

5. Site-based Decision Making

Update 14

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**TEXAS EDUCATION AGENCY
FINANCIAL ACCOUNTABILITY SYSTEM
RESOURCE GUIDE**

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5. Site-based Decision Making

The purpose of this guide is to give direction for the implementation of site-based decision making at every level in a school district. An additional reference that is to be consulted for guidance regarding generally accepted financial management practices is the Financial Information Resource Manual which is accessible on the Round Rock ISD's Internet site or as a separate download that may be installed on a personal computer hard drive. All school districts should develop a business procedures manual, which may be adapted from the excellent examples that are accessible on various school districts' Internet sites.

The major components of this guide are:

- An overview of the site-based decision making initiative
- Legal requirements for site-based decision making
- Site-based fiscal responsibilities
 - Site-based budgeting
 - Site-based accounting
 - Campus and school activity funds

5.1 Overview of Site-based Decision Making

The basic premise of site-based decision making is that the most effective decisions are made by those who will actually implement the decisions. The belief is that people involved at the campus level have a greater opportunity to identify problems, develop problem resolution and change strategy than people located off-campus. Site-based decision making concepts also recognize that people at the campus level are more likely to internalize change and to support its implementation if they are involved in the decision making than if they are not.

The objective of site-based decision making is to improve student performance and to enhance accountability. Each campus should have the freedom to set its own educational objectives, consistent with the school district's goals.

5.1.1 Site-based Decision Making Initiative

Site-based decision making implementation has been mandated for all Texas school districts since 1992. TEA defines site-based decision making as follows:

Site-based decision making is a process for decentralizing decisions to improve the educational outcomes at every school campus through a collaborative effort by which principals, teachers, campus staff, district staff, parents, and community representatives assess educational outcomes of all students, determine goals and strategies, and ensure that strategies are implemented and adjusted to improve student achievement.

The atmosphere in the United States has become more demanding of public school systems' central administration. Often the public asks that centralized decision making units be broken into smaller, more workable groups that will provide them opportunities to have input into local education decisions. To empower the local public school system, a balance between freedom and accountability must be achieved. The schools must have freedom to take ownership of the education process.

The expected outcome of site-based decision making is improved student performance as a result of:

- Effective campus and school district planning for the purpose of improved student performance
- Improved community involvement in the school improvement process
- Clearly established accountability parameters for student performance
- Increased staff productivity and satisfaction
- Improved communication and information flow
- Consensus-based, decision making
- Pervasive and long-range commitment to implementation
- Increased flexibility at the campus level in the allocation and use of both human and fiscal resources
- Coordination of "regular" and special program or service components

The implementation process for site-based decision making occurs at two levels—district and campus. To implement the process at the district level, administration should consider the following critical success factors:

- Support of both the school board and the superintendent as site-based decision making requires a fundamental change in decision making.
- Extensive and continuous training prior to and during implementation within the school district. Training should include, but not be limited to, developing skills on consensus building, brainstorming, problem solving, managing change and interpersonal communication skills such as conflict resolution, value clarification and negotiation.
- Budget shifts will be performed by objective instead of the historical method of formulas. Therefore, a large part of the responsibility for budgeting will be transferred to the campus level.

- An extensive amount of time will be spent changing role definitions, training school district staff, educating the community, establishing objectives, developing and implementing programs and monitoring program success.
- Extensive and accurate information must be provided to the campuses so that they may establish objectives and develop and implement programs to meet those objectives.
- Systematic communication is necessary as site-based decision making is an inclusive process that involves school staff, parents and community members.
- Site-based decision making strives to decentralize decisions to the campus level and solicits the input of the following stakeholders in the decision making process:
 - Board members to evaluate the performance of the school district’s site-based decision making plan
 - Superintendents to develop and implement site-based decision making across the school district
- Central administrative staff to provide support services to both the board members and schools in site-based decision making initiatives
- Principals to develop their respective school’s site-based decision making policies and procedures as well as its campus improvement plan
- Teachers, parents, students and community representatives to provide input for their respective school’s site-based decision making policies and procedures and campus improvement plan

Site-based decision making differs significantly from traditional school organization practices in the following ways:

- Goals are determined on a campus level from a campus needs assessment and outcome data

- Activities are self-initiated and self-directed by the campus staff
- Budget development and allocation of resources are campus-controlled
- Staff selection criteria are guided by standards developed by a campus within the context of state and district guidelines
- Campus organization structure is arranged functionally to encourage and facilitate shared team decision making and input
- The campus staff verify that site-based decision making is established and working
- The role of central administration in site-based decision making is that of support. Central administration assists in site-based decision making through planning, providing alternative strategies, developing evaluation mechanisms and obtaining resources.

