

THE DEVELOPMENT OF AN ACCOUNTING SYSTEM
AS PART OF A COMPLETE PLANNING,
PROGRAMMING, BUDGETING SYSTEM

Thesis for the Degree of Ph. D.
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ALEXANDER J. KLOSTER
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This is to certify that the

thesis entitled

THE DEVELOPMENT OF AN ACCOUNTING SYSTEM
AS PART OF A COMPLETE PLANNING,
PROGRAMMING, BUDGETING SYSTEM

presented by

Alexander J. Kloster

has been accepted towards fulfillment
of the requirements for

Ph. D. degree in Educational
Administration

A blue ink signature, appearing to read "L. J. Roman", written over a horizontal line.

Major professor

Date July 28, 1971

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ABSTRACT

THE DEVELOPMENT OF AN ACCOUNTING SYSTEM AS PART OF A COMPLETE PLANNING, PROGRAMMING, BUDGETING SYSTEM

By

Alexander Joseph Kloster

The Problem

The purpose of this study was to develop an improved financial accounting system for public schools, based upon currently accepted municipal accounting practices and including a substantial program cost accounting capability.

Method and Procedure

The current accounting system which is mandatory in all public schools in Michigan was examined and analyzed to identify the defects and deficiencies which should be corrected.

The literature relevant to municipal accounting was reviewed to determine which currently acceptable practices could be applied to remedy deficiencies and defects of the current system, and thus resolve many of the accounting problems expressed by school business officials. Many school business officials were contacted for the purpose of gaining an understanding of their concept of what an

adequate accounting system should provide. Reporting requirements were analyzed to determine the proper and necessary classification of accounts which would facilitate accurate and timely reporting. In addition, a study of the necessary degree of control and disclosure was made to strengthen management control, protect assets, and provide for adequate and complete disclosure of operations and financial condition of the school district.

Major Recommendations

The fund structure is expanded from the currently required three funds -- General Fund, Debt Retirement Fund, and Building and Site Fund -- to six funds, which include General Fund, Debt Retirement Fund, Capital Projects Fund, General Fixed Assets Fund, Enterprise Fund, and the Trust Agency Fund. These additional funds are included to provide for more accurate recording of expenditures, improved control of assets and liabilities, and to facilitate reporting.

The revenue and expenditure accounts are classified by the use of a basic six-position code. The first two positions in the code identify the function, the third and fourth positions identify the object, and the fifth and sixth positions identify the program. The use of this coding system will provide for a major portion of the required program cost data. Suggestions for additional

coding to provide location and program element cost data are provided.

The classification of expenditures was modified substantially to provide more accurate reporting of costs. For example, fringe benefits cost will be recorded in the proper functional categories rather than as a fixed charge. The function Fixed Charges and the function Capital Outlay have been deleted from the General Fund. The costs currently charged to Fixed Charges are now distributed among the proper functions. Capital Outlay expenditures will be recorded in the Capital Projects Fund.

An explanation of cost accounting is provided to facilitate cost segregation by program and program element.

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A THESIS

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1971



DEDICATION

To Anthony J. Kloster, 1884-1969:
My father, whose respect for truth,
knowledge, and intelligence has
been a constant inspiration to me.

ACKNOWLEDGMENTS

It is not only customary but proper to recognize and extend appreciation to those who provided valuable guidance and advice in the development of this project.

Special appreciation is extended to Dr. Louis Romano, chairman of the doctoral committee, whose continued encouragement was a significant factor in the completion of this work.

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The author is also indebted to Dr. Lawrence Borosage and Dr. Philip M. Marcus, members of the doctoral committee, whose assistance is sincerely appreciated.

It is impossible to list the names of all of the school administrators and especially the school business officials whose suggestions and advice are reflected in this work. The author is grateful for all of the assistance and advice provided by those mentioned above. However, any omissions or errors that may be detected are the responsibility of the author.

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CHAPTER I

INTRODUCTION

The Problem

The need to assess educational activities and services is a continuing problem. Some progress has been made in recent years. Most, however, has been fragmentary and incomplete, thus, providing little, if any, progress toward the development of a systematic method of relating output to input. The element of a systematic assessment program most neglected is program cost accounting. Very little attention has been directed toward the development of a complete accounting system which will generate cost data adequate for sound and documented decision making.

Education is a complicated and complex activity and as continued effort is made to correct additional societal dysfunctions through educational processes the complexity will correspondingly increase.

School executives and managers of educational functions are being called upon to make major decisions involving services, staff, and instructional programs which require the allocation of substantial resources. These decisions must be, in the long term, the right decisions

and should be made within the framework of the newest and most effective management systems and techniques. Management systems are not a substitute for intelligence and sound judgment. However, the systems will provide the manager with relevant, reliable data organized in a form most useful to him.

It also should be recognized that educational decisions are made by others outside the formal education system. Among these decision makers must be included state legislative bodies which most frequently determine the level of state support for public education. This contention is supported by Jesse Unruh, Speaker of the California Assembly, who states that,

In my judgement, well-informed legislators, governors, and administrators will no longer be content to know, in mere dollars terms, what constitutes the abstract needs of the schools. . . . The politician of today is unimpressed with continuing requests for more input without some concurrent idea of the schools' output.¹

In the same vein, Richard S. Eckaus states, regarding educational planning and management,

The patterns [of management] that now exist represent the influence of tradition and of occasional crisis more than they indicate rationale planning. . . . Though we have muddled through in the past, the internal and external pressures on our system [of public education] will not validate such behavior much longer.²

Comments such as these are found in many of the current professional journals and can also be heard in education committee hearings of most state legislatures.

These attitudes being expressed in the profession, in official governing bodies, and in the general public have coalesced into a universal demand for accountability. To provide this accountability, it is imperative that an effective management system be developed which will provide reliable program cost data and accurate cost/benefit relationships regarding measurable units and objectives of instruction.

A significant element of this management system is the means for obtaining program cost data.

Purpose of the Study

The purpose of this study is to develop a system of financial accounting as an element of a complete Planning, Programming, Budgeting, and Evaluation System.

A traditional weakness in governmental accounting, including accounting systems designed for public education, has been the lack of program cost accounting capability. All systems are based upon the theory of Fund accounting, which provides for function and object classification of appropriations and expenditures. Legally, in Michigan and most other states, the theory and practice of Fund accounting must be followed.³ However, there is no restriction which prohibits the expansion of the accounting system to provide for program cost accounting. This being the case, this study will expand the accounting system currently prescribed by the State Board of Education to provide the capability for cost accounting. The system will be an



expansion of the mandatory accounting requirements and may be used voluntarily by local school districts.

A secondary, but major, purpose of this study will be to modify the present accounting system, when necessary, to provide for conformance with acceptable accounting practice, and also to record more accurately expenditures related to specific functions.

Definition of Terms

Accounting is, because of its concern for accuracy and precision, a very technical field with a highly developed and special vocabulary. To assist the reader in obtaining a better understanding of this thesis, the following generally accepted definitions of terms, words, and phrases are provided.

Account: A record of transactions affecting a specific item. An account must provide a space for its title, a space for recording increases in the amount of the item, and a space for recording decreases in the amount of the item.

Accounting: The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

Accounting Period: A period of time at the end of which and for which financial statements are prepared, frequently referred to as a fiscal period or a budget period. An



accounting period can be for any length of time, usually ending on the last day of a month.

Accrual Basis: Recognizing and recording revenues when earned and at the time the school district has a claim not yet converted into cash, and recognizing and recording expenditures as soon as a debt or obligation is incurred on the part of the school district and not yet paid. Under this basis, revenues and expenditures of each accounting period are matched and more clearly reflected.

Accrue: To record revenues when earned or when levied, and to record expenditures when obligations are incurred.

Agency Fund: A fund consisting of assets received and held by the school district as an agent for individuals, groups, or organizations; for example, student activity funds, PTA funds, and student class funds.

Allowance for Depreciation: The accumulation of estimated decline in value of fixed assets due to normal wear and tear, recorded separately and deducted on the balance sheet from the original cost of the asset. This account is used in working capital funds of public school districts only and does not apply to general fixed assets.

Amortization: Gradual reduction in the amount of a premium or discount spread over the life of the investment or obligation.

Appraise: To make an estimate of value, particularly of the value of property for the purpose of recording a value as

distinguished from setting a value on property for the purpose of levying a tax.

Appropriation: Authorization given by a legislative body to expend money or to incur obligations in the name of the school district for purposes specified during a certain period of time.

Appropriation Ordinance or Resolution: An ordinance or resolution by means of which estimated expenditures stated in budgets of public school districts are given legal effect and authority to expend for purposes specified in amounts not to exceed those estimated is granted.

Assess: To value property for the purpose of levying a tax.

Assessed Valuation: The value set on property by a governmental unit as a basis for levying a tax.

Assets: The entire property of a school district.

Audit: The examination of some or all of the following: documents, records, reports, systems of internal control, accounting procedures, and other evidence, for one or more of the following purposes: (a) determining the propriety, legality, and mathematical accuracy of proposed or consummate transactions; (b) ascertaining whether all transactions have been recorded; and (c) determining whether transactions are accurately reflected in the accounts and in the statements drawn therefrom in accordance with accepted accounting principles.

Audit Report: The report prepared by an auditor covering the audit or investigation made by him. The report contains, generally, a scope section which indicates the extent of the examination, a summary of findings, recommendations, the auditor's opinion, financial statements, and statistical tables.

Balance Sheet: A principal financial statement prepared from the ledger of each fund, which shows assets and other resources, liabilities and other obligations, and the fund equity at a date specified. When balance sheets for every fund used by the school district are combined, the financial position of the district is determinable and such statements are referred to as combined balance sheets.

Bond: A written promise, generally under seal, to pay a specified sum of money at a fixed or determinable future time, and carrying interest at a fixed rate, which usually is payable periodically, which usually runs for a longer period of time and requires more legal procedures than a promissory note. In the case of insurance, bonds which indemnify the school district against financial loss are referred to as fidelity or surety bonds.

Bonded Debt: That portion of the indebtedness of a school district represented by outstanding bonds.

Books of Original Entry: The record in which transactions are first entered formally into the accounting records. A general journal, a cash receipts journal, or a check

register are illustrations. Check stubs, files of duplicate receipts, or other business papers used to give evidence of the transactions are not books of original entry unless they serve as the media for direct posting to the ledgers.

Book Value: The value at which assets are carried in the accounts less accumulated allowances for depreciation, depletion, or obsolescence.

Budget: The school district's plan for financial operation for a certain future period of time, which indicates proposed sources of revenue to be used for financing proposed expenditures.

Budget Document: The instrument used by the budget-making authority to present a comprehensive financial program to the school district or the governmental unit under which the school district operates.

Budgetary Accounts: Accounts used by the school district to reflect estimated revenues, appropriations, and encumbrances.

Budgetary Control: Management devices used by the administrative officers and board of education to keep expenditures within limits placed by revenues and appropriations.

Capital Outlay: An expenditure which increases the total amount of public school property in the district. It involves the purchase of an item that is relatively durable and which is expected to yield benefits over a relatively long period of time. Assets acquired through capital outlay expenditures are accounted for through the general fixed assets group of accounts.

Cash: Currency, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash; and bank deposits. All cash must be accounted for as a part of the public school district fund to which it belongs. Any restrictions or limitations as to the availability of any cash must be indicated in the records and statements. It is not necessary, however, to segregate the cash itself by having separate bank accounts for each fund.

Classification: A systematic arrangement of items into classes or related groups for analytical or control purposes.

Controlling Account: An account, usually kept in the general ledger of the fund to which it applies, which receives in total amount, debits or credits posted in detail to a number of identical or related accounts called subsidiary ledger accounts.

Cost: Assets expended in exchange for goods or services.

Cost Accounting: The accounting function which provides management with information for decision making. Cost accounting serves three major purposes: (1) planning and controlling current operations, (2) providing data for special decisions and long-range planning, (3) collecting financial data needed for performance evaluation.

Cost Records: All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents reflecting the cost of projects, jobs, processes, operations, or services of the school district.

Current Assets: Cash or other assets that may reasonably be expected to be converted into cash, sold or consumed in the near future through the normal operation of the school district.

Current Liabilities: Debts or obligations of the school district which are payable within a relatively short period of time, usually restricted to those coming due within a year.

Deficit: The excess of the liabilities of a fund over its assets; or, where a fund also has other resources and obligations, the excess of its obligations over its resources.

Depreciation: The estimated decline in value of fixed assets, other than wasting assets, caused by normal wear and tear.

Disbursements: Cash payments or checks drawn on accounts in banks or other financial institutions.

Encumbrance: An obligation in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

Entry: The record of a financial transaction made in the book of original entry and the appropriate ledger account.

Equipment: Physical property of the school district of a more or less permanent nature, other than buildings and land.

Expenditure: The total charges incurred, whether paid or unpaid, including expenses, provisions for retirement of debt not reported as a liability of the fund from which

retired, and capital outlays where the assets acquired are accounted for through the general fixed assets group of accounts. Encumbrances are not expenditures but are contingent in nature.

Fiscal Period: A certain period of time, at the end of which the school district determines its financial position and results of its operation and closes its temporary accounts. It is usually a year, though not necessarily a calendar year, ending on the last day of a month. Many advantages arise from an operating point of view if the fiscal period and the budget period coincide.

Fixed Assets: Assets which have a long period of usefulness to the school district, such as land, buildings, furniture, and equipment.

Fund Accounts: All accounts necessary to set forth the financial position and results of operation of the school district, including proprietary accounts--composed of asset, liability, and fund equity accounts; nominal accounts--composed of revenue and expenditure accounts; and budgetary accounts--composed of estimated revenue, appropriation, and encumbrance accounts.

Fund Equity: The excess of the assets of a fund over its liabilities; or if the fund has other resources and obligations, the excess of resources over obligations. The term is frequently referred to as surplus or capital.

General Fund: The general fund is used to finance the ordinary operations of the school district and is available to account for any legally authorized purpose not provided for in other funds.

General Journal: A book of original entry in which all entries that occur in the operation of a school district are recorded. However, transactions of a recurring nature may be recorded in special journals, the use of which may result in a labor saving. All transactions must be recorded in either a general journal or a special journal. Each transaction is analyzed and recorded by indicating the account or accounts debited and the account or accounts credited and the amount of each debit and credit. The data of the transaction, an explanation, and posting references are required.

General Ledger: A book, file, or other device which contains the accounts necessary to reflect in summary or in detail the financial position and results of operation of each fund used by the school district.

Governmental Accounting: Analyzing, recording, reporting, and interpreting the transactions and accounts for governmental bodies.

Input: Those resources allocated and applied to a specific objective.

Internal Control: A plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise effective

accounting control over assets, liabilities, revenues, and expenditures.

Inventory: A detailed list or record showing quantities, descriptions, values, and frequently, units of measure and unit prices of property on hand at given times.

Liabilities: Amounts owed which arise from transactions which must be paid, liquidated, renewed, or refunded.

Objective: An activity designed to result in changed behavior as measured by terminal performance.

Output: Quantified measures of terminal performance related to one individual or a group.

Performance: Change in behavior of the learner resulting from specific treatment within the objective or objectives of a program.

Posting: The procedure used to transfer information recorded in a book of original entry to a general or subsidiary ledger, either in total or in detail.

Program: An activity with one or more specific objectives which are defined in a manner which allows for quantifiable assessment of performance.

Prorating: To divide or distribute an amount equitably among several classifications.

Replacement Cost: The cost at which an asset can be replaced with one of a similar nature at a certain date.

Reproduction Cost: The cost at which an asset of an exact nature can be made.

Reserve for Encumbrances: A reserve representing a segregation of fund equity to provide for unliquidated encumbrances.

Revenue: An increase in assets which does not reduce another asset nor increase liabilities or reserves, nor represent recovery of an expenditure.

Statements: Formal reports setting forth financial information.

Subsidiary Account: An account in a group of accounts of a similar nature which shows in detail the amounts recorded in total in controlling accounts.

Subsidiary Ledger: A group of accounts of a similar nature, the sum of the balances of which equals the balance of the controlling account in the general ledger.

Unappropriated Fund Equity: That portion of the fund equity which has not been set aside for specific purposes.

Unencumbered Appropriation Balance: That portion of an appropriation which has not been expended or encumbered; the balance remaining free for further expenditure or encumbrance.

Unexpended Appropriation: That portion of an appropriation which has not been expended.

Assumptions of the Study

The following assumptions are inherent in this study:

1. That there is a need for an adequate program cost accounting system to be used as one of the management tools in educational administration.

2. That the theory and practice of cost accounting as developed in the industrial and commercial world can be applied to the accounting for educational expenditures.

3. That a uniform system of program cost accounting can be devised to meet the needs of all school districts, regardless of size and scope of operation.

4. That the cost accounting system will be used as an element in a complete management planning and control system such as PPBES.

Limitations of the Study

This study represents the first major attempt at developing a program cost accounting system for public education.

The following limitations are made to define properly the scope of this study:

1. Accounting theory and practice as applied in the study is limited to those accepted practices and theory prescribed by the American Institute of Certified Public Accountants (AICPA).

2. Accounting theory and practice will be applied in accordance with existing statutory provisions and limitations.

3. In instances where accepted accounting practice is at variance with statute, the statutory requirement will prevail.

4. Function and object classification will not be limited to that range of expenditures currently required in the Rules and Regulations of the State Board of Education.

5. Detailed operating systems will not be developed. Operating systems of the various schools will differ, depending upon the record-keeping systems in use, such as "pen and ink" manual systems, bookkeeping machines, and electronic data processing.

