

# BASICS OF SCHOOL BUSINESS ACCOUNTING

OCTOBER 19, 2021



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## SPEAKER

- Kathy Ciaciulli, PCSBA  
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## LEARNING OBJECTIVES

- Understand the Governance of Fund Accounting
- Principles of Fund Accounting
- Basis of Accounting
- Review of Chart of Accounts
- Debits and Credits



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## PRIMARY RESOURCES

- The Blue Book - GAAFR (Governmental Accounting, Auditing and Financial Reporting)
- The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools
- PASBO Elements of Governmental Fund Accounting



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## WHO MAKES THE RULES?

Financial Accounting  
Foundation

FASB

GASB

Private sector  
"for profit and  
non-profit"

Governmental units  
and political sub  
divisions



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## ACCOUNTING GOVERNANCE IN PA

- Generally Accepted Accounting Principles “GAAP”
- Public School grants PDE authority to establish reporting requirements for local education agencies
- PDE has delegated that authority to the Office of Comptroller Operations
- The Manual of Accounting



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## WHAT'S THE DIFFERENCE BETWEEN PRIVATE SECTOR AND GOVERNMENTAL ACCOUNTING?

### Governments

- Provides services
- Fiscal accountability
- Must comply with legal contractual agreements
- Sometimes expenditures exceed revenues

### Business

- Profit-Driven
- Major focus on value for the owner and shareholders
- Revenues must exceed expenditures to be profitable



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## GOALS OF GOVERNMENTAL ACCOUNTING?

- The process of recording, analyzing, classifying, summarizing and interpreting financial information.
- To present fairly the funds and activities of the entity in conformity with GAAP, with full disclosure; and
- To ascertain and show compliance with legal and contractual provisions that are finance-related



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## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) WHAT IS IT? WHY IS IT IMPORTANT?

- Set of accounting and financial standards for governments to follow.
- Provide more relevant information that will result in greater accountability by state and local governments and
- Enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions.



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## BASIC GOVERNMENTAL ACCOUNTING PRINCIPLES

1. Accounting and reporting capabilities
2. Fund Accounting System
3. Fund Accounting
4. Number of Funds
5. Accounting for Capital Assets
6. Valuation of Fixed Assets
7. Depreciation of Capital Assets
8. Reporting Long-term Liabilities
9. Measurement Focus and Basis of Accounting
10. Budgetary Control and Budgetary Reporting
11. Revenue, Expenditure, Transfer, and Expense Account Classification
12. Common Terminology and Classification
13. Interim and Annual Financial Report



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## PRINCIPLE # 1: ACCOUNTING AND REPORTING CAPABILITIES

The accounting system of an LEA shall provide the information necessary to:

- a. Prepare financial reports that present fairly with full disclosure the financial position and results of financial operations of the funds in conformity with GAAP
- b. Determine and demonstrate compliance with finance-related legal and contractual provisions such as subsidy calculations

Reference: GASB Codification Section 1200, NCGA-1



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## PRESENTATION OF FINANCIAL STATEMENTS - TWO SETS OF FINANCIAL STATEMENTS

### Fund Financial

Reports current revenues and expenditures from certain activities(fund).

### Government-wide Financial Statement

Provides aggregated overview of the government's net position, reported for the government as a whole with long term focus.

Table 1  
Condensed Statements of Net Position  
June 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current assets	\$ 15,857,853	\$ 31,081,650	\$ 523,217	\$ 477,693	\$ 16,380,870	\$ 31,559,343
Capital assets	28,106,912	23,045,888	69,987	102,519	28,175,979	23,148,427
Noncurrent assets			79,861	47,811	79,861	47,811
<b>Total assets</b>	<b>\$ 43,964,765</b>	<b>\$ 54,127,538</b>	<b>\$ 673,065</b>	<b>\$ 628,023</b>	<b>\$ 44,637,710</b>	<b>\$ 54,735,581</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 7,454,555</b>	<b>\$ 2,892,800</b>	<b>\$ 127,157</b>	<b>\$ 49,501</b>	<b>\$ 7,611,716</b>	<b>\$ 2,939,401</b>
<b>Liabilities</b>						
Current liabilities	\$ 5,562,323	\$ 7,302,119	\$ 15,314	\$ 18,802	\$ 5,607,637	\$ 7,318,781
Long-term liabilities	22,749,172	77,471,146	749,991	640,954	73,499,163	78,059,735
<b>Total liabilities</b>	<b>\$ 28,311,500</b>	<b>\$ 84,773,265</b>	<b>\$ 765,305</b>	<b>\$ 659,756</b>	<b>\$ 79,106,799</b>	<b>\$ 85,378,516</b>
<b>Deferred Inflows of Resources</b>	<b>\$ 1,839,472</b>	<b>\$ 2,107,172</b>	<b>\$ 41,638</b>	<b>\$ 44,823</b>	<b>\$ 1,881,065</b>	<b>\$ 2,152,095</b>
<b>Net Position</b>						
Net investment in capital assets	\$ 4,321,738	\$ 3,027,328	\$ 69,987	\$ 100,519	\$ 4,391,705	\$ 3,127,847
Unrestricted	\$ 39,262,461	\$ 49,055,400	\$ 599,070	\$ 467,004	\$ 39,861,461	\$ 45,930,490
<b>Total net position</b>	<b>\$ 43,584,199</b>	<b>\$ 52,082,728</b>	<b>\$ 669,057</b>	<b>\$ 567,523</b>	<b>\$ 44,252,926</b>	<b>\$ 49,058,337</b>