While every school district will have differences in functions that will be performed on a central basis, typical functions performed centrally include the following services: maintenance, custodial, transportation, food, data processing, business (accounting, budget coordination, purchasing, etc.), security and personnel. The performance of these noninstructional services on a centralized basis can benefit the school district in several ways. Cost savings for district and campus purchases may be realized due to economies of scale. Also, consistent performance standards can be developed, applied and monitored centrally to more efficiently improve district and campus outcomes. Monitoring of legal and safety standards will be easier to track centrally, and personnel resources may be better utilized through a centralized system.

Although central administration may maintain overall responsibility for these services, site-based administrators and staff should be significantly involved in planning, decision making, supervision and related activities.

5.1.2 Roles and Responsibilities

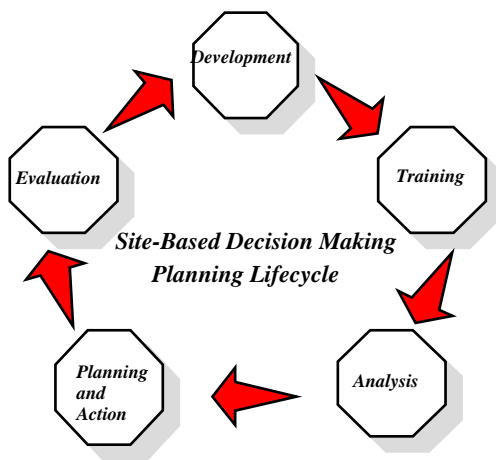
Site-based decision making advocates decision making by committee. In most cases, instructional related policies have been made by a limited number of high level

administrators. Site-based decision making (SBDM) now involves input from many who are closely involved at the student level. Site-based decision making policies and procedures without generally agreed upon objectives and structure can create problems. Thus, development of policies and procedures for site-based decision making must place special emphasis on educating and training all individuals involved. The school district's mission must be clearly stated, and time should be invested to train all participants on the importance of a collaborative atmosphere for committee meetings and the process as a whole. Within the school district's policies and procedures for site-based decision making, a clear delineation of each administrator's and committee member's role and their associated responsibilities is necessary.

5.1.3 Site-based Decision Making Implementation

A school district's policies, procedures and activities for site-based decision making should continuously be challenged for areas that can be improved. The recommended phases for site-based decision making are development, training, analysis, planning and action, and evaluation. Implementation is a continuous process or cycle. The continuous process is graphically depicted in [Exhibit 1](#).

Exhibit 1. Site-based Decision Making Planning Lifecycle



The implementation of effective site-based decision making follows the planning lifecycle and includes specific activities for each phase, including:

- Site-based decision making should begin with research of state rules and laws pertaining to SBDM. Successful models used by a variety of school districts, publications and seminars provided by TEA and other organizations are available to aid schools in the development process. Roles and responsibilities should be defined for all responsible parties, from teachers and community members to the board of trustees. All planning and development activities should support the school district's mission.
- Training begins with the district level committee introducing site-based decision making policies, procedures and activities to campus level committee members and staff. Special attention should be given to group dynamics. Efforts to improve skills in consensus building and conflict resolution should result in more effective meetings.
- Campus improvement teams analyze data on campus performance on Academic Excellence Indicators (AEIS reports) identify performance gaps and assess campus needs.
- Planning and action phases place priorities on needs and execute the action steps developed in the campus improvement plan. Strategies with the objective of attaining student and campus goals are implemented.
- Evaluation of site-based policies, procedures and activities is the final phase in the cycle. Criteria should be established to measure results of actions taken to improve campus effectiveness. The campus' success in meeting its objectives can be measured by comparing actual student achievement to the goals established through the district- and campus-level committees and the district's site-based decision making policies and procedures. The data produced in the analysis phase of the site-based decision making planning lifecycle can provide valuable information for improving the site-based decision making in the future.