Overview of the Thesis

This thesis will be developed in eleven chapters dealing with topics as follows:

- I. Introduction
- II. Review of Literature
- III. The General Fund
 - A. Assets and Liabilities
 - B. Classification of Revenue
 - C. Classification of Expenditures
- IV. The Debt Retirement Fund
 - A. Assets and Liabilities
 - B. Classification of Revenue
 - C. Classification of Expenditures
- V. The Capital Projects Fund
 - A. Assets and Liabilities
 - B. Classification of Revenue
 - C. Classification of Expenditures
- VI. The General Fixed Assets Fund
- VII. The Enterprise Fund
- VIII. The Trust and Agency Fund



IX. The Encumbrance System

X. The Cost System

XI. Summary and Recommendations

The review of the literature includes the development of cost accounting and its application to governmental accounting practices. Also, cost accounting theory and practice is reviewed primarily as it has developed and is now applied in industrial and manufacturing enterprises. An attempt is made to identify and describe cost systems developed and operated in other organizations which have some similarity to educational institutions.

Chapter III deals with the General Fund and focuses most specifically on reclassification of revenue and expenditure transactions needed for more accurate recording and reporting, especially with regard to expenditures. The recording of transactions and the chart of accounts are based upon the full accrual theory of accounting. The primary objective of this chapter is to remedy the apparent defects and deficiencies which now exist in the current accounting system prescribed for schools.

Chapter IV is directed toward improvement of control and disclosure in the Debt Retirement Fund transactions. Recent changes in procedures and requirements promulgated by the Municipal Finance Commission are considered in the modification of the accounting theory and the account classification.

Control and disclosure regarding capital projects has been a chronic problem in school accounting. Chapter V develops and explains the modification needed to update and strengthen this phase of the accounting process.

Educational enterprises have invested millions of dollars in fixed assets. In many instances the school plant and equipment represent the largest public investment in the community. However, under the current accounting system the value of these assets does not appear on the school district books of record. Chapter VI provides the accounting structure and control necessary to record, control, and report total value of fixed assets and also the periodic changes in value of the investment.

Schools have traditionally conducted activities which are designed to provide services to students on a total or partially self-supporting basis. Examples are bookstores and food services enterprises. Because these activities generate revenue, the accounting system must be designed and operated in a manner similar to the accounting for a private commercial enterprise. Chapter VII is devoted to the development of the accounting structure and practices necessary to adequately control these activities.

Within each school system can be found a wide variety of organizations, clubs, and associations related to but not officially a part of the school system. Most of these organizations charge dues or fees and raise money in other

ways. The school system characteristically provides the necessary accounting and bookkeeping services for these organizations. Chapter VIII describes the necessary accounting procedures and practices required for adequate maintenance of trust and agency funds.

Chapter IX deals with the development and operation of an encumbrance system. This accounting practice is probably the least understood and most abused element of the total accounting function in education. It is, however, a very necessary element in the accounting system and essential to the practice of accounting on the accrual basis. This chapter explains the nature of the encumbrance system, the need for encumbering, and examples of the use of this technique.

Chapter X is devoted to the theory and practice of cost accounting. This subsystem of accounting has not, to date, been developed and installed in any school system. It is impossible to over-emphasize the need for cost accounting, since it is essential to program evaluation. Very little useful management information can be generated from accounting records without an adequate cost system. The material presented in this chapter is an adaptation of cost accounting theory and practice as developed to date in industrial manufacturing enterprises and some institutional accounting, primarily related to hospitals.

Chapter XI is a summary of the thesis, with recommendations for implementation of the total system in school districts throughout the state of Michigan.

Footnotes--Chapter I

¹Quoted by Elaine Exton, American School Board Journal, Vol. 154, No. 2 (February, 1967), p. 15.

²Richard S. Eckaus, "Education and Economic Growth," Economics of Higher Education, ed. by Selma J. Mushkin

³State Administrative Code, Sec. 340.851-340.857.
(Washington, D. C.: U. S. Department of Health, Education
and Welfare, Office of Education, 1962), pp. 102-129.

CHAPTER II

REVIEW OF RELATED LITERATURE

Introduction

Public education can be said to comprise one of the largest enterprises in the United States, and is made up of an exceptionally large number of individually managed units, ranging in size from very small, one-teacher schools to extremely large, multi-million dollar operations. Each of these units must have an adequate accounting system, and yet, for many of the units to develop and maintain an adequate system can be a very serious problem, considering the limited resources and continuing demand for more accounting information on the part of management and government.

Concern for adequate and uniform accounting systems has been expressed most directly since the end of World War II. Practically all state departments of education published guidelines for uniform accounting; most were only recommended, while others were officially designated as mandatory systems.

The first uniform accounting system designed for Michigan public elementary and secondary schools was published in 1950 by Lee M. Thurston, then State Superintendent

of Public Instruction. This publication represented a major improvement, especially with regard to uniform reporting procedures. The major defect in the systems was the cash basis accounting emphasis and the lack of capability to control and report assets and liabilities.

Interest in national uniformity in accounting standards and procedures developed at the national level in the Office of Education during 1954.¹ After a period of study and research, Handbook II, Financial Accounting for Local and State School Systems, was published in 1957.

Handbook II, although modest in its requirements, stimulated considerable activity among the various states with regard to revision or development of standard accounting practices. A major revision of the required financial accounting system was accomplished in Michigan in 1962.²

This system represented the first attempt in any state to move from cash system of accounting to the more sophisticated theory of accrual accounting. Although this was a major move forward in school accounting, very little effort has been made in the ensuing years to update and upgrade the system.

One of the major goals of the past efforts to develop accounting systems for schools was to increase the degree of accuracy necessary to record and report revenues and expenditures during comparable fiscal periods. Accomplishing this objective would provide reasonably pure data which would provide for rudimentary development of per-pupil-cost data.

This, admittedly, was a necessary step in the process of accounting systems development. However, the demands being made currently by management, government, and the general public for detailed cost data require that a strong element of cost accounting be developed and implemented as part of the total financial accounting system.

Cost accounting is defined as:

. . . that section of the principles, theories, and techniques of accounting that concerns itself particularly in compiling and summarizing expenditure and performance facts about the various functions, departments, processes and operations of an enterprise, for the purpose of:

1. Determining the actual total and unit costs for the various products and activities.
2. Preparing cost data pertinent to all managerial problems.
3. Presenting and interpreting cost facts--actual, standard and budget cost data--to management as a basis for managerial control.³

Cost Accounting Systems

A review of the literature related to the field of accounting and the profession of school business administration indicates that no specific attempt has been made to develop cost accounting standards and practices for educational enterprises.

The Encyclopedia of Cost Accounting Systems describes cost systems for various industries and service enterprises such as hospitals, but no general or specific reference is found relating to education.⁴ R. M. Mikesell and Leon E. Hay⁵ deal briefly with cost accounting principles relative

to nonprofit-seeking entities, which can be generally applied to educational enterprises.

The most recent publication of the Office of Education, Department of Health, Education, and Welfare, Principles of Public School Accounting Handbook II-B, devotes one chapter to program cost accounting.⁶ Although the material is of some value, the approach to program cost accounting is seriously over-simplified. The practice recommended represents little more than an expansion of object cost classification. No reference is made to overhead cost, depreciation allowance, and indirect cost allocation.⁷

Cost Accounting Theory

The primary source of cost accounting theory is found in the Cost Accountants' Handbook.⁸ Universally accepted

cost principles are adequately presented. Raymond P. states these principles as follows:

1. Accounts should be fitted to the organization chart so that costs can be segregated by individual responsibilities.
2. Cost accounts by individual responsibilities should be subdivided under uniform classifications to show nature of expenditures.
3. Goals in the form of standards, budgets, and allowances should be set and constantly kept up to date.



4. Where justifiable cost varies with the rate of activity, variable or flexible budgets and allowances should be developed.
5. Standards, budgets, and allowances should be prepared with the cooperation of the person responsible for each cost item and should be agreed to by him.
6. Variations of actual costs from standard or budget should be segregated and shown in sufficient detail so that responsibility for each variance can be definitely determined.
7. Frequent reports of the costs for which he is responsible should be supplied each person who is responsible for control of any cost element. These reports should emphasize variances of actual costs from standards or budgeted figures.
8. Apportioned or prorated costs over which an executive or subexecutive has no control should not be combined in his cost reports with the costs over which he does have control.
9. As an inducement to those responsible for the control of costs, an incentive system of the "savings-sharing" sort should be developed.⁹

W. Asquith Howe also presents an adequate treatment of theory and principles. His presentation is less complex and technical, thus of more interest and use to the casual reader.

Cost Accounting Practices

The most authoritative source of cost accounting practices and methods is found in the Handbook of Cost Accounting Methods, edited by J. K. Lasser.¹⁰ Excellent treatment of practices which have become standardized for various industries is presented. Although the practices deal primarily with the operation and maintenance of cost systems for manufacturing enterprises, he does provide one chapter on municipal cost accounting, which is to some extent related to educational institutions.

Summary

There is an adequate body of knowledge, developed primarily since the end of World War II, which describes cost accounting theory, systems, and practice. Most of this material deals with profit-making manufacturing enterprises. Very little attention has been directed toward cost accounting in the public sector, and especially with regard to education.

There is, at the present time, an urgent clamor for accountability in education which cannot be denied or ignored. This need for accountability will not be satisfied without improved management systems, including a strong element of cost accounting. It is the primary purpose of this thesis to develop the basis for implementation of sound cost accounting systems in public schools, based upon the theory,

systems, and practice which have been developed over the past twenty-five years in the private sector.



Footnotes--Chapter II

¹U. S. Department of Health, Education and Welfare, Office of Education, Financial Accounting for Local and State School Systems (Washington, D. C.: United States Government Printing Office, 1957).

²Michigan Department of Education, Financial Accounting for Michigan School Districts, Bulletin 1022 (Lansing, Michigan: Michigan Department of Education, 1962).

³J. K. Lasser, Handbook of Cost Accounting Methods (New York: D. Van Nostrand Company, Inc., 1954), p. 37.

⁴Prentice-Hall Editorial Staff, Encyclopedia of Cost Accounting Systems (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1965).

⁵R. M. Mikesell and Leon E. Hay, Governmental Accounting (4th ed.; Homewood, Illinois: Richard D. Irwin, Inc., 1969).

⁶U. S. Department of Health, Education and Welfare, Office of Education, Principles of Public School Accounting Handbook II-B (Washington, D. C.: United States Government Printing Office, 1967).

⁷Ibid., pp. 229-241.

⁸Theodore Lang, ed., Cost Accountants' Handbook (New York: The Ronald Press Company, 1956).

⁹Ibid., p. 13.

¹⁰Lasser, op. cit.

CHAPTER III

THE GENERAL FUND

A fund is a self-balancing group of accounts used to record and control assets, liabilities, revenues, and expenditures for the purpose of conducting a specific activity in accordance with applicable limitations, restrictions, and regulations.

The general fund is used to record and control transactions which relate the operations of the school district program of services. It is the only permanent fund, in that it must be continued so long as the school district is in existence. The general fund, since it records transactions related to a wide variety of activities, will include a much broader range of accounts than any of the other special funds.

These accounts fall into five specific categories: assets, liabilities, revenues, expenditures, and fund equity. These accounts will be described below in the same order as listed above. A basic six-digit code will be used in the classification. This code may be broadened further to whatever extent is desirable by any school district without destroying the integrity of the system.

The first two positions are used to identify major and minor functions. The third and fourth positions are reserved for object identification. The fifth and sixth positions are to be used for major program identification. Those programs identified within the six-digit basic code represent those for which the Department of Education or other governmental agencies require specific annual reporting. In addition to the six-digit basic code, there will be an additional three digits added for building code identification, and a tenth and eleventh position added for further programs identification. For some school districts the building code will be mandatory, since the Office of Education is requiring building cost reports where Title I programs are operated.

In the account descriptions, standard terminology will be followed as closely as possible to provide for the greatest degree of conformity to Handbook II-B, Bulletin 1022, Michigan School Accounting Handbook, accepted terminology as developed and issued by the American Institute of Certified Public Accountants, and definitions of the Municipal Finance Officers Association which appear in Governmental Accounting, Auditing, and Financial Reporting, published in 1968.

GENERAL FUND ASSET ACCOUNTS

400000 Assets:

401000 Petty Cash:

402000 Cash in Banks:

402200 Employee Withholding Deposits:

402210 Employee Retirement

402220 Social Security Contribution

402230 Federal Withholding

402240 Other Withholding

402300 Other Deposits:

402310 Employees Bond Purchases

402320 United Foundation

402330 Health Insurance

402340 Life Insurance

402350 Union Dues and Organization Fees

402390 Other Payroll Deductions

403000 Investments:

403100 Short-Term Investments:

403110 U. S. Treasury Bills

403120 Other

403200 Accrued Interest and Discounts:

403210 Accrued Interest

403220 Unamortized Discounts

404000 Accounts Receivable:

404100 City

404200 County

404300 State

404400 Federal

404500 Other:

404510 Other School Districts

404520 Due from Patrons

404530 Miscellaneous

405000 Taxes Receivable:

405100 Current Year

405200 Prior Year

405300 Accrued Interest on Prior Years' Taxes

406000 Inventories:

406100 General Stores

406200 Shop Stock

406900 Other Inventories

407000 Due from Other Funds:

407100 Due from Debt Retirement Fund

407200 Due from Capital Projects Fund

407300 Due from Capital Assets Fund

407400 Due from Enterprise Fund

407500 Due from Trust and Agency Fund

408000 Prepaid Expense:

408100 Prepaid Insurance

408200 Other Prepaid Expense

DESCRIPTION OF GENERAL FUND ASSET ACCOUNTS

400000 Assets:

401000 Petty Cash - Money set aside for the purpose of making change and for the purpose of making cash payment of small amounts. At any time, the petty cash fund should balance out. That is, the amount of money plus the receipts for disbursements should equal the amount charged to this account. Periodically, the fund is replenished by posting all disbursements to the proper expenditure accounts and debiting petty cash by a like amount.

402000 Cash in Banks - Money on deposit in demand checking accounts and savings accounts. Include all certificates of deposit. Use the fifth position in the code to identify various banks if more than one depository is approved by the board of education.

402200 Employee Withholdings Deposits:

402210 Employee Retirement - Monies withheld from employees' earnings for retirement contributions not yet disbursed to the retirement fund.

402220 Social Security Contribution - Monies withheld from employees' earnings for social security contributions not yet disbursed to the proper governmental agency.

402230 Federal Withholding - Monies withheld from employees' earnings for income tax purposes which have not yet been remitted to the proper agency.

402240 Other Withholdings - Any other monies withheld by statute from employees' earnings not yet paid to the proper governmental agency.

402300 Other Deposits:

402310 Employee Bond Purchases - Amounts withheld from employees' earnings for the purpose of purchasing savings bonds for the employee.

402320 United Foundation - Monies withheld from employees' earnings which represent employee contributions to United Fund and not yet remitted to the organization.

402330 Health Insurance - Employees' contributions to health insurance premiums not yet remitted to the insurer.

402340 Life Insurance - Monies deducted from employees' earnings to pay life insurance premiums not yet remitted to the insurer.

402350 Union Dues and Organization Fees - Deductions from employees' earnings for union dues and organization fees not yet remitted to the organization.

402390 Other Payroll Deductions - Employee payroll deductions not properly classified elsewhere.

403000 Investments:

403100 Short-Term Investments:

403110 U. S. Treasury Bills - Notes and bills of the U. S. Government bearing interest and payable on a date certain. Usually with maturity dates of not more than two years from issue.

403120 Other Investments - The amount of all other investments other than 403110 which are allowed by statute and payable on a date certain.

403200 Accrued Interest and Discounts:

403210 Accrued Interest - Interest on investments accrued to the end of the fiscal period.

403220 Unamortized Discounts - Discounts on investments unamortized at the end of the fiscal period.

404000 Accounts Receivable:

404100 Receivable from City - Any amounts due from the city other than tax collections.

404200 Receivable from County - Any amounts receivable from the county other than tax collections.

404300 Receivable from the State - Any amounts due from the state such as state aid and reimbursement for special programs and services.

404400 Receivable from Federal Government - Amounts

due from the federal government which represent uncollected balances of grants, allowances, and special program support.

404500 Other Receivables:

404510 Other School Districts - Amounts due
and uncollected from other school districts such as tuition and other reimbursement for services.

404520 Due from Patrons - Amounts due from
patrons such as tuition or reimbursement for services.

404530 Miscellaneous - Other receivables not
properly recorded in other receivables accounts.

405000 Taxes Receivable:

405100 Current Year Taxes Receivable - Taxes due
and not collected on current year's tax levy.

405200 Prior Years' Taxes Receivable - Taxes due
and not collected on levies of prior years. Each year should be controlled separately by using a digit in the fifth position to identify each year.

405300 Accrued Interest on Taxes Receivable -
Amounts due to the school district as interest accrued on uncollected taxes to the close of the fiscal period.

406000 Inventories:

406100 General Stores - Amounts invested in inventory, at cost, which include such items as instruction supplies, office supplies, fuel, and custodial supplies.

406200 Shop Stock - Amounts invested in stock, at cost, intended to be used primarily in repair and maintenance of buildings and grounds. Include tools and equipment used by tradesmen in their work.

406900 Other Inventories - Amounts invested in supplies, material, and equipment not properly classified in other inventory accounts.

407000 Due from Other Funds:

407100 Due from Debt Retirement Fund - Amounts due from Debt Retirement Fund which properly represent an asset of the General Fund.

407200 Due from Capital Projects Fund - Amounts due to the General Fund from Capital Projects Fund.

407300 Due from Capital Assets Fund - Amounts due from Capital Assets Fund which properly represent an asset of the General Fund.

407400 Due from Enterprise Fund - Amounts due from the Enterprise Fund which properly represent an asset of the General Fund.

407500 Due from Trust and Agency Fund - Amounts due from the Trust and Agency Fund which properly represent an asset of the General Fund.