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## PRINCIPLE # 2: FUND ACCOUNTING SYSTEM

Governmental accounting systems should be organized and operated on a fund basis.

What is a fund?

- A fund is an entity with its own set of accounts, which are segregated in order to carry on specific activities.
- Each fund must have its own set of self balancing set of accounts with its own revenues and other additions, expenditures and other deductions, assets, liabilities, and fund balance



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## PRINCIPLE # 3: FUND TYPES

The type of funds used in a school’s accounting system must be adapted to the needs of the LEA.

The Manual is very specific about the different types of funds required and how they are used by an LEA.

*“Only the minimum number of funds consistent with legal and operating requirements should be established because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.” – PDE Manual of Accounting, 2019*



## MAJOR FUND CATEGORIES PRINCIPLE # 3, 4

<b>Governmental Funds</b>	<b>Proprietary Fund</b>	<b>Fiduciary Funds</b>
General	Enterprise	Pension/Employee Benefit
Special Revenue	Internal Service	Investment Trust
Capital Projects		Private-purpose Trust
Permanent		Agency



## GOVERNMENTAL FUNDS

Functions are directly associated with the educational mission of the district. It does not account for businesslike activities.

- General Fund (10)
  - Day to day operations
  - Majority of transactions are recording in this fund
- Special Revenue Fund
  - Used in IU's for Special Education Services
  - Copy Production Services
  - Athletic Fund
- Capital Projects (32, 39)
  - Capital Reserve (32)
  - Capital Projects (39)



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## PROPRIETARY FUNDS

Proprietary fund are used for activities similar to profit-seeking businesses. These funds provide goods and services on a fee or user charge basis and are self-supporting.

There are 2 types of funds fall under this category

1. Internal Service Fund
  - Provides services to one or more internal government
  - External (outside) users
2. Enterprise Fund
  - Provides services to intergovernmental
  - Provides services to outside governments for a fee
  - Known as business-type services provided by the government entity

Examples: Food Service Account (50), School Store, Athletics



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## FIDUCIARY FUNDS

Fiduciary funds account for monies that belong to other people and are not included in the government-wide financial statements. The fiduciary funds are included in the basic financial statements within the fund financial statements.

- Pension Trust
- Agency/Trust Accounts
- Scholarship/Memorials



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## BASIS OF ACCOUNTING & MEASUREMENT PRINCIPLE # 9

- Basis of accounting and measurement refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.
- Applies to both revenues and expenditures.
- Accruals are non-cash entries assigned to revenues and expenditures to the proper accounting period.
- There are 3 bases of accounting



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## BASIS OF ACCOUNTING: CASH METHOD

- Method by which revenues and expenses are only acknowledged when the payment occurs
- Revenues are recognized when received.
- Expenses are recorded when paid.



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## BASIS OF ACCOUNTING: ACCRUAL METHOD

The accrual method records revenues when *they are earned* and records expenses when *they are incurred*.

### Explanation:

For a business invoicing for an item sold, or work done, the corresponding amount will appear in the accounting records even though no payment has yet been received - and debts owed by the business show as they are incurred, even though they may not be paid until much later.



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## MODIFIED ACCRUAL ACCOUNTING/MEASUREMENT

- An accounting method that combines accrual-basis accounting with cash-basis accounting.
- Established by GASB, used by state and local agencies
- Revenue are available within 60 days from the close of the fiscal year.
  - Ex. State Funding received during summer months are accrued back to the prior year, ie. Transportation, Social Security, PSERS, etc.
  - Ex. Tax payments received in July and August are accrued back to the prior year.
- Expenditures are treated as liabilities
  - Accounts Payable - invoices received for the prior year should be treated as a prior year of payable.
  - Professional Staff Salaries - accrued back to the prior year



