LOCAL SCHOOL
FINANCIAL
MANAGEMENT

ELEMENTS OF LOCAL SCHOOL ACCOUNTING II

NOVEMBER 10, 2019

TOPICS TO BE DISCUSSED:

• Types of Funds
• Activity Accounts
• Local School Financial Procedures
• Monthly Procedures
• Accountability
• Other Compliance Issues
ACTIVITY ACCOUNTS

- Two types of local school funds:
  - Public
  - Non-Public

ACTIVITY ACCOUNTS

- Public Funds (12)
  - Generated school wide
  - Funds raised through state, local, or federal taxation
  - Restricted use of funds
  - Used for all students
  - Controlled by the principal
PUBLIC FUNDS REVENUE

- Admissions
- Appropriations
- Concessions
- Commissions
- Dues and Fees – Required
- Fines and Penalties
- Fund Raisers*

PUBLIC FUNDS REVENUE

- Grants
- Sales
- Donations*
- Accommodations*
- Other*

*Note: Depending on the situation, these may be considered Non-Public
PUBLIC FUNDS ALLOWABLE EXPENDITURES

- Pre-game and Postgame meals for student athletes and coaches (Does not include principals or spouses)
- Professional Development Training
- Refreshments for an open house at a school where the public would attend
- Meals for faculty and staff as part of a meeting that extends into the lunch hours and food has to be provided for the meeting to continue

PUBLIC FUNDS ALLOWABLE EXPENDITURES

- Membership in professional organizations
- School landscaping maintenance, furnishing, and decorations
- Expenditures for pictures for school office
- Expenditures for flower arrangements for school office
- Transportation to events related to school sponsored activity
- Academic incentives for students
- Athletic and band uniforms for students participating in school activities
### PUBLIC FUNDS

#### UNALLOWABLE EXPENDITURES

- Beginning of year breakfast with faculty and staff
- Food items, coffee and cups for teachers or teachers’ lounge
- Faculty and staff Christmas breakfast, luncheon, or dinner
- Lunches for teachers for school closing activities
- Planned lunches for faculty and staff
- Gift items for staff

---

### PUBLIC FUNDS

#### UNALLOWABLE EXPENDITURES

- Flowers for faculty appreciation gifts
- Dues to private clubs (Rotary, Kiwanis)
- T-Shirts for office staff
- Staff Holiday parties/Christmas Gift and Cards
- Alcoholic beverages
- Scholarships for students (to be used after graduation)
- Donations to various organizations
- Championship rings
ACTIVITY ACCOUNTS

- **Non-Public Funds (32)**
  - Funds raised for a particular group
  - Organization or parent group determines how funds are to be expended.
  - Controlled by sponsor/organization
  - Self-imposed fees, not state-required

NON-PUBLIC FUNDS REVENUE

- Concessions*
- Dues and Fees (Self imposed)
- Fund Raisers*
- Donations*
- Accommodations*
- Other*

*Note: Depending on the situation, these may be considered public funds
## ACTIVITY FUNDS

- You can transfer non-public to public
- You **cannot** transfer public to non-public
- If non-public funds are commingled with public revenue, all funds become public
- Non-Public account is not allowed to have a deficit
- If you are not sure if an account is public or non-public, it is probably public.

## NON-PUBLIC FUNDS

### ACTIVITY FUNDS

- Principal cannot use or transfer non-public activity funds without the approval of the organization’s officers and sponsor
- School Bookkeeper should provide organizations’ officers or sponsor a monthly report reflecting the operations and account balance
ACTIVITY ACCOUNTS

- New Activities
  - How are funds collected?
  - During school, on campus – Public
  - After school, off campus - Non-public
  - Types of expenditures

LOCAL SCHOOL PROCEDURES

- Bookkeeper Responsibility
  - Receives and accounts for all school funds
  - All local school funds shall be deposited in the approved bank account
  - Payments must be made from an original invoice when at all possible.
  - All paid invoices shall be filed monthly and in check number order
  - Supporting documents will consist of a canceled check, approved local school purchase order, and invoice
LOCAL SCHOOL PROCEDURES

• Receipting Funds
  • Collection and management of incoming funds:
    
    Teacher receipts
    Master receipts
    Reports of ticket sales
    Alternative receipt listings

LOCAL SCHOOL PROCEDURES

• Teacher Receipts
  
  • The receipt book/sheet is the original link in an audit trail of all funds handled by the school system.
  