408000 Prepaid Expense:

408100 Prepaid Insurance - The amount of insurance premium paid which represents an expense of succeeding years.

408200 Other Prepaid Expense - The amount of all other prepaid expense except that amount charged to account 408100.

GENERAL FUND LIABILITIES AND FUND EQUITY

500000 Liabilities:

501000 Short-Term Loans:

501100 State Aid Notes

501200 Tax Anticipation Notes

501900 Other

502000 Interest Payable:

502100 State Aid Notes

502200 Tax Anticipation Notes

502900 Other

503000 Accounts Payable:

503100 Vendors

503200 Other School Districts

503900 Other Payables

504000 Salaries Payable:

504100 Instructional Salaries

504200 Nonprofessional Salaries

504900 Other Salaries and Wages

505000 Salary Withholdings Payable:

505100 Federal Withholding

505200 Social Security

505900 Other Withholdings:

505910 United Fund

505920 Health Insurance

505930 Life Insurance

505940 Union Dues and Organization Fees

505990 Miscellaneous

506000 Accrued Expenses:

506100 Instruction

506200 Utilities

506900 Other Accrued Expense

507000 Due to Other Funds:

507100 Debt Retirement Fund

507200 Capital Projects Fund

507300 Capital Assets Fund

507400 Enterprise Fund

507500 Trust and Agency Fund

508000 Deferred Revenue and Reserves:

508100 Title I - ESEA

508200 Vocational Education

508300 Head Start

508400 Title III - ESEA

508500 Reserve for Encumbrances

508900 Miscellaneous

509000 General Fund Equity

DESCRIPTION OF GENERAL FUND LIABILITY ACCOUNTS

500000 Liabilities:501000 Short-Term Loans:

501100 State Aid Notes - Notes due and payable at some future date usually during the next fiscal period for which future state aid is pledged.

501200 Tax Anticipation Notes - Notes due and payable at some future date usually during the next fiscal period for which future tax collections are pledged.

501900 Other Short-Term Loans - Other notes resulting from borrowing to provide working capital and made in accordance with some specific statute, regulation, or authorization.

502000 Interest Payable:

502100 State Aid Notes - Accrued interest payable on outstanding notes for which state aid is pledged.

502200 Tax Anticipation Notes - Accrued interest payable on outstanding notes for which future tax revenue is pledged.

502900 Other - Accrued interest on loans other than 502100 and 502200.

503000 Accounts Payable:

503100 Vendors - Amounts due on open account to vendors for services or materials received.

503200 Other School Districts - Amounts owed to other school districts for goods or services already received.

503900 Other Payables - Amounts owed for goods or services received other than 503100 and 503200.

504000 Salaries Payable:

504100 Instructional Salaries - The amount of salaries earned but not yet paid to instructional staff.

504200 Nonprofessional Salaries - The amount of salaries earned but not yet paid to noninstructional staff.

504900 Other Salaries and Wages - Salaries and wages earned but not yet paid and due to employees other than those charged to 504100 and 504200.

505000 Salaries Withholdings Payable:

505100 Federal Withholding - Earnings withheld from employees for income tax purposes and not yet remitted.

505200 Social Security - Amounts withheld from employees' earnings for social security purposes and not yet remitted.

505900 Other Withholdings - Amounts withheld from employees' earnings for purposes such as state and city income tax and not yet remitted.

505910 United Fund - Amounts withheld from employees' earnings which represent contributions to the United Fund and not yet remitted.

505920 Health Insurance - Amounts withheld from employees' earnings which represent the employees' contribution to life insurance and not yet remitted.

505930 Life Insurance - Amounts withheld from employees' earnings which represent the employees' contribution to life insurance and not yet remitted.

505940 Union Dues and Organization Fees - Amounts withheld from employees' earnings for union dues and organization fees and not yet remitted.

505990 Miscellaneous - Other payroll deductions not properly classified under any other account.

506000 Accrued Expenses:

506100 Instruction - Any significant liability of the General Fund resulting from instructional services and not recognized in any other account.

506200 Utilities - Amounts due for utilities expense pertaining to the current fiscal period but not yet billed by the vendor and not recognized as accounts payable.

506900 Other Accrued Expense - Any other cost representing a liability of the General Fund and not recognized in any other account.

507000 Due to Other Funds:

507100 Due to Debt Retirement Fund - Amounts due to the Debt Retirement Fund which represent a liability of the General Fund and an asset of the Debt Retirement Fund.

507200 Due to Capital Projects Fund - Amounts due to the Capital Projects Fund which represent a liability of the General Fund and an asset of the Capital Projects Fund.

507300 Due to Capital Assets Fund - Amounts due to the Capital Assets Fund which represent a liability of the General Fund and an asset of the Capital Assets Fund.

507400 Due to Enterprise Fund - Amounts due to the Enterprise Fund which represent a liability of the General Fund and an asset of the Enterprise Fund.

507500 Due to Trust and Agency Fund - Amounts due to the Trust and Agency Fund which represent a liability of the General Fund and an asset of the Trust and Agency Fund.

508000 Deferred Revenue and Reserves:

508100 Title I - ESEA - Amounts reserved for specific programs or projects and not reappropriated in the following year. Also include income received as revenue applicable to the period following the close of the fiscal year.

508200 Vocational Education - Amounts reserved for specific programs or projects and not reappropriated in the following year. Also include income received as revenue applicable to the period following the close of the fiscal year.

508300 Head Start - Amounts reserved for specific programs or projects and not reappropriated in the following year. Also include income received as revenue applicable to the period following the close of the fiscal year.

503400 Title III - ESEA - Amounts reserved for specific programs or projects and not reappropriated the following year. Also include income received as revenue applicable to the period following the close of the fiscal year.

508500 Reserve for Encumbrances - This account is used to provide a reserve representing the segregation of a portion of the General Fund balance to provide for unliquidated encumbrances.

508900 Miscellaneous - Other deferred revenue and reserves not appropriately charged elsewhere.

509000 General Fund Equity - The net difference between General Fund assets and General Fund liabilities which represents the amount available to meet future costs of the school district.

GENERAL FUND REVENUES

000000 Revenue:

010000 Revenue from Local Sources:

011000 Tax Collections:

011300 Interest on Tax:

011310 Interest on Current Tax

011320 Interest on Prior Years' Tax

011400 Taxes Other than Property Tax:

011410 Trailer Fees

011420 Income Tax

012000 Appropriations from Local Governmental Units:

012100 Payment in Lieu of Taxes

012200 Other Appropriations from Local
Governmental Units

013000 Tuition:

013100 Patrons

013200 Other School Districts Within the State

013300 Other School Districts, Other States

013900 Miscellaneous

014000 Transportation:

014100 From Patrons

014200 Transportation from Other School
Districts

015000 Income from Current Deposits and Investments

017000 Income from Permanent Funds and Endowments

019000 Miscellaneous Revenue:

019100 Proceeds from Sale of Property

- 019200 Net Proceeds from Insurance
- 019300 Rental of School Facilities
- 019400 Rental of Property Other than
School Facilities
- 019500 Collection Fees on Union Dues
- 019600 Fines and Restitutions
- 019900 Miscellaneous
- 020000 Revenues from Intermediate Sources
- 030000 Revenue from State Sources:
 - 031000 Direct Appropriations from State:
 - 031210 Membership Allowance
 - 031220 Transportation
 - 031230 Remedial Reading
 - 031240 Mentally Handicapped
 - 031250 Physically Handicapped
 - 031260 Emotionally Disturbed
 - 031270 School Diagnostician
 - 031280 School Social Worker
 - 031290 Other Allowances
 - 032000 Appropriations Representing Redistribution
of Federal Funds:
 - 032100 Vocational Education
 - 032200 Title I, ESEA
 - 032300 Title II, ESEA
 - 032400 Title III, ESEA
 - 032500 Title V, ESEA
 - 032600 Title VI, ESEA

032700 NDEA, Title III

032900 Other Grants:

032910 PL 89-209, NFAH

032920 Adult Basic Education

032930 PL 87-415, MDTA

032990 Miscellaneous

040000 Revenue from Federal Sources:

041000 Education of Veterans

042000 Title III, ESEA

043000 PL 81-874 Aid to Impacted School Districts

044000 Payment in Lieu of Taxes

045000 OEO Head Start

049000 Other Grants

050000 Gifts and Bequests

DESCRIPTION OF GENERAL FUND REVENUE ACCOUNTS

000000 Revenue:010000 Revenue from Local Sources:

011000 Tax Collections - This account is used to record revenue from tax collections. The total levy is credited to this account at the time the tax is billed with a corresponding debit to the asset account 405100.

011300 Interest on Tax:

011310 Interest on Current Tax - The amount of interest collected on late payment of taxes of the current year.

011320 Interest on Prior Years' Taxes - Income from interest on delinquent payments of taxes of years prior to the current year.

011400 Taxes Other than Property Tax:

011410 Trailer Fees - Fees collected from an annual charge on house trailers used as residences.

011420 Income Tax - Income from income tax levied by the school district and in accordance with applicable statutes and regulations.

012000 Appropriations from Local Governmental Units:

012100 Payments in Lieu of Taxes - Revenue received from other local governmental units representing an amount equal to property tax on property publicly owned and usually producing income to the governmental unit.

012200 Other Appropriations from Local Governmental Units - Any other income received by appropriation of another local governmental unit other than a school district.

013000 Tuition:

013100 Tuition from Patrons - Money received from pupils, parents, guardians, or others for education provided in the schools of the district.

013200 Tuition from Other School Districts Within the State - Income received from other school districts for education provided by the receiving districts to pupils who are legal residents of the paying school district.

013300 Tuition from Other School Districts, Other States - Money received from school districts outside the state as payment for the education of children who are legal residents of the paying school district.

013900 Miscellaneous - Any other money received as tuition and paid by an individual or organization other than a patron or a school district.

014000 Transportation Fees:

014100 Transportation from Patrons - Money
received from students, parents, or guardians
as payment for transportation.

014200 Transportation from Other School
Districts - Amounts collected from other school
districts for transportation services provided
to residents of other school districts.

015000 Income from Current Deposits and Invest-
ments - Net earnings from all deposits and invest-
ments except earnings from permanent funds and
endowments.

017000 Income from Permanent Funds and Endowments -
Net income from interest, rental, or leases on
investments or deposits of Permanent Funds and
Endowments.

019000 Miscellaneous Local Revenue:

019100 Proceeds from Sale of Property - Income
from the sale of surplus and salvage except for
the sale of property recorded as assets in the
Capital Assets Fund.

019200 Net Proceeds from Insurance on
Property - Income from insurance settlements
and claims for losses by theft, fire, etc.,
except for reimbursement for losses of prop-
erty recorded in the Capital Assets Fund.

019300 Rental of School Facilities - Money received by the school district from rental of school facilities used by the school district for school purposes.

019400 Rental of Property Other than School Facilities - Income from rental or lease of property not being used for school purposes but is held for future school use or disposal but not held as a permanent investment for income-producing purposes.

019500 Collection Fees on Union Dues - The amount retained, by agreement, from total collection of union dues as payment for collection and remittance services.

019600 Fines and Restitutions - Monies paid by students or others as payment of fines and restitutions.

019900 Miscellaneous - Any other local revenue not properly classified elsewhere.

020000 Revenue from Intermediate Sources:

021000 Special Education Tax - Income from intermediate school districts representing the local school district's share of the tax collections and used to support special education programs.

022000 Grants for Library Services - Monies allocated to the school district for the purpose of providing public library services.

029000 Miscellaneous - Any other revenue received from intermediate sources and not properly classified elsewhere.

030000 Revenue from State Sources:

031000 Direct Appropriations:

031100 Regular Membership Allowance - Revenue from the state based upon the formula used to calculate regular membership allowance.

031200 Transportation - Amounts received from the state for the support of approved transportation services.

031300 Remedial Reading - Revenues received from the state for the support of approved remedial reading programs.

031400 Mentally Handicapped - Revenue received from the state for the support of approved programs for the mentally handicapped.

031500 Physically Handicapped - Revenue received from the state for the support of programs for the physically handicapped.

031600 Emotionally Disturbed - Money received from the state for the support of approved programs for the emotionally disturbed.

031700 School Diagnostician - Revenue from the state for the support of approved school diagnostician programs.

031800 School Social Work - Revenue from the state to support approved school social worker programs.

031900 Other Allowances - Revenue from the state not properly classified elsewhere.

032000 Redistribution of Federal Funds:

032100 Vocational Education - Federal allocations to the state redistributed to local schools for the support of vocational education programs.

032200 Title I, ESEA - Federal funds allocated to the states for redistribution to local school districts for the support of approved programs for the educationally deprived.

032300 Title II, ESEA - Federal funds allocated to the state for redistribution to local schools to be used for the improvement of libraries and for the acquisition of nonconsumable instructional materials.

032400 Title III, ESEA - Grants of federal funds approved by the state for the support of innovative and exemplary demonstration programs of instruction.

032500 Title V, ESEA - Federal funds allocated to local districts by the state for the development and demonstration of improved management practices.

032600 Title VI, ESEA - Federal funds allocated to states for distribution to local districts for the support of special education programs for handicapped pupils.

032700 NDEA Title III - Federal funds allocated to the state for distribution to local school districts for the purchase of instructional equipment and materials.

032900 Other Grants:

032910 NFAH PL 89-209 - Federal funds allocated to the state for distribution to local districts for the support of programs in the arts and humanities.

(National Foundation for Arts and Humanities)

032920 Adult Basic Education - Federal funds allocated to the state for distribution to local districts for the support of programs to provide basic education for adults.

032930 MDTA PL 87-415 - Federal funds allocated to the state for distribution to local districts for the support of job skill upgrading programs for unemployed adults.

032990 Miscellaneous - Any revenue received as a redistribution of federal funds by the state not properly classified elsewhere.

040000 Revenue from Federal Sources:

041000 Education of Veterans - Revenue received directly from the federal government for the support of educational programs for veterans.

042000 Title III, ESEA - Revenue received directly from the federal government for the support of innovative and exemplary instructional demonstration programs.

043000 Assistance to Federally Impacted School Districts - Revenue received directly from the federal government for the support of the instructional program in school districts where federal activity or installations have resulted in a substantial influx of pupils.

044000 Payment in Lieu of Taxes - Payments by the federal government to school districts in lieu of taxes it would have had to pay had its property been subject to taxation by the school district on the same basis as other privately held property.

045000 OEO Head Start - Payments to school districts from OEO for the support of preschool programs which are primarily for economically disadvantaged children.

049000 Other Grants - Revenue received from the federal government not properly classified elsewhere.

050000 Gifts and Bequests - Any revenue received by the school district as gifts or bequests from individuals, organizations, or foundations for which no repayment or special service is required.

DESCRIPTION OF GENERAL FUND EXPENDITURE ACCOUNTS

Functions:

A function is one of a major group of related activities which contribute to a broader objective. Traditionally, these functions have included such broad categories as Instruction, Administration, Maintenance among others. All of the functions are part of the activities which contribute to a major and inclusive objective. In some instances, functions are further divided into subfunctions to facilitate management and control.

All school districts will not need all categories listed below. However, they are provided so that all school districts of any size can be accommodated. Added to these subfunction codes are the proper object and program codes as are necessary to properly reflect detailed and gross cost data needed for reporting and management control.

100000 Instruction

Instruction includes the cost of all activities related directly to the teaching of pupils and the management, supervision, control, and improvement of instruction and the quality of teaching.

The function of instruction is traditionally subdivided into subfunctions defined as elementary and secondary. Secondary instruction has been, for many years, fragmented further by distinguishing between junior high school and senior

high school. More recently, an additional category has been introduced as the middle school. Distinct and uniform grade level assignments to these categories have never been made. No attempt to resolve this problem will be made here. It will be left to each individual school to determine the grade levels assigned to each subfunction or, if uniformity is required, the designation is left to a higher authority.

To provide a framework into which all instructional cost is charged and recorded, subfunction codes will be assigned as follows:

100000 Instruction

- 110000 Elementary
- 120000 Middle School
- 130000 Junior High School
- 140000 Senior High School
- 150000 Special Education
- 160000 Summer School
- 170000 Adult Education
- 180000 Special Projects
- 190000 Unclassified

210000 Administration

Administration includes all of those activities which have as their purpose the planning, regulation, direction, and control of the entire school district. These activities are systemwide and are not restricted to a single building or program.

220000 Attendance

Attendance services include those activities which are primarily designed to encourage and improve regular attendance at school. This includes enforcement of compulsory attendance laws and the implementation of local programs designed for this purpose.

230000 Health Services

Health services include activities related to physical and mental health which are corrective, diagnostic, preventive, and remedial. It does not include the costs of health education or other general instructional activities.

240000 Operation of Plant

Operation of plant consists of those activities which are conducted primarily to keep the plant open and ready for use. Included are routine cleaning activities, heating, lighting, care of grounds, security, moving and placement of furniture and equipment, and other tasks which are generally routine daily activities. Operation does not include the repair and maintenance of equipment and facilities.

250000 Maintenance

Maintenance of plant consists of those activities which have as their purpose the repair and replacement of equipment and facilities at their original condition of completeness and efficiency. Maintenance does not include capitalized cost which would result in increased value of

fixed assets or acquisition of additional assets or asset value. Expenditures for the replacement or repair of service systems and built-in equipment are properly charged to maintenance. Replacement of other equipment will be handled through the Capital Assets Fund.

260000 Community Services

Community services are those services provided by the school district to the community as a whole or to a segment of the community. Not included are programs which have as their primary purpose an instructional objective.

270000 Pupil Transportation

Pupil transportation includes all services, the purpose of which is to convey pupils to and from school. Also included is the transportation of pupils from one school to another, field trips, and transportation related to other curricular activities.

DESCRIPTION OF GENERAL FUND INSTRUCTIONAL
EXPENDITURE ACCOUNTS

Objects:

100000-1999999

As stated above, the function code provides cost data by level of instruction defined as a range of grades. The object code provides cost data by type of expenditure or, stated differently, it identifies what goods or services were purchased.

The object code occupies the third and fourth positions in the account number. Regardless of the function code, the object code identifying a particular cost, such as instructional supplies, will always be uniform. This provides for analysis of cost by more than one dimension.

The following account descriptions provide a definition of each object code used in instruction, and illustrate the use of the function and object code. Although the subfunction Elementary Grades is used as an example, it should be obvious that the same format, object codes, and definitions, apply to all of the other subfunctions.