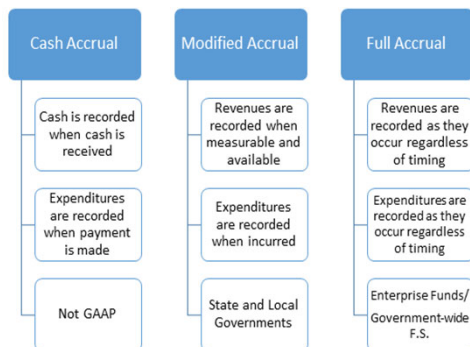
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## BASIS OF ACCOUNTING & MEASUREMENT

- Cash Basis vs. Modified Accrual vs. Full Accrual



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## APPLICATION OF ACCOUNTING BASIS

Application of Accounting Basis		
	Fund Financial Statements	Government-wide Financial Statements
Governmental Funds: <ul style="list-style-type: none"> <li>• General Fund</li> <li>• Special Revenue Fund</li> <li>• Capital Projects Fund</li> <li>• Debt Service Fund</li> <li>• Permanent Fund</li> </ul>	Modified Accrual	Full Accrual
Proprietary Funds: <ul style="list-style-type: none"> <li>• Enterprise Fund</li> <li>• Internal Service Fund</li> </ul>	Full Accrual	Full Accrual
Fiduciary Funds <ul style="list-style-type: none"> <li>• Trust Funds</li> <li>• Agency Funds</li> </ul>	Full Accrual	Full Accrual
Long Term Debt	Not Addressed	Recorded
Capital Assets	Not Addressed	Recorded with depreciation



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## RECORDING FEDERAL REVENUE AND EXPENSE ACCOUNTING

- Recognizing federal revenues follows the principle of grant accounting; it is expense driven. This means that the revenue is not recognized until there is an expenditure.
- At the end of the given accounting period, federal expenditures and federal revenues should equal



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## RECORDING STATE AID ENTITLEMENTS

- State aid entitlements are to be recognized as revenue in the year of entitlement even though some funds might be received in a subsequent year.
  - i.e. Pension, Social Security



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## OTHER ACCOUNTING ISSUES

- Salaries and benefits – the largest period-end accrual will likely be salaries. Benefit expense associated with those salaries must also be accrued:
  - i.e. FICA, retirement
- Unrecorded liabilities – The year end accounting process should also include a search through subsequent period disbursements and accounts payable records for unrecorded liabilities. The rule is that cost should be recorded when goods are received or services are rendered, regardless of when the bill is paid.



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## ACCOUNT CODE STRUCTURE - PRINCIPLE # 1 | PDE CHART OF ACCOUNTS

The full system of expenditure dimensions is as follows:

Fund	Function	Object	Funding Source	Instructional Organization	Operational Unit	Subject Matter	Job Classification	Special Cost Center
XX	XXXX	XXX	XXX	XX	XXX	XXX	XXX	Number of Digits Varies

Revenues	Expenditures	Balance Sheet
Fund Function Funding Source	Fund Function Object Funding Source Instructional Organization Operational Unit Subject Matter	Fund Account



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## CHART OF ACCOUNTS STRUCTURE

- Element # 1: Fund – Determines the overall budget
  - 10 - General Fund
  - 32 - Capital Reserve
  - 39 - Capital Projects
  - 51 - Cafeteria Fund
  - 81 - Student Activities
- Element # 2: Function – Determines the activities for which a service or material is required
  - 1000 (Instruction)
  - 2000 (Support Services)
  - 3000 (Non-Instructional Services)
  - 4000 (Facilities Acquisitions, Improvements, Construction)
  - 5000 (other financing)



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## CHART OF ACCOUNTS – CONT.

- Element # 2: Function on the Revenue Side:
  - 6000 - Local Revenues
  - 7000 - State Revenues
  - 8000 - Federal Revenues
  - 9000 - Other Financial Uses
- Element # 3: Object - Determines the service
  - 100 - Salaries
  - 200 - Benefits
  - 300 - Professional Contracted Services
  - 400 - Purchased Property
  - 500 - Other Purchased Property
  - 600 - General Supplies
  - 700 - Equipment
  - 800 - Dues/Fees/Miscellaneous



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## CHART OF ACCOUNTS – CONT.

- Element #4: Funding Source – Tracks Federal and state funding/special projects. Used for state reporting.
  - State Revenues
  - Federal Expenditures
- Element #5: Instructional Organization – Determines elementary or secondary services
  - Elementary
  - Secondary
  - District Level Expenses



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## BASIC ACCOUNTING

1. Income Statement
  - Financial Statement (Profit/Loss), Review of Revenues & Expenditures
2. Balance Sheet
  - Statement of Assets and Liabilities
  - Asset Accounts
    - Cash accounts
    - Investments
    - Receivables
    - Prepaid Expenditures
  - Liabilities
    - Interfund payables (food services/general fund)
    - Accounts Payable
    - Payroll Accruals



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Don't forget about your **trial balance**.