  • All funds collected must be receipted.
  
  • Completely fill out each receipt, including name, date, amount, specific purpose of funds collected and signature.
LOCAL SCHOOL PROCEDURES

- Master Receipt
  - A Master Receipt should contain the following information:
    - The sequential numbers of the teacher receipt book or record, alternative receipt form, or report of ticket sales form.
    - The name of the individual delivering the funds
    - The amount of the funds received
    - Identify the school activity account and revenue code i.e. 2010-4-7430 (Donations)

LOCAL SCHOOL PROCEDURES

- Master Receipts (cont.)
  - Other information
  - Date
  - Original signature
LOCAL SCHOOL PROCEDURES

- Master Receipts (cont.)
  - Write receipt to a person
  - State the source of funds
    - Donation from whom
    - Allocation from Board
    - School Store/Concessions

- Master Receipts (cont.)
  - Never issue a receipt unless the teacher receipt sheets are submitted at the same time as the money
  - Master Receipt must show numbers (inclusive) of teacher receipts that cover the total amount collected and submitted by a teacher
LOCAL SCHOOL PROCEDURES

- Master Receipts (cont.)
  - Never receipt yourself
  - Receipts must be complete

LOCAL SCHOOL PROCEDURES

-Receipting School Funds
  - Count all funds turned into the office.
  - The teacher/person collecting funds, etc. must bring a receipt book with the money.
  - Collected funds should be recorded in the financial records and deposited timely.
LOCAL SCHOOL PROCEDURES

• Depositing Funds
  • Must be maintained in a Qualified Public Depository (SAFE Program)

  • The bank deposit should be made promptly/daily

  • Checks received should be endorsed “For Deposit Only” and the name of the school account and the account number.

LOCAL SCHOOL PROCEDURES

• Depositing Funds

  • Always use pre-printed, bank supplied deposit slips or books with a duplicate.

  • The bank deposit slip should show the numbers of the master receipts covered by the deposit.
LOCAL SCHOOL PROCEDURES

• Depositing Change Cash

• Must be coded to the Change Cash account, 12-1-0115-000-CCTR-7101-0-0000-0000.

• Be careful not to include “post” change cash funds as revenue funds

• Entry is reversed when funds are deposited back into the account.

LOCAL SCHOOL PROCEDURES

• Purchase Orders

• Allows the Principal to approve expenditures prior to purchase

• Provides protection to the vendor for not charging Alabama sales tax on the school’s purchase

• A completed, purchase order with a purchase order number should be approved and issued by the Principal prior to the purchase of materials, supplies, or equipment.
LOCAL SCHOOL PROCEDURES

Invoices

- All obligations of the school must be paid by a school check

- Vendor invoice should include:
  - pre-printed name and address of the vendor
  - description of the purchase and itemized listing of items purchased and item price
  - shipping and handling charges
  - total amount of the purchase.
  - person receiving items should sign and date the invoice/receiving slip

LOCAL SCHOOL PROCEDURES

- Expenditures

  - Do not write checks to “Cash”.

  - Do not sign checks that do not contain the check recipient’s name and amount of check.

  - Do not pay for items in advance of receipt of materials, supplies, or equipment.

  - Invoices should be cancelled (marked PAID) after check payment is made.
LOCAL SCHOOL PROCEDURES

- Expenditures (cont.)
  - Vendors should be paid on a timely basis.
  - Checks should be issued in numerical order.
  - Checks must be secured at all times.