5.2 State Requirements for Site-based Decision Making

Each school district is required to adopt a policy and have administrative procedures to establish a district- and campus-level planning and decision making process. This process must involve professional staff of the district, parents and community members in establishing and reviewing the district's and campuses' educational plans, goals, performance objectives and major classroom instructional programs. ([TEC 11.251 \(b, d\)](#))

5.2.1 District- and Campus-level Committees

School districts are required to establish district- and campus-level planning and decision-making committees whose membership must include:

- Professional staff
- Parents of students enrolled in the district
- Community members
- Business and industry representatives

The selection process for the district-level and campus-level committees must be conducted in a manner that provides for appropriate representation of the community's diversity ([TEC 11.251 \(e\)](#)). These committees must hold at least one public meeting per year which must take place after the receipt of the annual district performance report from TEA. These meetings are for the purpose of discussing the performance of the district and the district performance objectives ([TEC 11.252 \(e\)](#), [11.253 \(g\)](#)).

For both the district- and campus-level committees, district and campus policies and procedures must be established to ensure that systematic communications measures are in place to periodically obtain broad-based community, parent and staff input and to provide information to those persons regarding the recommendations of these committees (TEC 11.252 (e), 11.253 (g)). The statute also provides for the superintendent to regularly consult with the district- and campus-level committees in the planning, operation, supervision and evaluation of the district and campus educational programs.

Specifically, both the campus- and district-level planning and decision-making committees' roles address the areas of:

- Planning
- Budgeting
- Curriculum
- Staffing patterns
- Staff development
- School organization

In addition, the district-level committee must be actively involved in establishing the administrative procedure that defines the respective roles and responsibilities related to planning and decision-making at the district and campus levels.

Additional duties of the district- and campus-level committees include the following:

- For teacher appraisal, the school district may use an appraisal process and performance criteria developed by the district- and campus-level planning and decision-making committees. This process and related criteria must be adopted by the board of trustees ([TEC 21.352 \(a\) - \(b\)](#)).
- Each school district shall adopt a student code of conduct for the district with the advice of its district-level planning and decision-making committee and as appropriate, with the juvenile board of each county in which the district is located ([TEC 37.001 \(a\)](#)).
- Each school district shall adopt and implement a dating violence policy and provide the specifics of the policy (in the district plan), including the provision of dating violence safety planning, enforcement of protective orders and school-based alternative to protective orders, staff training and counseling for affected students, and awareness education for students and parents ([TEC 37.0831](#), enacted by [HB 121](#), 80th Legislature).
- A school campus or district seeking a waiver must submit a written application to the commissioner which must include:

- A written plan approved by the board of trustees that states the achievement objectives of the campus or district and the inhibition imposed on the accomplishment of those objectives by the existing requirement, restriction or prohibition
- Written comments from the campus- or district-level committee ([TEC 7.056 \(b\)\(2\)](#))
- The campus-level committee shall determine the use of the funds awarded to a school under the Texas Successful School Awards System ([TEC 39.094 \(b\)](#))
- Staff development must be predominantly campus-based, related to achieving campus performance objectives established by the principal with the assistance of the campus-level planning and decision-making committee. Staff development must be developed and approved by the campus-level committee ([TEC 21.451 \(b\)](#))

5.2.2 District Improvement Plans

Each school district is required to develop a district improvement plan, and it must be developed, evaluated and revised annually by the superintendent and the district-level committee. The purpose of the district improvement plan is to guide district and campus staff in the improvement of student performance for all student groups in order to attain state standards for the state student achievement indicators under [39.053](#). The district improvement plan must be supportive of the objectives of the campus improvement plan and must, at a minimum, support the state goals and objectives for education which are identified in [Chapter 4](#) of the Texas Education Code.

The Texas Education Code, [Section 11.251](#), also requires that the board of trustees ensure that the district and all campus plans be developed, reviewed and revised annually for the purpose of improving the performance of all students. Annual board approval must ensure that the district and campus plans are mutually supportive to accomplish the identified objectives and support the state goals and objectives listed in Chapter 4 of the Texas Education Code.