A trial balance is a detailed list of all the general ledger accounts.

A trial balance report shows your beginning balance, debit balance, credit balance, and ending balance for each of your general ledger accounts.

The trial balance report should be reviewed prior to the annual audit to ensure that it is in balance.



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## TYPES OF ACCOUNTS

Understanding the different types of accounts and how debits and credits affect them.

- Assets
- Liabilities
- Equity/Fund Balance
- Revenues
- Expenditures



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## ASSET ACCOUNTS

Balance sheet account

Assets are cash and cash equivalent accounts:

- Cash
- Investments
- Accounts Receivables
  - Intergovernmental
  - State
  - Federal
- Inventory
- Due "From" other accounts



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## LIABILITIES ACCOUNTS

Balance sheet account

Liabilities are obligations and debt.

- Accounts Payable
- Payroll Deductions
- Short term debt
- Due "To" other accounts



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## EQUITY/FUND BALANCE

Balance sheet account

Equity is the difference between assets and liabilities.

- Fund Balance Reserve
- Committed
- Assigned
- Unassigned



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## REVENUE ACCOUNTS

### Statement of Revenues and Expenditures (or Income statement)

Revenues are monies brought into the government through activities.

- Local Revenues:
  - Taxes (Real Estate, Transfer Tax, PILOT, EIT, Delinquent Taxes)
  - IDEA\*
  - Rentals
  - Miscellaneous Revenues
- State Revenue:
  - BEF, SEF, RTL, Transportation, Social Security & PSERS Subsidy Payment
- Federal Revenues:
  - Title I, II, IV,
  - Medical Access\*



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## EXPENDITURES

### Statement of Revenues and Expenditures (or Income statement)

Expenditures are payments or the promise of future payments.

- Purchases
  - Contracted Services
  - Supplies
  - Equipment
  - Dues/Fees
- Payroll
- Insurance
- Debt



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## DEBITS AND CREDITS - WHAT'S THE DIFFERENCE?

- All accounts have normal balances. An account's normal balance appears on the increase side (which can be either debit or credit depending on the account).
- Debits (DR) means LEFT
- Credit (CR) means RIGHT
- Debits and Credits are neither good or bad
- An increase or decrease to an account is determined by the account type.



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## DEBITS/CREDITS

	<b>Debit (DR)</b>	<b>Credit (CR)</b>
Asset	+	-
Liability	-	+
Revenue	-	+
Expense	+	-



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## DEBITS & CREDITS

- Normal account balance: Debit (DR)

- Assets
- Expenditure
- Fund Balance

Assets		Expenses	
Debits	Credits	Debits	Credits
Increase	Decrease	Increase	Decrease
Normal Balance		Normal Balance	

Liabilities		Revenues	
Debits	Credits	Debits	Credits
Decrease	Increase	Decrease	Increase
	Normal Balance		Normal Balance

Debits = Increase  
Credits = Decrease



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## DEBITS & CREDITS: LIABILITIES ACCOUNTS

- Normal account balance: Credit (CR)

- Liabilities
- Revenues

Liabilities		Revenues	
Debits	Credits	Debits	Credits
Decrease	Increase	Decrease	Increase
	Normal Balance		Normal Balance

Debits = Decrease  
Credits = Increase



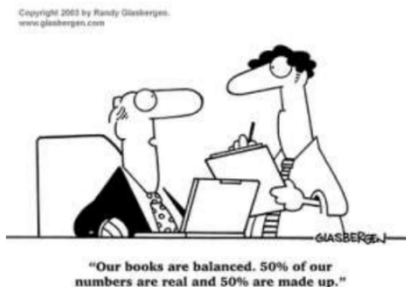
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## DOUBLE ENTRY

- Double entry accounting is a standard accounting method that requires each transaction to be recorded in at least two accounts.
- Every debit balance must have an equal and offsetting credit balance for each transaction.
- It provides for quick accuracy checking.



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## FOUR-SIDED ENTRY

- Example:  
Salary/Benefit expenses for food services are paid by general fund.

General Fund		
	DR	CR
Due from FS	100,000	
Cash		100,000
FOOD SERVICE FUND		
	DR	CR
Sal/Ben Exp	100,000	
Due to GF		100,000



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## ACCOUNTING TIPS

- Always check your work!
- Review your balance sheet and trial balance on a monthly basis, if not on a quarterly basis.
- Reconcile in a timely manner.
- Don't be afraid to ask questions!



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## QUESTIONS?



"Yes! Our financial data is PERFECT; nobody touch ANYTHING until the auditors leave!"



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