- Voided checks must be retained for audit purposes.
- Sales tax should not be paid on purchases
- School employees may not use the school's sales tax exemption for personal purchases.
- Checks outstanding more than 60 days should be investigated.
MONTHLY PROCEDURES

• Check monthly to verify that 341-Reserve for Encumbrances and 358-Encumbrance Offset matches total for open P.O.S.

• Verify that 251-Accounts Payable matches Accounts Payable Register

• Run an verify trial balances for fund 12 and 32 separately.
  • Reimbursements may cause a credit balance in a debit account
  • Refund on prior year expenses
  • Verify that all revenues have a credit balance and all expenditures have a debit balance.

MONTHLY PROCEDURES

• Keep transfers between activities in balance (5-9910-920 transfer-out & 4-9210 transfer-in)

• Check all activities for deficit balances
  • Principal’s Report
MONTHLY PROCEDURES

- Reconcile bank statements monthly

- Close Fiscal Period: Do not make any additional entries in closed periods.

ACCOUNTABILITY

- **Concessions**
  - Do not cash checks with concession funds. Deposit funds intact.
  - Do not make payments from cash collected. Payments must be made with a school check.
  - Funds should be collected and deposited on a timely basis.
  - A Master Receipt should be issued after counting or verifying the amount of the receipt at the time the funds are actually received.
  - The person presenting the funds for receipt should wait for a Master receipt to be prepared and verify the information on the Master Receipt before leaving the office.
  - Supporting documentation of items sold should accompany the funds collected.
ACCOUNTABILITY

• **Ticket Sales**
  - Tickets must be sold at all athletic/school events where admission is charged.
  - Pre-numbered tickets must be used for admission.
  - The Report on Sale of Tickets form issued to each individual selling tickets. Must be completed and turned in to Principal.
  - Cash collected for athletic/school events may not be used to cash checks for any reason.

ACCOUNTABILITY

• **Ticket Sales**
  - Pre-numbered tickets should be sold at all events where admission is charged
  - Tickets sold for different amounts for the same event should be in a different number series in order to account for funds with varying ticket prices.
  - The ticket collector should not be the ticket seller
  - A Report of Ticket Sales Form showing beginning and ending ticket numbers showing the tickets issued and the tickets not sold
ACCOUNTABILITY

**Ticket Sales**

- A Report of Ticket Sales Form showing beginning and ending ticket numbers showing the tickets issued and the tickets not sold
- A report of ticket sales form should be issued to each individual tick seller
- The Principal or responsible school official should enter the below information on the report of ticket sales
  - Name and date of event
  - Name of ticket seller
  - Beginning and ending number of each series of pre-numbered tickets issued to seller

ACCOUNTABILITY

**Ticket Sales**

- At the end of ticket sales, ticket seller should complete the following information on the report of ticket sales
- Reconcile tickets sold to cash collected
- The ticket seller, principal, or school official receiving the cash and unsold tickets sign the report
ACCOUNTABILITY

- **Ticket Sales**
  - A Master Receipt should be issued to the individual for the cash collected from the ticket sales after verify funds collected.
  - A separate Master Receipt should be issued to the change cash.
  - The principal **cannot** issue complimentary passes to events without the approval of the local school board.

ACCOUNTABILITY

- **Report of Ticket Sales (cont.)**
  - The Bookkeeper shall verify the accuracy of the Report on Sale of Tickets form and reconcile any difference.
  - A copy of the form shall be filed at the school and be available for review immediately following each event.
ACCOUNTABILITY

• Fundraisers
  • Must be pre-approved by the principal and/or superintendent
  • May be public or non-public
  • No fundraisers may sell foods of minimal nutritional value during the school day
  • Must maintain retail accountability for all fundraisers

FUND RAISER REQUEST FORM

• ALSDE Local School Financial Procedures Manual
  • 1. Date of the request
  • 2. Name of the individual making the request
  • 3. Activity account to receive proceeds from fundraiser
  • 4. Class, club or organization that will conduct activity, if applicable
  • 5. Name of fundraising project
FUND RAISER REQUEST FORM

