities of the organization but are also involved in managing and directing the organization's activities.

**Supporting Documentation** – Evidence to attest to the authenticity, accuracy, and authority of a financial transaction.

**Teachers/Others** – Teachers, assistants, volunteers, support staff, etc., who collect money for vending, fundraisers, field trips, fees, concessions, and other activities and remit it to the school's office.

**Teacher Collection Log (Exhibit 5)** – Form used to record monies collected for a particular event by teachers from a group of students. This form is used as documentation of the receipt of funds in lieu of individual receipts. This form will be given to the school bookkeeper by the teacher collecting the funds and a receipt will be issued to the teacher for the total on the form.

**Ticket** – Pre-numbered ticket used at school functions where an admission price is charged and all tickets acquired must be accounted for by perpetual inventory records.

**Ticket Reconciliation (Exhibit 6)** – Form used to record the issuance of tickets for sale at an event, and the ticket sales realized. The form is reconciled and signed with explanation of shortages/overages. The ticket seller, or other designated individual, retains a *copy* of the original ticket reconciliation while the original must accompany the money and unsold tickets that are turned in to the cashier.

**Transfer** – Authorized movement of funds between activity accounts. A transfer is considered a donation or gift to the receiving fund or account. Transfers may not be made from the general fund to a restricted fund account to eliminate an account deficit (unless to close an inactive account as described in Section 4, Title 1, page 4-3 of the *Manual*). Transfers from a restricted fund account may not be made without written permission of the club or group (see **Exhibit 9**).

**Travel Expense Claim (Exhibit 10)** – Form used to document and request reimbursement for employee travel expenses (lodging, transportation, meals, etc.) associated with club or class activities.

**Uniform Electronic Transactions Act (UETA)** – Designed to facilitate and promote commerce and governmental transactions by validating and authorizing the use of electronic records and signatures and to promote uniform electronic transaction laws among the states. The Act establishes the legal equivalence of electronic records and signatures with paper writings and manually signed signatures, removing barriers to electronic commerce.