INSTRUCTION

100000

110000 Elementary Grades:

- 110100 Principals' Salaries
- 110200 Consultants and Supervisors' Salaries
- 110300 Teachers' Salaries
- 110400 Substitute Teachers' Salaries
- 110500 Librarians' Salaries
- 110600 Instructional Media Personnel Salaries
- 110700 Guidance Salaries
- 110800 Psychological Personnel Salaries
- 110900 Media Teachers
- 112700 Secretarial and Clerical Salaries
- 112800 Other Salaries for Instruction
- 112900 Employee Fringe Benefits
- 113000 Contracted Services for Elementary Inst.
- 114000 Instructional Supplies Expense:
 - 114100 Textbooks
 - 114200 Teaching Supplies
 - 114300 Library Books
 - 114400 Periodicals and Newspapers
 - 114500 Audio-Visual Materials
 - 115800 Office Supplies
 - 115900 Miscellaneous Supplies

116000 Other Expense:

116100 Travel

116200 Rental of Equipment

116300 Printing and Publishing

116900 Miscellaneous Other Expense

100000 Instruction:110000 Elementary Grades:

110100 Principals' Salaries - The salaries of full-time and part-time principals and assistant principals. Include the prorated portion of teaching principals' time.

110200 Consultants and Supervisors - The salaries of full-time and part-time personnel who perform general or subject-matter consultation or supervision. If the employee is assigned to both elementary and secondary levels, the salary must be prorated on the basis of time devoted to each level.

110300 Regular Teachers' Salaries - The salaries of full-time and part-time teachers and all others who may teach a portion of the day, such as a department head or supervisor. Do not include substitute teachers.

110400 Substitute Teachers - The salary paid to substitute teachers who are taking the place of a regular teacher who is absent with pay. If the absent teacher is not on the payroll, then the cost of the substitute is charged to account 110300.

110500 Librarians - The salary of employees who render service as a librarian. Include part-time salaries and salaries of assistants who are specifically assigned to provide library services.

110600 Instructional Media - The salaries of all personnel who are assigned to the selection, development, preparation, and/or demonstration of instructional media.

110700 Guidance - The salaries of all personnel assigned full- or part-time to elementary guidance services such as counseling, testing, placement, and evaluation of academic progress.

110800 Psychological - The salaries of all full-time and part-time staff assigned to provide general psychological services to students. Do not include those staff members who are assigned specifically to Special Education.

110900 Media Teachers - The salaries of all teachers, full- or part-time, who are assigned to teach via media such as radio, television, or other media which involves the use of technological devices for transmission and communication.

112700 Secretarial and Clerical Salaries - The salaries of all full- and part-time secretarial and clerical staff assigned at the elementary level.

112800 Other - All other salaries paid to instructional staff not properly classified elsewhere.

112900 Employee Fringe Benefits - The cost of all employee fringe benefits paid to or for staff assigned at the elementary level. This will include such items as insurance, workman's compensation, allowances for uniforms, optical care, and terminal pay.

113000 Contracted Services - The cost of services provided by individuals or organizations who are not on the payroll of the school district. Include all expenses related to the contract, such as travel reimbursement.

114000 Instructional Supplies:

114100 Textbooks - The cost of all books which are a basic part of a course of study and are intended for successive use by students. Do not include reference books which are properly classified as library books. Workbooks which are consumable should be classified as instructional supplies.

114200 Teaching Supplies - All supplies which are actually consumed in the teaching-learning process, such as workbooks, paper, chalk, ink, pencils, chemicals, crayons, and magazines and periodicals actually used in the classroom.

114300 Library Books - All books and copy-righted volumes actually catalogued and under the control of a central library facility and not specifically required for a course of study as a textbook. These books are intended for the general use of students as supplements to textbooks and for general cultural and intellectual development.

114400 Periodicals and Newspapers - The cost of periodicals and newspapers intended for the general use of students as part of the school library. A periodical is any publication appearing at regular intervals of less than one year.

114500 Audio-Visual Materials - Expenditures for audio-visual materials used in the instructional program, such as films, tapes, records, maps, charts, and exhibits. Do not include the cost of audio-visual equipment.

115800 Office Supplies - The cost of office supplies used in the instructional program.

115900 Miscellaneous Supplies - The cost of supplies used in the instructional program but not actually used in the teaching-learning process. Included would be such items as curriculum development materials, in-service training materials, and the cost of general exhibits.

116000 Other Instructional Expense:

116100 Travel - Expenditures for travel of instructional staff to conferences, conventions, and travel within the district. Include mileage allowances if provided for day-to-day travel required in the performance of work assignments.

116200 Rental of Equipment - The cost of renting equipment used in the instructional program.

116300 Printing and Publishing - The expenditures for printing and publishing instructional materials, textbooks, and supplementary instructional aids.

116900 Miscellaneous Other Expense - All other instructional expense not properly classified elsewhere.

GENERAL FUND EXPENDITURES

ADMINISTRATION

210000 Administration:

211000 Salaries and Wages:

211100 Board of Education

211200 Superintendent and Assistants

211300 Business Administration

211400 Personnel

211500 Research

212700 Secretarial and Clerical

212800 Employee Fringe Benefits

212900 Other Salary and Wages

213000 Contracted Services

215000 Supplies:

215800 Office Supplies

215900 Miscellaneous

216000 Other Expense:

216100 Travel

216200 Rental of Equipment

216300 Printing and Publishing

217100 Interest on Short-Term Loans

217200 Fidelity Bond Premiums

217300 Public Liability Insurance

217900 Miscellaneous Other Expense

DESCRIPTION OF GENERAL FUND
ADMINISTRATION EXPENDITURE ACCOUNTS

210000 Administration:

211000 Salaries and Wages:

211100 Board of Education - Salaries and per diem compensation paid to board of education members.

Include only salaries of elected members of the board and not salaries of appointed secretaries or treasurers.

211200 Salaries of Superintendent and Assistant - The salaries of superintendent and assistant superintendents who have general district-wide responsibility.

211300 Business Administration - The salaries of all professional personnel assigned to the business administration function of the school district. Include, for example, the business manager, accountants, and budget officer. Do not include clerical staff.

211400 Personnel - The salary of the personnel director or manager and his assistants who are engaged in district-wide personnel management.

211500 Research - The salary of all professional staff engaged in district-wide research activities. Do not include curriculum or instructional research which is classified under the function of Instruction.

212700 Secretarial and Clerical - The salaries of all secretarial and clerical personnel assigned to district-wide administration functions.

212800 Employee Fringe Benefits - The amount paid to all administration personnel in the form of fringe benefits such as health insurance, life insurance, paid optical plans, and terminal pay.

212900 Other Salaries and Wages - All other salaries and wages paid for administration not properly classified elsewhere.

213000 Contracted Services - The cost of contracted administrative services, such as annual audit expense, surveys, legal fees, and other services provided by an individual or organization not on the payroll of the school district. Include travel and other expense associated with the service.

215000 Supplies:

215800 Office Supplies - The expenditures for administrative supplies including, for example, paper, postage, and other material necessary for the operation of administrative offices.

215900 Miscellaneous Supplies - The cost of supplies not properly classified under Account Number 215800.

216000 Other Expense:

216100 Travel - The expenditures for travel related to administrative personnel and administrative functions. Include mileage paid for in-district travel.

216200 Rental of Equipment - The cost of equipment rental for administration, such as copying machines and other office machines.

216300 Printing and Publishing - The cost of printing and publishing reports and other material relative to administration. Do not include the cost of printing and publishing curriculum or instructional material.

217100 Interest on Short-Term Loans - Payments of interest on short-term loans made to finance current operations of the school district. Do not include interest on long-term or bonded debt.

217200 Fidelity Bond Premiums - Premiums paid on bonds guaranteeing the school district against losses from peculation and other actions on the part of school district officers and employees.

217300 Public Liability Insurance - The amount paid for public liability insurance premiums. Include also court judgements if not covered by insurance. Do not include amounts which represent a judgement for failure to pay a bill or for services.

217900 Miscellaneous Other Expense - Include all
other expense not properly classified elsewhere.

GENERAL FUND EXPENDITURES

ATTENDANCE SERVICE

220000 Attendance :

221000 Salaries and Wages :

221600 Professional Salaries

222700 Secretarial and Clerical

222800 Employee Fringe Benefits

222900 Other Salaries and Wages

223000 Contracted Services

225000 Supplies :

225800 Office Supplies

225900 Miscellaneous Supplies

226000 Other Expense :

226100 Travel

226200 Rental of Equipment

226300 Printing and Publishing

226900 Miscellaneous

DESCRIPTION OF GENERAL FUND
ATTENDANCE EXPENDITURE ACCOUNTS

220000 Attendance:

221000 Salaries and Wages:

221600 Professional Salaries - The full-time, part-time, and prorated portions of salaries paid to attendance officers, visiting teachers, and other professional personnel engaged in attendance work.

222700 Secretarial and Clerical - The salaries paid to all secretarial and clerical personnel engaged in attendance work and assigned to the attendance department.

222800 Employee Fringe Benefits - The cost of all fringe benefits paid to attendance personnel.

222900 Other Salaries and Wages - All other salaries and wages paid for attendance services not properly classified elsewhere.

223000 Contracted Services - Expenditures for services rendered by personnel who are not on the payroll of the school district. This would include, for example, the cost of audit, special testing, and consultants.

225000 Supplies:

225800 Office Supplies - Expenditures for office supplies needed for operation of the attendance department.

225900 Miscellaneous Supplies - Attendance department supplies not chargeable to Account Number 225800.

226000 Other Expense:

226100 Travel - Travel expense related to the operation of the attendance department. Include mileage and allowances for in-district travel.

226200 Rental of Equipment - Expenditures for the rental of equipment such as office machines and copying machines for use in the attendance department.

226300 Printing and Publishing - Amounts paid for printing and publishing reports and other material related to the attendance department.

226900 Miscellaneous - Other expenditures of the attendance department not classified elsewhere.

GENERAL FUND EXPENDITURES

HEALTH SERVICES

230000 Health Services:

231000 Salaries and Wages:

231700 Professional Salaries

232700 Secretarial and Clerical

232800 Employee Fringe Benefits

232900 Other Salaries and Wages

233000 Contracted Services

234000 Health Supplies:

234600 Medicine and Drugs

235900 Other Medical Supplies

235000 Supplies:

235800 Office Supplies

235900 Miscellaneous Supplies

236000 Other Expense:

236100 Travel

236200 Rental of Equipment

236300 Printing and Publishing

236900 Miscellaneous

DESCRIPTION OF GENERAL FUND
HEALTH SERVICES EXPENDITURE ACCOUNTS

230000 Health Services:

231000 Salaries and Wages:

231700 Professional Salaries - The salaries paid to all professional health services personnel, such as doctors, dentists, and nurses, who are on the school district payroll.

232700 Secretarial and Clerical - The salaries paid to all secretarial and clerical personnel assigned to the Health Services department.

232800 Employee Fringe Benefits - The cost of all fringe benefits paid to or for Health Services personnel.

232900 Other Salaries and Wages - All other salaries and wages of Health Service personnel not properly classified elsewhere.

233000 Contracted Services - Expenditures for Health Services rendered by individuals or organizations not on the payroll of the school district.

234000 Health Supplies:

234600 Medicine and Drugs - The cost of all medicine and drugs used in the Health Services department.

235900 Other Medical Supplies - Medical supplies other than medicine and drugs used in the Health Services department.

236000 Other Expenses:

236100 Travel - Expenditures for travel of Health Department personnel. Include mileage and allowances for in-district travel.

236200 Rental of Equipment - Expenditures for rental of Health Services equipment.

236300 Printing and Publishing - Expenditures for printing and publishing Health Department records, reports, and other material.

236900 Miscellaneous - Other Health Services expenditures not properly classified elsewhere.

GENERAL FUND EXPENDITURES

OPERATION OF PLANT

240000 Operation of Plant:

241000 Salaries and Wages:

241900 Plant Engineers and Foremen

242100 Custodians

242700 Secretarial and Clerical

242800 Employee Fringe Benefits

242900 Other Salaries and Wages

243000 Contracted Services

245000 Supplies:

245200 Heating Fuel

245300 Utilities

245400 Custodial Supplies

245500 Care of Grounds

245900 Miscellaneous

246000 Other Expense:

246100 Travel

246200 Rental of Equipment

246900 Miscellaneous

DESCRIPTION OF GENERAL FUND OPERATION OF PLANT
EXPENDITURE ACCOUNTS

240000 Operation of Plant:

241000 Salaries and Wages:

241900 Plant Engineers and Foremen - The salaries and wages of personnel responsible for supervising plant operational staff of individuals, buildings, or plants. Do not include personnel responsible for district-wide supervision or administration.

242100 Custodians - The salaries of all custodians, firemen, matrons, watchmen, and other personnel responsible for the cleaning, heating, and security of buildings and grounds.

242700 Secretarial and Clerical - The salaries and wages of all secretarial and clerical personnel assigned to the plant operation function.

242800 Employee Fringe Benefits - The cost of all fringe benefits provided to plant operation personnel, such as insurance, terminal pay, and uniform allowance.

242900 Other Salaries and Wages - All other salaries and wages paid to plant operation personnel not classified elsewhere.

243000 Contracted Services - The cost of all plant operation services provided by individuals or organizations not on the payroll of the school district. Include all costs of the contract such as travel and living expenses.

245000 Supplies:

245200 Heating Fuel - Expenditures for gas, oil, coal, or electricity used for heating buildings. Include the total, delivered cost.

245300 Utilities - Expenditures for utilities such as water, sewerage, electricity for lighting and power, and gas used for other than heating purposes.

245400 Custodial Supplies - Expenditures for brooms, mops, towels, soap, wax, light bulbs, and any other supplies needed to maintain buildings in a safe and sanitary condition.

245500 Care of Grounds - Supplies and material used in the care of grounds.

245900 Miscellaneous - All other expenditures for operation supplies which are not classified elsewhere.

246000 Other Expense:

246100 Travel - Expenditures for travel of operational staff. Include mileage allowance for in-district travel.

246200 Rental of Equipment - The cost of rental of equipment used for operational purposes.

246900 Miscellaneous Other Expenses - All other expense not classified elsewhere, such as in-service training of employees.

GENERAL FUND EXPENDITURES
MAINTENANCE OF PLANT

250000 Maintenance:

251000 Salaries and Wages:

- 252200 General Maintenance
- 252700 Secretarial and Clerical
- 252800 Employee Fringe Benefits
- 252900 Other Maintenance Salaries

253000 Contracted Services:

- 253100 Professional Services
- 253300 Contracted Maintenance

255000 Maintenance Supplies

256000 Other Expense:

- 256100 Travel
- 256200 Rental of Equipment
- 256400 Rental of Land and Buildings
- 256500 Taxes Paid on District-Owned Property
- 256600 Replacement of Equipment
- 256700 Insurance, Theft, Burglary, Vandalism
- 256800 Insurance, Fire, Windstorm
- 256900 Miscellaneous

DESCRIPTION OF GENERAL FUND MAINTENANCE
EXPENDITURE ACCOUNTS

250000 Maintenance:

251000 Salaries and Wages:

252200 Salaries and Wages for General Maintenance -

The salaries paid to carpenters, plumbers, electricians, other tradesmen, and craft workers assigned to the maintenance of plant functions. Include also apprentices, laborers, and other nonskilled workers.

252700 Secretarial and Clerical - The salaries paid to secretarial and clerical staff who are assigned to the maintenance department.

252800 Employee Fringe Benefits - The cost of all fringe benefits provided to maintenance personnel.

252900 Other Maintenance Salaries - Other salaries not properly classified elsewhere.

253000 Contracted Services:

253100 Professional Services - Expenditures for contracted professional services, such as appraisals, inspections, and engineering services.

253300 Contracted Maintenance - Expenditures for maintenance of plant provided by individuals or organizations not on the payroll of the school district.

255000 Maintenance Supplies - Supplies consumed by workers in the maintenance of buildings and equipment, such as wire, pipe, nails, lumber, paint, and roofing.

256000 Other Expense:

256100 Travel - Expenditures for travel of maintenance personnel. Include in-district mileage allowances.

256200 Rental of Equipment - The cost of equipment rented for use in the maintenance department.

256400 Rental of Land and Buildings - The amount paid as rent for buildings and land used for such purposes as instruction, warehousing garages, and administration centers.

256500 Taxes Paid on District-Owned Property - The amount paid for all taxes imposed or levied upon district-owned property which is subject to taxation.

256600 Replacement of Equipment - The cost of replacing piece-for-piece, equipment which is not built in. This would include desks, chairs, tables, bookcases, typewriters, and other like equipment.

256700 Insurance, Theft, Burglary, Vandalism - The amount of the insurance cost to provide coverage in case of theft, burglary, and/or vandalism. If the policy is for more than one year, charge only the annualized portion during each year.

256800 Insurance, Fire, Windstorm - The cost of insurance premiums paid to provide protection against losses from fire, windstorm, and other natural causes.

256900 Miscellaneous - All other maintenance expense not classified elsewhere.

GENERAL FUND EXPENDITURES

COMMUNITY SERVICES

260000 Community Services:

261000 Salaries and Wages:

262600 Professional Salaries

262700 Secretarial and Clerical

262800 Employee Fringe Benefits

262900 Other Salaries and Wages

263000 Contracted Services

264000 Program Supplies

265000 Supplies:

265800 Office Supplies

265900 Miscellaneous

266000 Other Expense:

266100 Travel

266200 Rental of Equipment

266900 Miscellaneous

DESCRIPTION OF GENERAL FUND
COMMUNITY SERVICES EXPENDITURES ACCOUNTS

260000 Community Services:

261000 Salaries and Wages:

262600 Professional Salaries - The salaries paid to professional employees such as recreation directors, librarians, and welfare workers who are assigned to community services activities.