• ALSDE Local School Financial Procedures Manual

• 6. Beginning and ending dates of fundraiser
• 7. Description of fundraising activity, such as:
  • a. name of company supplying items for sale
  • b. description of items for sale
  • c. estimated cost of items for sale
  • d. sales price of items
  • e. description and estimated cost of related fundraiser expenses
  • f. description of method of sales and collections
  • g. estimated profit from fundraiser
• 8. Purpose of Fundraiser

ACCOUNTABILITY

• Fundraisers

• Approved fundraising activities must comply with financial procedures for school funds, including:

• All funds collected must be delivered to the Principal’s office for a Master Receipt. Do not cash checks from collections.

• Income from fundraisers must be deposited on a timely basis. Teachers and sponsors of fundraisers should be reminded not to hold fundraiser income until the fundraising project is complete.
ACCOUNTABILITY

- Fundraisers

- All fundraising expenses, including sales awards to students, must be presented to the Principal for payment by check.

- A school employee cannot receive a gift or gratuity from the fundraising vendor.

Within a reasonable time after completion of the fundraising activity, a form should be submitted to the Principal that documents the result of activity.
OTHER COMPLIANCE ISSUES

• Loans/Leases

• Non-Public Funds (ex. Booster Clubs) should not borrow from public school funds.

• The local schools are not considered legal entities and do not have authority to enter into any legal agreement such as a loan or lease. Boards of education are legal entities and should assume this responsibility.

OTHER COMPLIANCE ISSUES

• Independent Contractors working at local school level

• Employee Vs. Contractor
1099 VS W-2

- School districts must be aware that when paying an individual, the IRS requires Boards to make the correct worker classification prior to the services being performed.

- If in doubt, payment as employee reduces the risk of future tax problems for the individual and school district.

- The IRS and Department of Labor are teaming up and sharing information.

ISSUES WITH MISCLASSIFICATIONS

- School districts increased use of independent contractors is being scrutinized by the federal government and state government agencies.

- Misclassifications cost the federal government lost revenue.

- Misclassifications may cost employees substantial sums in lost benefits, overtime and extra payroll tax liability.

- State and federal agencies are increasingly auditing employers for compliance with the classification laws, and impose penalties on employers and employees in cases where misclassification is found.
DETERMINING WORKER CLASSIFICATION

• Only individuals who meet the legal requirement to be considered *independent contractors* can be paid through requisition/purchase order and accounts payable.

• *Independent Contractors* will receive a 1099 for all payments in excess of $600 per calendar year

• *Employees*, including part-time and temporary, should not be paid via accounts payable but should be hired by the board and paid thorough payroll.

• *Employees* receive a W-2 form for all payroll payment for the calendar year.
INDEPENDENT CONTRACTORS

- A worker who individually contracts with an employer to provide specialized or requested services on an as-needed or project basis.

- This individual is free from the control and direction of the performance of their work, and the individual is customarily engaged in an independent trade, occupation, profession, or business.

- Independent Contractors are generally not covered by laws that apply to the employer-employee relationship.

DETERMINING WORKER CLASSIFICATION

- One factor that distinguishes an independent contractor from an employer-employee relationship is the degree of control the school system has and the right to exert over the individual performing the services.

- An employer-employee relationship exists when the school system has the right to:
  - Control and direct the individual performing the service
  - The results to be accomplished by the work
  - The means by which the result is accomplished
  - Whether or the rights are exercised
CLASSIFYING INDEPENDENT CONTRACTORS

- Independent contractor determination is required for:
  - Individual
  - Sole Proprietor
  - DBA’s
  - Disregarded single member LLC’s
- The use of an employer identification number DOES NOT prove independent contractor status
- School system must request a W-9
- Contract and W-9 determines who the payee is, not what is on the invoice

CLASSIFYING INDEPENDENT CONTRACTORS

- Independent contractor determination is not required for:
  - Corporations
  - Partnerships
  - Multimember LLC’s
  - Single member LLC’s electing to be treated as a corporation for tax purposes
EXAMPLES OF PROFESSIONAL SERVICES - INDEPENDENT CONTRACTORS