262700 Secretarial and Clerical - The salaries paid to secretarial and clerical personnel who are assigned to the community services activities.

262800 Employee Fringe Benefits - The cost of all fringe benefits provided to community services personnel.

262900 Other Salaries and Wages - All other community services salaries not classified elsewhere.

263000 Contracted Services - Expenditures for community services rendered by an individual or organization not on the payroll of the school district.

264000 Program Supplies - Expenditures for supplies necessary to conduct the programs of activities included in community services.

265000 Supplies:

265800 Office Supplies - Expenditures for supplies needed in the operation of the office of community services.

265900 Miscellaneous Supplies - Expenditures for supplies not properly classified elsewhere.

266000 Other Expenses:

266100 Travel - Expenditures for travel of community services personnel. Include in-district mileage allowance.

266200 Rental of Equipment - The cost of rental of equipment needed in the community services program.

266900 Miscellaneous - All other expenditures for community services not properly classified elsewhere.

GENERAL FUND EXPENDITURES

TRANSPORTATION

270000 Transportation:

278000 Salaries and Wages:

- 278100 Supervisors
- 278200 Drivers
- 278300 Mechanics and Garage Workers
- 278400 Bus Attendants
- 278700 Secretarial and Clerical
- 278800 Employee Fringe Benefits
- 278900 Other Salary and Wages

273000 Contracted Services:

- 273100 Professional Services
- 273200 Contracted Transportation
- 273300 Allowances to Pupils for Transportation

274000 Supplies:

- 274700 Gas, Oil, and Grease
- 274800 Tires and Tubes
- 274900 Vehicle Repair Parts
- 275100 Supplies for Garage Operation
- 275900 Miscellaneous

276000 Other Expense:

- 276100 Travel
- 276200 Rental of Equipment
- 276400 Replacement of Equipment
- 276500 Insurance
- 276900 Miscellaneous

DESCRIPTION OF GENERAL FUND TRANSPORTATION
EXPENDITURE ACCOUNTS

270000 Transportation:

278000 Salaries and Wages:

278100 Supervisors - Salaries paid to employees who are assigned to the general supervision of the transportation program.

278200 Drivers - The full-time or part-time salaries or wages paid to personnel assigned to drive pupil transportation vehicles.

278300 Mechanics and Garage Workers - The salaries and wages paid to personnel who are assigned to repair and maintenance of transportation vehicles.

278400 Bus Attendants - Salaries paid to employees who are assigned to the care and supervision of children while riding vehicles.

278700 Secretarial and Clerical - Salaries and wages paid to secretarial and clerical staff assigned to the transportation department.

278800 Employee Fringe Benefits - The cost of fringe benefits provided to employees assigned to the transportation department.

278900 Other Salaries and Wages - All other salaries and wages not properly classified elsewhere.

273000 Contracted Services:

273100 Professional Services - Services rendered by an individual or organization not on the payroll of the school district for professional services, such as route determination, equipment scheduling, and training of drivers.

273200 Contracted Transportation - The cost of transportation provided by a private contractor for transporting children to and from school. Include the cost of transportation provided by parents and the cost of transportation provided by general public carriers, even though a formal contract does not exist.

273300 Allowances to Pupils for Transportation - Amounts allowed to pupils who provide their own transportation, whether by private vehicle or by public carrier.

274000 Supplies:

274700 Gas, Oil, and Grease - The cost of gasoline or motor fuel, oil, and grease used in the operation and maintenance of transportation vehicles. Refunds of state gasoline tax are to be abated against this account.

274800 Tires and Tubes - The cost of tires and tubes used for transportation vehicles. Record the net cost if allowance is received on trade-in of used tires.

274900 Vehicle Repair Parts - The cost of all parts used in the repair and maintenance of transportation vehicles.

275100 Supplies for Garage Operation - Expenditures for supplies needed to operate the transportation garage. Included would be such items as bus washing supplies, soap, tools, rags, and solvents.

275900 Miscellaneous - The cost of other supplies not properly classified elsewhere.

276000 Other Expense:

276100 Travel - The cost of travel for transportation employees. Include in-district mileage allowance.

276200 Rental of Equipment - Expenditures for the rental of equipment needed by the transportation department.

276400 Replacement of Equipment - Expenditures for the replacement, piece-for-piece, of transportation equipment. If equipment is purchased on an installment contract, record only the amount paid annually on the contract. Trade-in allowances are to be abated against this account.

276500 Insurance - The cost of insuring equipment plus the cost of liability insurance carried on transportation vehicles.

276900 Miscellaneous - All other transportation expenditures not properly classified elsewhere.

DESCRIPTION OF PROGRAM EXPENDITURE ACCOUNTS

100000 - 100099

To facilitate reporting and to provide cost data for program planning and analysis, a program code is applied and placed in the fifth and sixth positions in the account coding structure. The programs included within the first through the sixth positions represent, generally, those programs which require specific reporting, at least annually, to the Department of Education or to some other governmental agency. These may be considered general program codes, and will be used by most school districts. It should be obvious that the use of the program code will provide for efficiency and accuracy in reporting and, in addition, more effective management control of program operation.

The program code is used to identify all expenditures relating to a specific program. For example, the function and object code for an expenditure for Teachers' Salary, Middle School would be 120300. If the teacher is also assigned to the Extended School Year program, the code would be completed by adding 23 in the fifth and sixth positions, to read 120323. All other expenditures relating to a specific program will be coded in the same manner. It is not mandatory that all expenditures be program coded. In some instances, the basic function and object code will be sufficient. These codes are not restricted to the General Fund, but will be used in all Funds to identify specific program costs.

GENERAL FUND PROGRAM EXPENDITURE ACCOUNTS

100000 - 100099

- 01 Type A Mentally Handicapped
- 02 Type B Mentally Handicapped
- 03 Type C Mentally Handicapped
- 04 Type 1 Physically Handicapped
- 05 Type 2 Physically Handicapped
- 06 Type 3 Physically Handicapped
- 07 Type 4 Teacher Counsellor
- 08 Diagnostician
- 09 Emotionally Disturbed
- 10 Trainable Mentally Handicapped
- 11 School Social Worker
- 12 Teacher Consultant
- 13 Special Education Transportation
- 14 Occupational Therapist
- 15 Physical Therapist
- 16 Visiting Teacher
- 20 Driver Education
- 21 Community Schools
- 22 Feasibility Study
- 23 Extended School Year
- 31 Title I ESEA
- 32 Title II ESEA
- 33 Title III ESEA
- 34 Title V ESEA

- 35 Title VI ESEA
- 36 Education Professions Development
- 40 National Foundation for the Arts and Humanities
- 41 Education of Teachers of the Handicapped
- 42 Special Education Scholarship P.A. 156
- 43 Disadvantaged, Section 4, P.A. 157
- 44 Adult Basic Education P.L. 89-750
- 45 MDTA
- 46 National Youth Corps
- 47 Vocational Education
- 48 Work Study
- 49 Head Start (OEO)
- 60 Consumer Homemaking P.L. 90-576
- 61 Cooperative Agreement P.L. 83-565
- 70 Community Recreation
 - 1 Community Libraries
 - 2 Community Welfare
- 73 Community School Program
- 80 Drug Education Program
- 81 Guidance and Counseling
- 82 Placement
- 90 Accounting
- 91 Data Processing
- 92 Budget
- 93 Purchasing
- 94 Legal
- 95 Payroll

DESCRIPTION OF PROGRAM EXPENDITURE ACCOUNTS

01 Type A Mentally Handicapped - A program for mentally handicapped pupils who do not benefit from a regular classroom program.

02 Type B Mentally Handicapped - A program for pupils more severely mentally handicapped than Type A and who do not benefit from a regular classroom program.

03 Type C Mentally Handicapped - A program consisting of services provided by a Teacher Consultant who assists regular teachers in providing meaningful instruction to mentally handicapped pupils who, of necessity, are placed in regular classrooms.

04 Type 1 Physically Handicapped - A program for deaf, blind, crippled, and physically handicapped pupils.

05 Type 2 Physically Handicapped - A program designed to provide instruction for pupils who are hospitalized or home-bound because of illness or physical disability.

06 Type 3 Physically Handicapped - Services provided for pupils who are diagnosed as speech defective.

07 Type 4 Teacher Counsellor - A program of services provided by a Teacher Counsellor to regular teachers to assist in providing meaningful instruction to physically handicapped pupils assigned, of necessity, to regular classrooms.

08 Diagnostician - Services provided by a psychologist or other qualified professional in diagnosing mental illness or handicaps for the purpose of pupil placement and treatment.

09 Emotionally Disturbed - A program designed to provide effective instruction to pupils deemed to be emotionally disturbed.

10 Trainable Mentally Handicapped - Services provided to children who are deemed to be trainable but not educable.

11 School Social Worker - A program of services provided to resolve pupil, school, family, and community dysfunctions.

12 Teacher Consultant - Services provided by a Teacher Consultant to regular teachers to assist in providing meaningful instruction to emotionally disturbed pupils placed in regular classrooms.

13 Special Education Transportation - Transportation services provided for handicapped children from home to school and/or from school to school.

14 Occupational Therapist - Services provided to handicapped pupils designed to provide job and occupational skills.

15 Physical Therapist - Services provided to handicapped pupils to restore wholly or partially the use of physical faculties.

16 Visiting Teacher - A program designed to assist pupils and parents in restoring or developing a positive attitude toward school and to encourage regular attendance.

20 Driver Education - A special program designed to teach driving skills and positive driver attitudes.

21 Community Schools - A special state-supported program to encourage broader programming of services to more individuals in the community.

22 Feasibility Study - Grants to study the possibility of operating schools year-round.

23 Extended School Year - A state-supported program designed to provide for year-round instructional programming and services.

31 Title I ESEA - Federally supported programs for the educationally disadvantaged.

32 Title II ESEA - Federally supported programs designed to provide increased instructional material including library materials.

33 Title III ESEA - Federally supported programs designed to develop and demonstrate exemplary instructional activities.

34 Title V ESEA - Federally supported programs designed to develop and demonstrate improved administrative and management practices in the schools.

35 Title VI ESEA - Federally supported programs designed to upgrade and improve teacher competence.

36 Education Professions Development - Federally supported programs designed to provide specific in-service training for paraprofessionals.

40 National Foundation for the Arts and Humanities - Federally supported programs designed to stimulate interest and activities in the arts and humanities as a part of the school curriculum.

41 Education of Teachers of the Handicapped - Federally supported programs designed to increase the number of teachers professionally trained to teach the handicapped.

42 Special Education Scholarship P.A. 156 - State-supported programs designed to provide grants to teachers who desire to become qualified to teach the handicapped.

43 Disadvantaged, Section 4, P.A. 157 - State-supported programs for the educationally disadvantaged.

44 Adult Basic Education P.L. 89-750 - Federally supported programs designed to provide basic education instruction to functionally illiterate adults.

45 MDTA - Federally supported programs designed to provide occupational skills and to upgrade the skills of the unemployed.

46 National Youth Corps - Federally supported programs designed to provide work experience and income to students who are potential dropouts.

47 Vocational Education - State and federally supported programs designed to provide occupational skills and work experience for the purpose of making high school graduates employable upon leaving school.

48 Work Study - Federally supported programs designed to keep economically disadvantaged pupils in school.

49 Head Start (OEO) - Programs operated by schools under contract with the Office of Economic Opportunity, designed to provide preschool and socializing experiences to disadvantaged children.

60 Consumer Homemaking P.L. 90-576 - Federally supported programs designed to provide consumer education to current and potential homemakers.

61 Cooperative Agreement P.L. 83-565 - Programs designed for the purpose of rehabilitating school-age and school-enrolled pupils with physical handicaps for the purpose of developing occupational skills.

70 Community Recreation - Recreation programs operated by the schools, the services of which are available to the entire community.

71 Community Libraries - Library services provided by the schools and available to the entire community.

72 Community Welfare - Welfare services provided by the schools to the entire community.

73 Community School Program - State-supported programs designed to make the schools more available to the community.

80 Drug Education Program - State-supported in-service programs for teachers, designed to provide professional capability to cope with drug problems in the schools.

81 Guidance and Counseling - Programs designed to assist students in maximizing school opportunities and also to provide educational and career planning.

82 Placement - Programs designed to assist out-of-school youth in finding employment.

90 Accounting - That function of administration which deals with recording, reporting, and controlling financial transactions and information.

91 Data Processing - A program designed to provide district-wide services in recording, storing, and reporting management and instructional information.

92 Budget - That function of administration responsible for forecasting revenues and expenditures and establishing appropriations based upon instructional programs and plans.

93 Purchasing - The function of administration dealing with the procurement of material and supplies.

94 Legal - The unit or department of administration responsible for the legal affairs of the school district.

95 Payroll - The unit or department of administration responsible for payroll preparation and distribution.

CHAPTER IV

DEBT RETIREMENT FUND

The Debt Retirement Fund is used to record transactions and control assets and liabilities related to long-term bonded debt.

Long-term debt authorization is generally created by referendum in the school district. The electors of the district provide authority to the board of education to levy an annual tax sufficient to meet the principal and interest debt requirements of each fiscal period. The sale of bonds is also authorized by referendum. The rate of taxation (annual millage levy) for debt retirement (bond redemption) is determined by the amount of money needed annually, as reflected by the bond redemption schedule. Because this tax, duly and legally authorized, represents a pledge of payment by the taxpayers, and also because this debt represents a lien upon the property (SEV) of the school district, the total value of the tax equal to the total principal and interest requirements is carried as an asset in the balance sheet.

Conversely, since the total amount of the bond issue represents a liability of the district, the total amount of

the bond issue plus the total amount of the interest requirement is carried as a liability in the liability section of the balance sheet. When bonds are sold, the total amount of the issue plus the interest obligation is posted to the proper accounts. As payments are made, the amount of these liabilities is reduced accordingly.

No payments to reduce long-term debt are to be made from the General Fund. If General Fund assets are to be used for the liquidation of long-term debt, the amount of the payment should be transferred from the General Fund to the Debt Retirement Fund.

The transactions related to long-term debt and recorded in this fund are not to be confused or commingled with short-term debt or deficits of the General Fund.

Separate accounts should be used to provide control and disclosure regarding each separate bond issue.

DEBT RETIREMENT FUND 700000

CHART OF ACCOUNTS

710000 Assets:

711000 Cash in Banks:

711100 Cash Deposited with Paying Agents

712000 Investments

713000 Taxes Receivable Current Year:

713100 Taxes Receivable Prior Years

714000 Accrued Interest on Taxes Receivable

715000 Accrued Interest on Investments

716000 Amount to Be Provided for Payment of Bonds

717000 Due from Other Funds

718000 Other Assets

720000 Liabilities:

721000 Matured Bonds Payable

722000 Interest on Matured Bonds Payable

723000 Bonds Payable, Not Matured

724000 Interest on Bonds Payable, Not Matured

727000 Due to Other Funds

728000 Other Liabilities

729000 Fund Equity

730000 Revenues:

731000 Tax Collections

732000 Interest on Taxes, Current Year

733000 Interest on Taxes, Prior Years

734000 Interest on Investments

735000 Proceeds from Sale of Refunded Debt

736000 Other Revenue

740000 Expenditures:

741000 Redemption of Bonds

742000 Interest Paid on Bonded Debt

743000 Premiums on Retirement of Bonds

744000 Fees Paid to Paying Agents

745000 Other Fees

746000 Other Expense

DESCRIPTION OF DEBT RETIREMENT FUND ASSET ACCOUNTS

710000 Assets:

711000 Cash in Banks - Money on deposit in demand checking accounts and savings accounts. Include all certificates of deposit but do not include other investments.

711100 Cash Deposited with Paying Agents - Money deposited with paying agents for the redemption of matured bonds and for the payment of interest.

712000 Investments - Notes and bills of the U. S. Government and other securities allowed by statute, bearing interest and payable on a date certain.

713000 Taxes Receivable Current Year - Taxes due and not collected on current year's tax levy.

713100 Taxes Receivable, Prior Years - Taxes due and not collected on levies of prior years. Each year should be controlled separately by using a digit in the fifth position to identify each year.

714000 Accrued Interest on Taxes Receivable - Amounts due to the school district as interest accrued on uncollected taxes to the close of the fiscal year.

715000 Accrued Interest Receivable - Interest on investments accrued to the end of the fiscal period.

716000 Amounts to Be Provided for Payment of Bonds -

The total amount to be collected in future years for the redemption of bonds and the payment of interest. The account will be originally debited with the total amount of revenue to be collected equal to the total bond issue plus interest. As taxes are collected, this asset will be credited by an amount equal to the amount debited to cash when the transaction is recorded.

717000 Due from Other Funds - Amounts due to the Debt

Retirement Fund from other funds which are properly assets of the Debt Retirement Fund.

718000 Other Assets - All other assets of the Debt

Retirement Fund which are not properly classified elsewhere.

720000 Liabilities:721000 Matured Bonds Payable - The amount of the bonds

which have reached maturity but which remain unpaid.

722000 Interest on Matured Bonds - Interest due on

matured bonds which has not been paid.

723000 Bonds Payable, Not Matured - The amount of all

bonds outstanding regardless of maturity date. A digit in the fourth position of the code may be used to segregate issues if more than one bond issue is outstanding.

724000 Interest on Bonds Payable, Not Matured - The

total amount of interest required to the final redemption of all bond issues.

727000 Due to Other Funds - Amounts due to other funds which properly represent a liability to the Debt Retirement Fund.

728000 Other Liabilities - All other liabilities not properly classified elsewhere.

729000 Fund Equity - The excess of assets over liabilities.

730000 Revenues:

731000 Tax Collections - The total amount of the tax levy for debt retirement purposes. This amount is credited to the account when the tax is levied with a corresponding debit to Account 713000 - Taxes Receivable.

732000 Interest on Taxes - The amount of interest collected on unpaid taxes of the current year.

733000 Interest on Taxes, Prior Years - The amount of interest collected on unpaid taxes of years prior to the current year.

734000 Interest on Investments - Interest earned on investments of Debt Retirement Fund assets.

735000 Proceeds from Sale of Refunded Bonds - The amount of discounts taken and/or premiums earned on refunded bond issues.

736000 Other Revenue - All other revenue received for debt retirement purposes not properly classified elsewhere.

740000 Expenditures:

741000 Redemption of Bonds - Amounts paid for the redemption of matured or called bonds.

742000 Interest Paid on Bonds - The amount of interest paid on matured or called bonds.

743000 Premiums on Retirement of Bonds - The amount of premiums paid to redeem bonds not yet mature and/or premiums paid on called bonds.

744000 Fees Paid to Paying Agents - The amount paid to paying agents for services rendered in the redemption of bonds.

745000 Other Fees - Other fees paid, such as legal fees and financial consultant fees for services related to the issue or redemption of bonds.

746000 Other Expense - All other expense related to debt retirement not properly classified elsewhere.

CHAPTER V

THE CAPITAL PROJECTS FUND

The Capital Projects Fund is created to account for resources used in the acquisition and replacement of facilities and other fixed assets. This Fund is included in the total accounting systems for schools, in recognition of the need for complete accounting of capital projects and to provide a means for capital budgeting. This Fund will also provide an accounting of the proceeds from the sale of general obligation bonds. Refunding of general obligation bonds, however, will be accounted for in the Debt Retirement Fund.

Most capital projects are discrete activities and are so designated and controlled within the account structure of the Fund. This is very necessary and essential, since strict legal requirements usually control the issuance of bonds and the use of bond proceeds. The account structure and accounting procedures must, at minimum, provide assurance that the proceeds of each bond issue were expended only for the projects and purposes authorized by the referendum. Also, assurance must be provided that amounts authorized were not exceeded and that any unused portions of bond

proceeds are accounted for in accordance with statutory provisions.

It is recommended that all capitalized expenditures will be made through the Capital Projects Fund. Capitalized expenditures will not be made and recorded through the General Fund or any of the other funds. In instances where General Fund assets are used to support a capital project, or where other assets are acquired, such as furniture and equipment, the resources will be transferred to the Capital Projects Fund, where the expenditure is recorded. If a portion of the current revenue of a fund is transferred to the Capital Projects Fund, the appropriate revenue account of the fund is debited and the appropriate revenue account of the Capital Projects Fund is credited. This is necessary to record the revenue in the account where the corresponding expenditure is recorded. If, however, assets which represent outlay of the General Fund or any other fund are to be used for capital outlay, then the transaction would require a debit to Fund Equity and a credit to the appropriate asset account. To record the transaction in the Capital Projects Fund, a debit to the proper asset account would be made with a corresponding credit to Fund Equity. It is essential to follow this procedure to assure that revenues and expenditures of all funds are neither overstated nor understated.

At this point, in reference to the above procedure, the question of control and disclosure regarding transfers

between funds may be raised. This question is answered by calling attention to reporting procedures. Adequate and meaningful reporting requires that a Statement of Source and Application of Funds and a Combined Balance Sheet be included with whatever other statements are deemed necessary. The Source and Application of Funds Statement and the Combined Balance Sheet will indicate very clearly any transactions involving transfers of resources between the various funds. Control and supervision of this type of transaction will actually be improved.

The Capital Projects Fund will not include, over the long term, fixed assets in its balance sheet accounts. It will, however, carry fixed assets as Projects in Process until such time as the project is completed. When the project is completed, it will then be transferred to the Capital Assets Fund and debited to the proper asset account.

CAPITAL PROJECTS FUND

810000 Assets:

811000 Cash in Banks

812000 Investments

813000 Taxes Receivable

814000 Prepaid Expense

815000 Interest Receivable

817000 Due from Other Funds

818000 Projects in Process:

818100 Site Improvement

818200 Remodeling and Refurbishing

818300 New Buildings

818400 Demolition

818500 Furniture and Equipment Acquisition

818900 Other Projects

819000 Other Assets

DESCRIPTION OF CAPITAL PROJECTS FUND ASSET ACCOUNTS

810000 Assets:

811000 Cash in Banks - Money on deposit in demand checking accounts and savings accounts. Include all certificates of deposit.

812000 Investments - Notes and Bills of the U. S. Government and other securities bearing interest and payable on a date certain. Usually with maturity dates of not more than two years from date of issue.

813000 Taxes Receivable - Taxes due and not received.

814000 Prepaid Expense - Expenditures incurred during the current year which represent an expense of succeeding years.

815000 Interest Receivable - Interest earned to the close of the fiscal period but not received.

817000 Due from Other Funds - Amounts due from other funds which represent an asset of the Capital Projects Fund and a liability of the other fund.

818000 Projects in Process:

818100 Site Improvement - The amount expended to date on site improvement project or projects. (Use the fifth and sixth positions in the code to identify individual projects.)

818200 Remodeling and Refurbishing - The amount expended to date on remodeling and refurbishing projects.

818300 New Buildings - The amount expended to date on new construction projects.

818400 Demolition - The amount expended to date on demolition projects. (This amount - the cost of demolition - is capitalized and transferred to the Capital Assets Fund and debited to the proper asset account. The asset now completely depleted, the acquisition cost plus demolition cost is written off as an asset of the Capital Assets Fund.)

818500 Furniture and Equipment Acquisition - The amount expended to date on furniture and equipment acquisition projects. (Expenditures for furniture and equipment made during the year may be accumulated in this account and transferred to the Capital Assets Fund once each year.)

818900 Other Projects - Amounts expended on Capital Projects not classified elsewhere.

819000 Other Assets - The amount of all other assets not classified elsewhere.

CAPITAL PROJECTS FUND

820000 Liabilities:

821000	Accounts Payable
822000	Notes Payable
823000	Contracts Payable - Current
824000	Contracts Payable - Long Term
825000	Accrued Expense
826000	Interest Payable
827000	Due to Other Funds
828000	Reserve for Encumbrances
829000	Other Liabilities
850000	Fund Equity

DESCRIPTION OF CAPITAL PROJECTS FUND

LIABILITIES ACCOUNTS

820000 Liabilities:

821000 Accounts Payable - Amounts due on open account to vendors for goods or services received.

822000 Notes Payable - Amounts due on short-term notes payable at some future date generally not to exceed the next fiscal period.

823000 Contracts Payable - Current - Amounts due and payable on contracts for capital projects.

824000 Contracts Payable - Long Term - Amounts to be paid on contracts not currently due. The amount of any specific contract may be totally liquidated over a period of several years. The balance of any contract in this account, when taken with the amount of the corresponding Work in Process account, should equal the amount of the original contract.

825000 Accrued Expense - The amount of expenses accrued which is not represented by any other liability such as accounts payable or notes payable. Such items may include architects' fees or engineering fees not chargeable to a specific project, and for which no billing has been received.

826000 Interest Payable - Interest accrued and due but not paid on outstanding notes

827000 Due to Other Funds - Amounts due to other funds which represent a liability to the Capital Projects Fund and an asset to the other fund.

828000 Reserve for Encumbrances - An amount set aside and representing a segregation of a portion of the Fund Equity to provide for unliquidated encumbrances.

829000 Other Liabilities - All other liabilities of the Capital Projects Fund not classified elsewhere.

CAPITAL PROJECTS FUND

830000 Revenues:

831000 Tax Collections

832000 Proceeds from Sale of Bonds

833000 Interest and Premiums on Investments

834000 Revenue from Other Funds:

834100 State Aid

834200 Federal Aid

834300 Local Sources

834900 Other

835000 Revenue from Federal Sources

836000 Revenue from State Sources

839000 Other Revenue

DESCRIPTION OF CAPITAL PROJECTS FUND REVENUE ACCOUNTS

830000 Revenues:

831000 Tax Collections - Revenue from taxes levied specifically for capital outlay expenditures.

832000 Proceeds from Sale of Bonds - The net proceeds from the sale of bonds. Interest may be capitalized if authorized. Otherwise, interest collected at the time of sale is to be deposited in the Debt Retirement Fund.

833000 Interest and Premiums on Investments - The amount of interest earned plus premiums on investments of Capital Projects Fund Resources.

834000 Revenue from Other Funds:

834100 State Aid - The amount of state aid used for capital outlay purposes. (If, during any year, state aid is used for capital outlay purposes, that amount is debited to the State Aid revenue account in the General Fund with a corresponding credit to the General Fund Asset Account - Cash.)

834200 Federal Aid - The amount of federal aid transferred from the General Fund to the Capital Projects Fund for capital outlay purposes. (See account 834100 for description of the transaction.)

834300 Local Sources - The amount of revenue received in the General Fund transferred to the Capital Projects Fund for capital outlay purposes. (See account 834100 for description of transaction.)

834900 Other - Any other current revenue transferred from any other fund to be used for capital outlay purposes. (See account 834100 for description of the transaction.)

835000 Revenue from Federal Sources - Amounts received directly from the federal government or from the state as a redistribution of federal funds to be used for capital outlay purposes.

836000 Revenue from State Sources - Amounts received from state sources directly to the Capital Projects Fund for capital outlay purposes.

839000 Other Revenue - All other Capital Projects Fund revenue not properly classified elsewhere.

CAPITAL PROJECTS FUND

840000 Expenditures:

841000 Site Acquisition

842000 Site Improvement

843000 Buildings:

843100 New Buildings

843200 Remodeling and Refurbishing

843300 Additions

843400 Demolition

844000 Equipment:

844100 Instructional Equipment

844200 Office Equipment

844300 Maintenance Equipment

844400 Custodial Equipment

844500 Furniture

844600 Transportation

844900 Other

845000 Other Expense:

845100 Fees

845200 Salaries

845900 Miscellaneous

DESCRIPTION OF CAPITAL PROJECTS FUND
EXPENDITURE ACCOUNTS

840000 Expenditures:

841000 Site Acquisition - Amounts expended to purchase sites for building, parking lots, playgrounds, school farms, and other purposes.

842000 Site Improvement - Expenditures to improve sites already owned by the school district. Do not include expenditures for site maintenance.

843000 Buildings:

843100 New Buildings - Expenditures to plan, design, and construct new buildings.

843200 Remodeling and Refurbishing - Expenditures to remodel and refurbish old buildings. Do not include regular maintenance expenditures such as painting, repairing roofs, painting up mortar, or general repair of mechanical equipment.

843300 Additions - Expenditures to construct additions to existing buildings resulting in changed or modified use and increased capacity.

843400 Demolition - Expenditures to demolish old or obsolete facilities. (This amount is added to the asset account representing the book value of the facility and written off as part of the asset cost when the asset is removed from the records of the school district.)

844000 Equipment:

844100 Instructional Equipment - Expenditures for the purchase of new and additional instructional equipment. (Capitalize as assets only that equipment representing an expenditure of \$50.00 or more.)

844200 Office Equipment - Amounts expended for the acquisition of equipment used in offices.

844300 Maintenance Equipment - Expenditures for equipment used in the maintenance of buildings, grounds, and other equipment.

844400 Custodial Equipment - Expenditures for equipment used in the custodial and janitorial care of buildings, grounds, and equipment.

844500 Furniture - Expenditures for classroom furniture and other furniture used in the instructional process

844600 Transportation Equipment - Amounts expended for transportation equipment, including busses and other vehicles used for transportation.

844900 Other Equipment - Amounts expended for equipment not properly classified elsewhere.

845000 Other Expense:

845100 Fees - Amounts paid as fees for services which are not chargeable to a specific project.

845200 Salaries - Salaries paid to employees not chargeable to a specific project.

845900 Miscellaneous - Other expenditures not
properly classified elsewhere

850000 Fund Equity - The difference between Assets
and Liabilities.

CHAPTER VI

THE CAPITAL ASSETS FUND

Capital assets are those fixed assets of the school district which are not accounted for in any other fund. Fixed assets are usually defined as those properties which are tangible, have a life longer than one year, and have significant value. The cost of certain property, although it may have a life of more than one year, is not capitalized if it does not meet the three criteria above. The first two criteria are rather straightforward and easily applied. The test of significant value is, however, ambiguous without further qualification. To provide for uniformity, a value of less than fifty dollars (\$50) is used as the determinant of significant value. Anything over fifty dollars is capitalized.

In the case of capital assets, adequate accounting procedures have never been developed and implemented which provide the control and disclosure required for satisfactory financial reporting. Furthermore, the stewardship responsibility has been less than satisfactory because of this deficiency in the accounting system. In many instances, the public property owned by the school district represents the

largest investment in the community, yet the records do not contain descriptions, values, and assigned responsibility for these assets.

Capital assets are acquired through several methods, such as purchase, lease-purchase, construction, and gifts. The two most common methods are purchase, as in the case of equipment, and construction, such as schools and other buildings.

Adequate accounting for fixed assets requires classification of individual assets within recommended asset classes. The recommended classes for accounting and statement presentation purposes are: Land, Buildings, Improvements Other than Buildings, and Equipment. The recorded asset cost should include the purchase price and all other contingent costs, such as legal fees, appraisals, surveys, interest, and all other charges incurred which are necessary to place the asset in its intended state of operation. All capital assets acquired as gifts are recorded at the fair cash market value on the date of possession. In instances where capital asset accounts are established for the first time and the school district has no record of acquisition costs, a reasonable fair market value is assigned to each of the assets. Although there is some lack of precision in this procedure, there is no other alternative if a Capital Assets Fund is to be established and maintained.

The Capital Assets Fund, like all other funds, is a self-balancing group of accounts. A set of accounts referred

to as Investment Accounts is used to offset the Asset Categories mentioned above. These equity accounts indicate the source of the moneys with which the assets were acquired. Entries made in the accounts of the Capital Assets Fund will correspond to expenditure or closing entries made in other funds. These expenditures or closing entries to record the original acquisition will be made solely in the Capital Projects Fund. If General Fund resources are used to acquire capital assets, the amount of the cost shall be transferred from the General Fund to the Capital Projects Fund, where the expenditure will be recorded. When the transaction involving capital outlay is completed in the Capital Project Fund, the corresponding entry to record the investment shall be made in the Capital Assets Fund. In some instances, it may be more practical to accumulate expenditures and make a single entry to record the assets at the close of the fiscal period. An example would be equipment purchases throughout the year of relatively small amounts.

In the case of building construction or other capitalized costs such as site improvement, it is recommended that the completed portion of the project be carried in the Capital Projects Fund in the account, Work in Process. When the project is completed the total cost of acquisition of the asset is recorded in the Capital Assets Fund.

In instances where assets are disposed of, the appropriate credit is made to the proper asset account with a

corresponding debit to the Investment Account. Where the disposal involves the receipt of money as in a sale, the proceeds from the sale are recorded in the Capital Projects Fund by a debit to Cash and a credit to the appropriate revenue account.

CAPITAL ASSETS FUND

850000 Assets:

851000 Land:

- 851100 Land for School Site Use
- 851200 Land for Other than School Site Use
- 851300 Land for Instructional Use
- 851400 Land Held for Investment
- 851500 Other Land

852000 Buildings:

- 852100 School Buildings
- 852200 Cultural Centers
- 852300 Bus Garages
- 852400 Buildings Owned for Investment
- 852500 Other Buildings and Structures

853000 Equipment:

- 853100 Instructional Equipment
- 853200 Maintenance Equipment
- 853300 Custodial Equipment
- 853400 Transportation Equipment
- 853500 Other Equipment

860000 Investments:

- 861000 Capital Projects Funds
- 862000 Gifts
- 863000 Transfers from Other Governmental Agencies

DESCRIPTION OF CAPITAL ASSETS FUND ASSET ACCOUNTS

850000 Assets:851000 Land:

851100 Land for School Site Use - Land currently used for school building site purposes or to be used for future school building sites.

851200 Land for Other than School Building Site Use - Land currently used for sites other than school buildings. This would include office sites, bus garage sites, and administrative building sites.

851300 Land for Instructional Use - Land used for instructional purposes, such as farms, factories, shops, ecology sites, and physical education areas, which are not an integral part of a school building site.

851400 Land Held for Investment - Land acquired and owned for the purpose of resale or trade at some future date and not intended as a future site. Include all land, regardless of purpose, if rented or leased for income.

851500 Other Land - Any other land owned which is not properly classified elsewhere.

852000 Buildings:

852100 School Buildings - Buildings used primarily for instructional purposes on a continuing basis. Include other buildings which were intended as school buildings but are vacant. Do not include buildings originally intended as school buildings but presently converted to another purpose.

852200 Cultural Centers - Buildings used as theaters, museums, or art centers which are devoted to cultural enrichment of the community and not used as a center for regular instructional purposes, such as a school building.

852300 Bus Garages - Buildings used to repair and store transportation equipment.

852400 Buildings Owned for Investment - Buildings owned which are intended for future sale or rent for the purpose of providing income. Include all buildings, regardless of type, if income is derived from rent or if currently held for sale or exchange.

852500 Other Buildings and Structures - All other buildings and structures not properly classified elsewhere.

853000 Equipment:

853100 Instructional Equipment - Equipment used for and essential to the instructional process. Include furniture for classrooms and teachers' desks and chairs. Also include file cabinets and other moveable storage cabinets. Do not include fixtures which are attached and become an integral part of the building.

853200 Maintenance Equipment - Equipment used in the maintenance of building, grounds, and equipment. Do not include minor hand tools of less than fifty dollars (\$50) value. Do include tool kits and sets even though each element of the kit or set is valued at less than fifty dollars (\$50).

853300 Custodial Equipment - Equipment used in the cleaning and sanitation of buildings and grounds. Included would be such items as ladders, floor scrubbers, buffing machines, and lawn mowers. Do not include maintenance equipment or custodial supplies.

853400 Transportation Equipment - All equipment used for the transportation of pupils to and from school and to activities related to the school program. This would include busses, cars, and other vehicles. Do not include vehicles other than those used for pupil transportation.

853500 Other Equipment - Equipment owned by the school district not properly classified elsewhere. Include cars, trucks, and other vehicles owned by the school district.