- Substitutes
- Bus Services
- Tutors
- Therapists (Speech/Language & OT/PT)
- Nurses
- Custodial Services
- Security Services/SRO
- IT Services
- Consultants

IRS 20-FACTOR TEST

1. Instructions
2. Training
3. Integration
4. Services rendered personally
5. Hiring, supervising and paying assistant
6. Continuing relationship
7. Set hours of work
8. Full time required
9. Work done on premises
10. Order or sequence set
11. Oral or written reports
12. Payments by hour, week or month
13. Payment of expenses
14. Furnishing of tools and materials
15. Significant investment
16. Profit or loss
17. Working for more than one firm at a time
18. Making services available to the general public
19. Right to discharge
20. Right to terminate
DETERMINING WORKER CLASSIFICATIONS

- IRS follows the common law test for determining whether an individual is an employee for federal tax purposes.
- The common law test to see if an employer-employee relationship exists.
Common Law Test for Determining Whether a Worker Is an Employee

<table>
<thead>
<tr>
<th>Employee</th>
<th>Independent Contractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required to comply with employer’s instructions about when, where, and how to work.</td>
<td>Sets own hours; determines own sequence of work.</td>
</tr>
<tr>
<td>Works exclusively for the employer</td>
<td>Can work for multiple employers; services available to the public</td>
</tr>
<tr>
<td>Hired by the employer</td>
<td>Is self-employed</td>
</tr>
<tr>
<td>Subject to dismissal; can quit without liability</td>
<td>A contract governs how the relationship can be severed</td>
</tr>
<tr>
<td>Has a continuing relationship with the employer</td>
<td>Works by the job</td>
</tr>
<tr>
<td>Work done personally</td>
<td>Permitted to employ assistants</td>
</tr>
<tr>
<td>Performs services under the company’s name</td>
<td>Performs services under the worker’s business name</td>
</tr>
<tr>
<td>Paid a salary; reimbursed for expenses; participates in company’s fringe benefits programs</td>
<td>Payment by the job; opportunity for profit and loss</td>
</tr>
<tr>
<td>Furnished tools, equipment, materials, and training</td>
<td>Furnishes own tools, equipment, and training; substantial investment by worker</td>
</tr>
<tr>
<td>If an outside salesperson: company provides leads, sets terms and conditions of the sale, assigns a territory, and controls the sales process</td>
<td>Controls the sales process and terms</td>
</tr>
</tbody>
</table>

IRS CONTROL TEST FOR INDEPENDENT CONTRACTORS

Behavioral control

Financial control

Type of relationship
EMPLOYEE OR INDEPENDENT CONTRACTOR?

- The individual is an employee if the Board has the right to control the result of the services, the means and the methods of providing it.
- An employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done.
- The factor is whether the Board has the right to control, not whether it actually did.
- Independent contractor decides the means and methods to get the results. The Board defines the result or outcome expected.

EMPLOYEE OR INDEPENDENT CONTRACTOR

- Employees have periodic or ongoing training about procedures and methods on how to do the job.
- Evaluations are common for both employees and independent contractors. The more the evaluation measures how the tasks are completed, the stronger the indication the worker’s an employee.
- An employee’s risk of incurring a loss is very small.
- An employee provides his or her services to one business.
- An employee is guaranteed a regular wage amount for an hourly, weekly, or other rate. This is true even when the employer supplements the wage or salary.
- Employees often receive a variety of benefits from their employers including, but not limited to:
  - Retirement • Insurance • Leave
MISCLASSIFICATION: WHAT’S AT STAKE?

• If you classify an employee as an independent contractor and you have no reasonable basis for doing so, IRS may hold the school districts liable for employment taxes for that worker.

• The Board may be charged for the employee and employer share of the following taxes on the contracted individuals:
  • Federal Income Tax
  • Social Security Tax
  • Medicare Tax

QUESTIONS?

LINDA MCGHEE
AASBO
LINDA@AASBO.COM