860000 Investments:

861000 Capital Projects Funds - Amounts equal to expenditures made in the Capital Projects Fund for the purpose of acquiring fixed assets.

862000 Gifts - Amounts equal to the fair market value of fixed assets acquired as gifts. Do not include as assets those gifts which are acquired with contingent liabilities or where title does not pass.

863000 Transfers from Other Governmental Agencies - Amounts equal to the value of fixed assets acquired by transfer from another public agency. This would include property acquired through district annexation or consolidation, or other property which has been declared surplus by other public agencies.

CHAPTER VII

ENTERPRISE FUND

The Enterprise Fund is established and used to account for financial transactions of self-supporting activities operated by governmental units. These activities generally render services to the public on a user charge basis. It is generally assumed that the activity will over the long term support itself, even though losses may be incurred in any given year. The activity may receive some of its support from the General Fund. However, to be classified as an Enterprise Fund the activity must receive a substantial part of its revenue from client services or user charges.

In a school district, the most common activities which would be classified as Enterprise Funds would be the food service program and the book store operation. Other activities may qualify, such as a summer recreation program, where fees are charged for participation. Also, certain athletic programs may be controlled as Enterprise Funds.

The accounting for Enterprise Funds of school districts should be on an accrual basis, similar to the accounting for other funds. Generally, the Enterprise Funds will not own capital assets nor will they incur long-term debt.

No provision is made for these types of transactions, nor will accounts be provided for control and reporting of capital assets or long-term debt. Where capital assets of the school district are used in the conduct of these activities, the cost may be charged to the enterprise or recorded as a contribution to the activity by the school district.

Within the Enterprise Fund, each activity will have its own separate self-balancing set of accounts.

The use of the Enterprise Fund eliminates the provision made for Revolving Funds in the 1962 version of Bulletin 1022, Michigan School Accounting Manual. The establishment and use of the Enterprise Fund will provide for better control and disclosure than when these activities are included in the General Fund as revolving funds.

The 600000-699900 range in the coding structure is reserved for Enterprise Funds. The first position in the code will be filled with the digit six (6) to identify all Enterprise Funds. Specific enterprises within the Fund are coded in the second position by inserting a digit assigned by the school district. Provision is made for nine different enterprises, which should be sufficient for all school districts. Note that the second position in the code is vacant in the chart of accounts. Local districts may use individual discretion in assigning this element of the code to the various enterprises.

ENTERPRISE FUND

ASSET ACCOUNTS

601000 Assets:

- 601100 Petty Cash
- 601200 Cash in Banks
- 601300 Employee Withholding Deposits
- 601400 Other Deposits
- 601500 Investments
- 601600 Accounts Receivable
- 601700 Inventories
- 601800 Prepaid Expense
- 601900 Other Assets



DESCRIPTION OF ENTERPRISE FUND ASSET ACCOUNTS

601000 Assets:

601100 Petty Cash - Money set aside for the purpose of making change and for the purpose of making cash payment of small amounts. Periodically, the disbursements are posted to the proper expenditure accounts and the petty cash fund is replenished by debiting petty cash by a like amount.

601200 Cash in Banks - Money on deposit in checking accounts and demand deposits in savings accounts. Include all certificates of deposit.

601300 Employee Withholding Deposits - Money withheld from employees' salary and wages for retirement, social security, income taxes, and other purposes.

601400 Other Deposits - Amounts withheld from employees' salaries and wages by authorization of the employee, such as withholdings for insurance, savings bond purchases, and charitable contributions. Also include restricted resources, whenever applicable.

601500 Investments - Moneys invested for a specific period of time at interest and primarily to provide income.



601600 Accounts Receivable - Amounts due from patrons, clients, or organizations, for which goods or services have been rendered. Also include amounts due from other governmental agencies which have been authorized or allocated but not received.

601700 Inventories - The value, at cost, of all goods, materials, or supplies which are stored and marketable, not yet distributed to consuming unit.

601800 Prepaid Expense - Those portions of expenditures made during a fiscal period but chargeable to succeeding years, such as insurance premiums paid in advance.

601900 Other Assets - The value of all other assets not properly classified elsewhere.

ENTERPRISE FUND

LIABILITY ACCOUNTS AND RETAINED EARNINGS

602000 Liabilities:

602100 Accounts Payable

602200 Salaries Payable

602300 Salary Withholdings Payable

602400 Accrued Expense

602500 Due to Other Funds

602600 Deferred Revenue and Reserves

602900 Retained Earnings

DESCRIPTION OF ENTERPRISE FUND LIABILITY ACCOUNTS

602000 Liabilities:

602100 Accounts Payable - Amounts due on open account to vendors and others for goods and services received.

602200 Salaries Payable - The amount of salary and wages earned but not yet paid to employees.

602300 Salary Withholdings Payable - The amount withheld from employees' earnings for taxes, retirement, and other purposes not yet remitted.

602400 Accrued Expense - Any significant liability of the Enterprise Fund not recognized in any other account.

602500 Due to Other Funds - Amounts due to other funds, which represent a liability to the Enterprise Fund and an asset to the other fund.

602600 Deferred Revenue and Reserves - Amounts reserved for specific programs and not reappropriated in the following year. Also include revenue applicable to a period following the close of the current fiscal year.

602900 Retained Earnings - The accumulated earnings of an enterprise, which are retained in the fund and not restricted or reserved for any specific purpose.



ENTERPRISE FUND
REVENUE ACCOUNTS

603000 Revenue:

603100 Sales of Goods or Services
603200 Fees from Patrons and Participants
603300 Dues from Members
603400 Rental Income
603500 Contributions
603600 Federal Subvention
603700 State Subvention
602800 Local Subvention
603900 Other Income

DESCRIPTION OF ENTERPRISE FUND REVENUE ACCOUNTS

603000 Revenue:

603100 Sales of Goods or Services - Income from the sales of goods and/or services by the enterprise. Enter these amounts less discounts and returns.

603200 Fees from Patrons and Participants - Amounts collected as fees for services provided by the enterprise, such as swimming pools entrance fees, playground fees, and park fees.

603300 Dues from Members - Amounts collected as periodic dues paid by members or participants as a condition of affiliation.

603400 Rental Income - Income earned as rent charged for the use of equipment or facilities of the enterprise. Distinguish between rental charges and fee charges. Rental is distinguished from fees, in that under a rental agreement the renter takes possession of the property being rented.

603500 Contributions - Amounts received from individuals, organizations, and agencies for which no goods or services are necessarily expected.

603600 Federal Subvention - Amounts received from the federal government as general or categorical support of the enterprise.



603700 State Subvention - Amounts received from state government as general or categorical support of the enterprise.

603800 Local Subvention - Amounts received from local government agencies as general or categorical support of the enterprise.

603900 Other Income - All other income not properly classified elsewhere.

ENTERPRISE FUND
EXPENDITURE ACCOUNTS

604000 Expenditures:

604100 Salaries and Wages
604200 Supplies
604300 Rental
604400 Utilities
604500 Equipment
604600 Contracted Services
604900 Other Expense

DESCRIPTION OF ENTERPRISE FUND EXPENDITURE ACCOUNTS

604000 Expenditures:

604100 Salaries and Wages - The salaries and wages paid to regular, part-time, and substitute employees. Include all regular pay, overtime, and fringe benefits.

604200 Supplies - The cost of all supplies, including materials and goods for resale.

604300 Rental - The cost of rent paid for facilities and equipment. Include rent paid on lease-purchase agreements.

604400 Utilities - Amounts paid for utilities such as light, heat, and power.

604500 Equipment - The cost of equipment purchased for use in the enterprise. Do not include supplies which are classified under account number 604200.

604600 Contracted Services - The cost of services rendered by an individual or organization not on the payroll of the enterprise. Include travel and subsistence charges, if any.

604900 Other Expense - All other expenses of the enterprise not properly classified elsewhere.

CHAPTER VIII

TRUST AND AGENCY FUND

School districts, like many other public agencies, receive and disburse funds in the capacity of trustees or agents. In these circumstances, there is no property right vested in the school officials. These officials do, however, assume a stewardship responsibility as part of this fiduciary role.

Very few school districts will find it necessary to establish Trust Funds, since very few public schools have received gifts or endowments under trust agreements. However, where endowments do exist, the agreement usually requires very accurate and careful accounting to prevent violation of the terms of the agreement.

Most schools do carry an extensive array of agency funds which, collectively, represent substantial resources and require proper accounting for adequate control and reporting.

The accounting for Agency Funds consists primarily of recording the receipt, custody, and disbursement of money and other assets in accordance with the agency agreement. It should be noted that the school district officials must

make it very clear that the district does not assume responsibility for debts of the organization, but limits its responsibility to stewardship unless expressly stated otherwise.

Examples of organizations for which the school district may maintain agency funds are: the various classes, varsity club, glee club, P.T.A., F.F.A., and the athletic department.

The following chart of accounts should be sufficient to accommodate all Agency Funds of a school district, which are currently referred to as Activity Funds.

TRUST AND AGENCY FUND

ASSET ACCOUNTS

910000 Assets:

911000 Cash in Banks

912000 Investments

913000 Interest Receivable

919000 Other Assets

DESCRIPTION OF TRUST AND AGENCY FUND ASSET ACCOUNTS

910000 Assets:

911000 Cash in Banks - Money deposited in savings and checking accounts. Include certificates of deposit.

912000 Investments - Money invested in Notes and Bills of the U. S. Government and other appropriate securities bearing interest and maturing at a date certain.

913000 Interest Receivable - Interest earned but not received at the close of the fiscal period.

919000 Other Assets - All other assets not properly classified elsewhere.

TRUST AND AGENCY FUND

LIABILITY ACCOUNTS

920000 Liabilities:

921000 Endowment Principal, Nonexpendable

922000 Due to Other Funds

923000 Due to Organizations

924000 Undistributed Earnings

929000 Other Liabilities

DESCRIPTION OF TRUST AND AGENCY FUND LIABILITY ACCOUNTS

920000 Liabilities:

921000 Endowment Principal, Nonexpendable - The principal amount of nonexpendable endowments held in trust by the school district. When this endowment was received, the amount of the endowment was debited to the asset account, Cash or Investments, with the offsetting credit to this account. Income from the endowment is credited to account 932000 Income from Investments.

922000 Due to Other Funds - Amounts due to other funds, which represent a liability of the Trust and Agency Fund and an asset of the other fund.

923000 Due to Organizations - The amount of money due to all organizations for which the school district acts as agent.

924000 Undistributed Earnings - Income earned from investing resources of the Trust and Agency Fund, which are to be distributed and credited to the accounts of the various trusts and organizations.

929000 Other Liabilities - All other liabilities not properly classified elsewhere.

TRUST AND AGENCY FUND
REVENUE AND EXPENDITURE ACCOUNTS

930000 Revenues:

931000 Receipts from Organizations

932000 Income from Investments

939000 Other Income

940000 Expenditures:

941000 Organization Disbursements

942000 Refunds to Organizations

943000 Transfers to General Fund

949000 Other Expenditures

950000 Balance

Note: The school district will use the last two positions in the code to identify each of the various organizations. This will provide for a range of ninety-nine different organizations. Where similar organizations exist at various locations, the building code will be used to distinguish among them.

DESCRIPTION OF TRUST AND AGENCY FUND REVENUE ACCOUNTS

930000 Revenues:

931000 Receipts from Organizations - Moneys received from organizations for deposit and credited to the accounts of the proper organizations.

932000 Income from Investments - Income earned from investment of funds on deposit by the various organizations and to be credited to each organization. This income is prorated to each organization on the basis of the amount of principal provided by each organization, as compared with the total amount of investment.

939000 Other Income - All other income not properly classified elsewhere.

940000 Expenditures:

941000 Organization Disbursements - Authorized disbursements made upon presentation of vouchers by officials of the organization.

942000 Refunds to Organizations - Moneys refunded to organizations, usually to close out the account when the organization dissolves.

943000 Transfers to General Fund - Amounts transferred to the General Fund, usually resulting from gifts to the school district by organizations or to close out inactive accounts.

949000 Other Expenditures - All other expenditures not properly classified elsewhere.

The Agency Fund acts as a conduit for the receipt, disbursement, and control of moneys of other organizations which are affiliated with, but not necessarily an official part of, the school district. These moneys are received by the school district from student organizations, individual students, or faculty members, and the district acts as custodian or fiscal agent on behalf of the payer. Since agency funds are not the property of the educational institution, receipts or disbursements of such funds do not involve institutional income or expenditures. For this reason, it is not necessary to detail the sources of additions and deductions in the fund balance for these funds. Periodic reports of transactions should, however, be made by those for whom the funds are held.

For this reason, it may be worthwhile to describe briefly the operating system regarding Agency Funds and Agency Fund transactions. To provide an example, the activity, Senior Class, will be used for illustration purposes.

The Senior Class exists as a recognized organization in the school program. It has as part of its program certain objectives which require financial resources. To provide these resources, the class assesses dues upon its membership, and conducts certain activities for money-raising purposes. The class has a faculty sponsor and a treasurer elected from its membership.

The treasurer has in his possession receipt books, serial numbered; a voucher book; a general journal; and a ledger. When the treasurer receives money from any source, he prepares and delivers a receipt for the proper amount. He then delivers (at least daily) to the school accounting department the money received, and is issued a receipt. He then prepares his journal entry and posts the receipt to his revenue ledger.

When disbursements are required, the treasurer prepares a voucher for payment, has it countersigned by the class sponsor, and delivers it to the school accounting department for payment. The disbursement is made and the voucher filed with the copy of the check. The treasurer of the class files his copy of the voucher with the vendor's invoice or other document supporting the disbursement. The transaction is then posted to the proper accounts in the ledger.

This procedure requires that detail of expenditure and receipt transactions be maintained by the organization. The accounting department of the school district will maintain only one revenue and one expenditure account for each organization.

CHAPTER IX

ENCUMBRANCE ACCOUNTING

In public school accounting procedure, obligations are incurred and expenditures made for specific purposes and controlled by appropriations approved by the governing body. These appropriations represent the amount of resources which will be devoted to a particular program or service. Since the budget, as approved by the board of education, has the same force and effect as a local ordinance, it is important that these appropriations be adhered to. There are certain procedures which provide for modification and adjustment of appropriations. These procedures, without going into great detail, are primarily the same as those followed in the original budget adoption process.

Because the budget does restrict and control the use of resources, it is necessary to avoid exceeding the amounts authorized. Adequate control requires that a record be made not only of the amount of expenditures, but also the commitments outstanding which will later result in an expenditure. This procedure in accounting is referred to as the encumbrance system.

An encumbrance is recorded at the time a contingent liability occurs (issuance of a purchase order) and

represents a restriction on the unexpended balance of an appropriation. At the time that the goods or services are delivered and the invoice or billing is received, the encumbrance is removed and the expenditure recorded.

This procedure may seem cumbersome and duplicative, but the importance of a good encumbrance system cannot be overemphasized. While the encumbrance system is used primarily to provide control of expenditures during the fiscal year, it also provides the means for segregating a portion of the fund equity at year end to provide for outstanding and unliquidated obligation of the year just ended. Failure to follow this procedure results in an annual discrepancy between June 30 and July 1 fund equity of several million dollars for all school districts in the state.

To illustrate the use of the encumbrance system, several sample journal entries are presented below.

Encumbrances--Elementary Textbooks	3,000.00	
Reserve for Encumbrances		3,000.00

To record the issue of purchase
order #3010 for elementary
textbooks.

This entry is posted to the ledger and results in a restriction of the appropriation for elementary textbooks. When the goods are received and the vendor's invoice is presented, the following two entries are made:

Reserve for Encumbrances	3,000.00
Encumbrances--Elementary Textbooks	3,000.00
Elementary Textbook Expense	3,000.00
Accounts Payable	3,000.00

These two entries reverse (close out) the original encumbrance, since it is no longer needed, and record the actual expenditures.

Generally, at the close of a fiscal period the unliquidated encumbrances are closed out to the appropriation accounts. This does not, however, close the Reserve for Encumbrances account. The balance of this account is carried in the Balance Sheet at year end and represents a segregation of the fund equity, which is necessary to provide for unliquidated obligations of the previous year. As expenditures are made in the subsequent year, the Reserve for Encumbrances is debited rather than an expenditure account. This is necessary for two reasons. First, the use of this procedure insures, to a great extent, that costs and expenditures will be associated with the year during which the related service was provided or the obligation incurred. Second, it eliminates the possibility of recording expenditures twice, or the failure to record the expenditure at any time.

The discussion regarding encumbrance accounting is not necessarily a part of the accounting system as presented in this thesis. It is included, however, because of its

importance as an accounting procedure which is essential to program cost accounting and control.

CHAPTER X

THE COST SYSTEM

The prefatory chapters of this thesis have dealt primarily with suggested modifications of Bulletin 1022, Michigan School Accounting Manual. These modifications are necessary to provide an improved classification of expenditures and also to provide a means for controlling assets and fully disclosing and controlling liabilities. Included also is the means for rudimentary cost accounting by function, object, and program. However, in addition to the structure of the accounting function, there must also be a system which directs and controls the accounting procedures and the information generated from the accounting records. A completely adequate accounting system will provide the means for reflection--examination of past events and transactions; introspection--examination of current activities to discover relationships, trends, and variances; projection--the function of planning and programming; and circumspection--examination of performance as compared with other similar institutions. All of these elements of management and accounting depend heavily upon a well-developed cost system.

Before describing cost accounting principles and procedures, it is necessary to establish a definition of cost. The term "cost" is in most instances loosely used and not subject to easy definition. Probably no single definition can be written which would suit the needs of everyone. However, for purposes of this thesis, cost is defined as an expenditure to secure a good or service which is or will be applied to a particular definable objective. In some instances the cost will be direct, meaning that it obviously and totally applies to a program or project. In other instances the cost may be indirect; that is, the cost is difficult or impossible to associate directly with a given program. A cost also may be fixed or variable. A variable cost is usually one which will vary with changes in operation. In most instances the cost behavior can be associated with the causal factor. For example, in the transportation program fixed costs are represented by insurance, licenses, and depreciation, while variable costs are represented by gasoline, tires, and oil, which vary with the number of miles traveled. In addition to cost definition modifiers, such as direct, indirect, fixed, and variable, it should be noted that other modifiers, such as controllable, program, project, period, joint, estimated, standard, future, replacement, opportunity, imputed, sunk, differential, and out-of-pocket, are all used to ascribe certain attributes to cost which are important to the manager and

convey a specific meaning and significance. Abstract definitions are of little value since a cost must be understood in relationship to its ultimate purpose.

The segregation and collection of cost data must always be conducted with a clear understanding of the use to be made of such data.

To provide a basis and a framework for cost analysis and to describe some applications of cost data in the operation of schools and instructional programs, the following uses of cost data are suggested:

1. To develop unit costs, a knowledge of which will provide cost-benefit relationships and aid in the elimination or modification of excessively costly instructional procedures and strategies.

2. To develop cost comparisons which will allow the school executive to identify nonproductive activities and implement procedures to eliminate or modify them.

3. To identify inefficiencies which result from material wastage, obsolete instructional procedures, inadequate and inaccurate planning, and improper and ineffective manpower allocation.

4. To prepare and present more accurate financial statements.

5. To establish control over material, labor, and overhead expense.

6. To improve efficiency through the use of standards and the comparison of standards to actual performance.

7. To develop cost estimates of new programs and assist the school executive in determining and selecting alternatives regarding proposed changes in programs and organization.

These uses of cost data are only some examples of the critical need for cost information upon which effective management decisions can be made.

In Chapter II, nine universally accepted principles were cited, which will be explained and expanded upon here as the basis for development and use of the cost system.

1. Accounts should be fitted to the organization . . . so that costs can be segregated by individual responsibilities.

The application of this principle eliminates, to a great extent, the need for prorating and distributing indirect costs. If the accounts do not follow closely the organization and program structure, then most expenditures will result in indirect or joint costs which will require a great deal of cost distribution by prorating and other costs-distribution methods. Also, and very important, variance between the account structure and program and organization structure severely inhibits the degree of precision afforded to the executive responsible for planning and budgeting.

2. Cost accounts by individual responsibilities should be subdivided under uniform classifications to show [the] nature of expenditures.

This is accomplished by function and object coding, and is necessary in cost analysis to determine which elements of cost are varying beyond reasonable and acceptable tolerances. It also provides for specific cost identification necessary to make informed management decisions regarding cost control.

3. Goals in the form of standards, budgets, and allowances should be set and constantly kept up to date.

This is, beyond doubt, the most important principle in cost accounting for instructional programs, and, at the present time, the most neglected in school management practices.

At present, there is little, if any, concern for relating goals and objectives, as measured by productive outputs, to actual program costs. In fact, seldom, if ever, are standards set in the form of measurable program outputs which are later related and compared with actual program performance. This is, admittedly, a difficult task, but it also is imperative if cost accounting is to be implemented.

Without specific and measurable program objectives, a cost accounting system is not only useless, but will result in an additional burden upon the resources of the organization with no possibility of providing valuable management information. However, with adequate definition of program goals and objectives, the executive is provided with the means to control expense and also to discover ways of improving performance and/or reducing cost. The setting of goals and

objectives is the professional educator's responsibility. Ultimately, the success or failure of the organization to perform in an efficient and effective manner rests with the professional educator's ability to provide objectives and measures of productive output against which cost data can be compared.

4. Where justifiable cost varies with the rate of activity, variable or flexible budgets and allowances should be developed.

This principle relates, in large part, to the preceding principle dealing with goals and objectives. Recognition must be given to adjustments in program allocations at such times as the program objectives and/or program load are modified.

5. Standards, budgets, and allowances should be prepared with the cooperation of the person responsible for each cost item and should be agreed to by him.

The importance of this principle rests in the assignment of management responsibility to the professional responsible for program operations. In educational organizations, lower level managers are very infrequently held responsible for operating costs. The team approach to management is alluded to here, in the sense that all affected individuals are involved in planning and setting of goals and objectives. Once agreement is reached, the responsibility for cost control is vested in the individual who has responsibility for program performance.

6. Variations of actual costs from standard or budget should be segregated and shown in sufficient detail so that responsibility for each variance can be definitely determined.

The primary purpose of cost reporting is to indicate variance from expected or planned cost. It is essential that variances be explained to determine responsibility and to take action to control cost within acceptable tolerance, if possible.

7. Frequent reports of the costs for which he is responsible should be supplied each person who is responsible for control of any cost element. These reports should emphasize variances of actual costs from . . . budget figures.

This principle relates to the need for reporting as a means for executive action and control. The analysis of variance in cost from actual to expected provides a means for the manager to correct conditions which are affecting certain cost elements.

8. Apportioned or prorated costs over which an executive . . . has no control should not be combined in his cost reports with costs over which he does have control.

Only those costs which are attributable to a specific program should be reported in the interim cost reports. Other costs, however, such as apportioned indirect cost, should, where significant, be allocated to the total year-end program cost report.

9. As an inducement to those responsible for the control of costs, an incentive system of the "savings-sharing" sort should be developed.

Certainly, those individuals who demonstrate efficiency in program operation, which results in achieved objectives at reduced cost, should be recognized in some way. However, reduction of aggregate program cost should not be

confused with the more meaningful measure of units cost of productive output. Assigning direct cost to programs is not, in itself, a difficult task. However, in many instances, certain expenditures result in costs which are not directly and/or totally attributable to a single activity. In some instances, salary expense, although easily associated with program operation, represents a joint cost and must be apportioned among two or more activities. Other costs must also be apportioned on some equitable basis to more than one program. The procedure for accomplishing this apportionment is referred to as prorating.

There are as many ways to prorate cost as there are various kinds of cost. Since accounting is an art rather than a science, individual judgement must be exercised in determining the prorating procedure and the per cent of joint cost attributed to a given program. Some of the more common units of measure used in prorating are time, floor space, distance or mileage, per pupil, and per teacher.

Other costs besides salary, supplies, and material which are not easily or readily associated with any specific activity must also be prorated in an equitable manner and charged to program expense. Utilities and insurance, for example, are costs which are indirect and must be apportioned to the various programs on some equitable basis.

Not all costs of the school district will be charged to program cost. Costs which will be charged to programs

are those which are incurred as a result of services being provided, including all overhead cost except depreciation.

The discussion regarding the merits of recognizing or not recognizing depreciation of fixed assets as cost has been going on for several years, with no solution or agreement in sight. The arguments on both sides of the issue have merit. However, at this point in time the stronger and more defensible position seems to be to delete depreciation as a program cost.

A calm and objective consideration of the value of program cost and the use of program data reveals two major purposes. One is to provide management information regarding cost as related to program objectives. This requires careful and accurate allocation of cost to any individual program. The second major purpose is to provide a means for making comparisons between various programs within a single district or between school districts. The two primary considerations are accuracy of cost attribution and comparability. To add depreciation as an element of program costs introduces the possibility of serious variations in cost which would be very misleading to the school executive and to the public. Further, since it is not a controllable cost, it has little value in cost-reduction analysis. Also, assuming that depreciation cost could equitably be apportioned to individual programs, the relative difference in cost among programs would remain unchanged. For these

reasons it is assumed here that the effort to calculate and apportion depreciation cost as an element of program cost more than offsets any benefit to management which may be derived. Possibly, continued discussion of this issue may, in the future, reveal compelling reasons for inclusion of depreciation of fixed assets as a program cost element.

Earlier, it was stated that no attempt would be made here to develop detailed operating procedures for implementation of cost accounting methods. Rather, it is the purpose of this chapter of the thesis to describe the importance of cost accounting and to suggest some principles and practices necessary for the development of the accounting methods.

However, it is considered worthwhile to make brief reference to accounting and, primarily, bookkeeping practices which will serve as a guide to implementation of the system.

The information derived from the cost system is obtained by an extension of the double-entry bookkeeping rules of debit and credit. Double-entry bookkeeping is based upon the primary principle of accountability for values. This means that for every dollar spent, a value is received, usually in the form of goods or services; consequently, the new value received must be recorded and the value disposed of must also be recorded. Essentially, an exchange of values takes place. Cost accounting follows the same general rules in accounting for values in the internal

operation of the organization. Under the cost accounting system, cost transactions are recorded through a set of cost controlling accounts, which are usually kept in the general ledger. In addition to the general ledger, one or more subsidiary ledgers are used for recording and controlling cost detail by program. The postings to the control account in the general ledger will represent, in a single sum, the details contained in a number of accounts in the subsidiary ledger. Usually, the posting of lump sums to the general ledger will be made at the end of a reporting period. Most school districts should maintain at least two subsidiary ledgers, one for mandatory programs and a second for local programs. The bookkeeping procedures are identical in both instances.

The coding of the program cost accounts is accomplished by use of the fifth and sixth positions in the basic code and the tenth and eleventh positions if the account coding is extended by including the building code (seventh, eighth, and ninth positions) and the local program code. The extension of the code beyond the basic six digits is voluntary on the part of the local district. To illustrate the use of the code, the following example is presented:

Function		Object		Major Program		Building or Location			Local Program	
0	0	0	0	0	0	0	0	0	0	0
1	2	3	4	5	6	7	8	9	10	11

Suppose that an expenditure is incurred for the purchase of teaching supplies to be used in the Remedial Reading element of the Title I program located in the Wanigan Elementary School number 123. The account would be coded as follows:

Function	Object	Major Program	Building or Location	Local Program
11	42	35	123	62
Elementary Instruction	Teaching Supplies	Title I ESEA	Wanigan School	Remedial Reading

An examination of the coding structure reveals that each level of the code, in effect, represents a cost dimension. For example, the first two positions represent a cost dimension by function. The second two positions, taken separately, represent a cost dimension by object of expenditure. The fourth and fifth positions represent a cost dimension by major program; the seventh, eighth, and ninth positions represent a cost dimension by location; and the tenth and eleventh positions represent the cost of a program element. Each segment of the code, taken separately, will provide some cost information for management purposes. However, because each segment of the code qualifies all other segments, the information provided becomes much more meaningful and useful in program cost analysis and program planning.

The above description represents a brief overview of cost accounting, as applied to educational organizations, and is not intended to represent an operating system. It is assumed that the school district will employ staff with the skills and competence necessary to develop and implement the bookkeeping procedures. Those who insist upon complete uniformity are reminded that accounting is an art and not a science. Accounting principles are developed through reasoning. Theories cannot be tested in a laboratory. There is no proof that what is being done is absolutely correct, nor is there any proof that it is wrong. Costs are not computed under a rigid set of rules that are universally accepted. Accounting procedures evolve from a body of dogma, conventions, precedents, and tradition; when taken together they are referred to as "generally accepted accounting principles." These principles are by no means inflexible and unchanging. Rather, they undergo a gradual process of change as experience dictates and conditions warrant.

The value of cost accounting is not to be taken lightly. Information is the basis for inspiration. Cost accounting data provide the facts which allow the administrator to engage in coordination and long-range planning to offer the maximum service to his constituents at the most economical cost.

CHAPTER XI

SUMMARY AND RECOMMENDATIONS

The competition for public resources among units of government is becoming more intense each year. Public opinion and public confidence, at present, are such that schools and the educational system are not placed in the most favorable competitive position.

There may be several reasons for the expressed lack of public enthusiasm, but certainly one reason is the lack of information presented to the public and the format of the presentation. This is due, in great part, to the lack of adequate design in the management information system, and especially the lack of ability to relate cost data to productive educational output.

The purpose of this thesis has been to provide a means for improvement of one element in the management information system. The concern here has been with financial accounting generally, and cost accounting specifically.

The General Fund - Significant Modifications

The General Fund has been substantially modified, particularly to provide improved control of assets and liabilities and to provide more detailed disclosure of assets,

liabilities, and fund equity. Additional accounts are provided, which will require a more detailed breakdown of assets, such as withholdings on deposit but not remitted. Also included is the provision for Reserve for Encumbrances, which will provide for a restriction of fund equity in the amount of unliquidated encumbrances. In addition, the account Reserve for Obligations was deleted and the account Deferred Revenue was added. This change establishes, in the accounting system, the generally accepted practice for handling this type of transaction.

The function Fixed Charges is eliminated entirely, and those costs formerly recorded under this category are now charged to accounts distributed among various other functions, where these costs more properly belong. For example, employee fringe benefits are charged to the same function as the salary accounts to which they relate. Insurance costs have been distributed among the various accounts, such as Maintenance, Administration, and Instruction.

The function of Capital Outlay has also been deleted from the General Fund to eliminate the wide annual variations in cost due to capitalized assets transactions. All transactions representing capitalization will now be recorded in the Capital Projects Fund. The procedure recommended for conversion of General Fund resources to Capital Assets is explained elsewhere in the thesis.

The General Fund, with these modifications, will more nearly reflect the actual operating cost of the school district, and will not experience aggregate or unit costs distortions from year to year.

The Debt Retirement Fund -
Significant Modifications

The Debt Retirement Fund has been modified to provide for disclosure of the aggregate debt of the school district. Previously, the asset and liability accounts disclosed only matured debt at the close of the fiscal period, and tangible assets. The Fund will, under the present structure, carry in its liabilities the total outstanding debt and also, the asset Amount to Be Provided for Payment of Bonds 716000. This account structure will provide, for the first time, a complete record of the total outstanding long-term debt plus a complete record of the assets of the Fund.

The Capital Projects Fund

The Capital Projects Fund is a new fund added to the previous fund structure of the school accounting system, and replaces the fund previously referred to as the Building and Site Fund.

The Capital Projects Fund is used to control all capital projects of the school district. This will include the purchase of equipment, purchase of sites, the construction of sites, and the demolition of obsolete facilities. This fund will not carry, as part of its assets, fixed

assets which are not part of a Project in Process. When projects are completed, the asset is transferred to the Capital Assets Fund. All capital outlay will be transacted through this fund. Resources of other funds to be used for capitalization will be transferred to this fund, where the expenditure will be recorded. The procedures for recording transactions involving transfers of resources between funds are described elsewhere in this thesis.

The Capital Assets Fund

The Capital Assets Fund is a new fund added to the fund structure of the public school accounting system. Its purpose is to provide control and disclosure of capital assets and to record changes in the capital assets of the school district. Bulletin 1022, Michigan School Accounting Manual does not provide adequately the account structure for recording and reporting of capital assets.

The account structure of the Capital Assets Fund does not provide for revenues or expenditures. Transactions involving revenue or expenditures for capitalization are recorded in the Capital Projects Fund. In almost all instances, additions and reductions of capital assets will result from transfers from the Capital Projects Fund. The exception would be the recording of capital assets accruing to the school district through mergers with other school districts, gifts and bequests, and transfers of capital assets from other governmental jurisdictions.

The Enterprise Fund

The Enterprise Fund is also a new fund added to the fund structure of public school accounting systems. Its purpose is to control and disclose transactions relative to self-supporting activities of the school district. Those activities which are functions of the school district but generate income from sales or other sources are included in this fund. Examples are book stores and food services enterprises. These enterprises may derive some income from General Fund support, but generally they will be self-supporting. Transactions regarding transfers to this fund are described elsewhere in this thesis.

The Trust and Agency Fund

The Trust and Agency Fund is a new fund added to the fund structure of the public school accounting system. Its purpose is to provide a means for recording, reporting, and controlling resources of other organizations for which the school district functions as an agent. Detailed records of the organizations are maintained by each organization. The school district assumes only a stewardship responsibility. One revenue account and one expenditure account are maintained for each organization. The operating procedures are described in detail in the previous chapter dealing with Trust and Agency Funds.

Recommendations

The modifications and additions to the Michigan public school accounting system described in the preceding chapters, if implemented, result in vastly improved accounting control and disclosure. Provision is made for a more accurate recording of expenditures, improved recording and control of revenues, and a strong element of cost accounting. Although no attempt is made to describe every program which could be operated by a school district, the major programs are included, with provision for the addition of other programs of interest and concern to the local school district. However, the cost system described will be sufficient, as presented, for almost all school districts, and at the same time retain sufficient simplicity for uncomplicated implementation and operation.

It is most important, however, to realize that accounting for accounting's sake is to a great extent an unproductive exercise. There must be a purpose for the accounting function, beyond that of stewardship. Accounting has as one of its primary purposes the responsibility to provide information upon which informed and intelligent decisions are made. For this reason the following recommendations are made:

1. The development of program objectives.

Cost data are practically useless unless they can be related to units of productive output. To indicate that a

program such as remedial reading has an aggregate cost of a certain sum of dollars does not really provide the kind of data necessary to make intelligent assessments of the worth of the program. The cost data become meaningful only when program objectives are developed which will provide measures of changed behavior or skills which can be related to unit cost. It is recommended, therefore, that before extensive cost accounting procedures are implemented, program objectives be devised which are designed to provide measurable units of student achievement. Only when this is accomplished will cost/effectiveness relationships become realistic and meaningful.

2. Financial reporting procedures.

In addition to stewardship and management information, the accounting system should include adequate reporting procedures in formats which are useful for analysis and long-range planning. The reporting procedures and formats currently in use are generally incomplete and extremely fragmented. At present, the requirements call for a Balance Sheet, a Statement of Revenues and Expenditures, and a wide variety of program cost reports in many different formats. This condition causes a great deal of unnecessary reporting effort in each local district and results, to some extent, in incomplete and inaccurate reporting.

To alleviate this condition, it is recommended that a complete revision of the reporting system be undertaken

which will result in the development of three basic reporting formats: (a) a Combined Balance Sheet for all funds, (b) a Statement of Source and Application of Funds for all funds, and (c) a Statement of Revenues and Expenditures for each fund.

To supplement these reports and accommodate the need for program cost reports, separate schedules should be provided as attachments to the basic Revenue and Expenditure Report, which will report the cost of each program.

This accounting system, taken with the two recommendations above, will provide the means for reacting positively to the current public demand for accountability in the educational system.

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