In accordance with [TEC 11.252](#), each district improvement plan must include provisions for:

1. a comprehensive needs assessment addressing district student performance on the student achievement indicators, and other appropriate measures of performance, that are disaggregated by all student groups served by the district, including categories of ethnicity, socioeconomic status, sex, and populations served by special programs, including students in special education programs under Subchapter A, Chapter 29;

2. measurable district performance objectives for all appropriate student achievement indicators for all student populations, including students in special education programs under Subchapter A, Chapter 29, and other measures of student performance that may be identified through the comprehensive needs assessment;
3. strategies for improvement of student performance that include:
 - a. instructional methods for addressing the needs of student groups not achieving their full potential;
 - b. methods for addressing the needs of students for special programs, such as suicide prevention, conflict resolution, violence prevention, or dyslexia treatment programs;
 - c. dropout reduction;
 - d. integration of technology in instructional and administrative programs;
 - e. discipline management;
 - f. staff development for professional staff of the district;
 - g. career education to assist students in developing the knowledge, skills, and competencies necessary for a broad range of career opportunities; and
 - h. accelerated education;
4. strategies for providing to middle school, junior high school, and high school students, those students' teachers and counselors, and those students' parents information about:
 - a. higher education admissions and financial aid opportunities;
 - b. the TEXAS grant program and the Teach for Texas grant program established under Chapter 56;
 - c. the need for students to make informed curriculum choices to be prepared for success beyond high school; and
 - d. sources of information on higher education admissions and financial aid;
5. resources needed to implement identified strategies;
6. staff responsible for ensuring the accomplishment of each strategy;
7. timelines for ongoing monitoring of the implementation of each improvement strategy; and
8. formative evaluation criteria for determining periodically whether strategies are resulting in intended improvement of student performance.

In addressing the needs of students at risk of dropping out of school, the state compensatory education program must be addressed in the comprehensive needs assessment, be described in the campus improvement plan if the program is implemented at the campus level, or be described in the district improvement plan if the program is implemented districtwide. For further guidance regarding the how the state compensatory education must be indicated in

the plan, refer to the [Financial Accountability System Resource Guide](#), Update 14, Section 9.2.3.

Many districts utilize their regional education service centers to assist in the development of their campus and/or district improvement plans. ESCs provide technical assistance to school districts and can provide a wealth of information on best practices and model programs.

5.2.3 Campus Improvement Plans

Each school year the principal of each school campus, with the assistance of the campus-level committee, must develop, review and revise the campus improvement plan. The purpose of this plan is to improve student performance on the state's student achievement indicators for all student populations, as well as improve performance on any other performance measures for special needs populations. The campus improvement plan must be supportive of the objectives of the district improvement plan and must, at a minimum, support the state goals and objectives for education.

The Texas Education Code, [Section 11.251](#), also requires that the board of trustees ensure that the district and all campus plans be developed, reviewed and revised annually for the purpose of improving the performance of all students. Annual board approval must ensure that the district and campus plans are mutually supportive to accomplish the identified objectives and support the state goals and objectives listed in [Chapter 4](#) of the Texas Education Code.

Each campus improvement plan must:

1. assess the academic achievement for each student in the school using the student achievement indicator system as described by [Section 39.053](#);
2. set the campus performance objectives based on the student achievement indicator system, including objectives for special needs populations, including students in special education programs under Subchapter A, Chapter 29;
3. identify how the campus goals will be met for each student;
4. determine the resources needed to implement the plan;
5. identify staff needed to implement the plan;
6. set timelines for reaching the goals;
7. measure progress toward the performance objectives periodically to ensure that the plan is resulting in academic improvement;
8. include goals and methods for violence prevention and intervention on campus;
9. provide for a program to encourage parental involvement at the campus and
10. if the campus is an elementary, middle, or junior high school, set goals and objectives for the coordinated health program at the campus based on:

- a. student fitness assessment data, including any data from research-based assessments such as the school health index assessment and planning tool created by the federal Centers for Disease Control and Prevention;
- b. student academic performance data;
- c. student attendance rates;
- d. the percentage of students who are educationally disadvantaged;
- e. the use and success of any method to ensure that students participate in moderate to vigorous physical activity as required by Section 28.002(1); and
- f. any other indicator recommended by the local school advisory council.

In addressing the needs of students at risk of dropping out of school, the state compensatory education program must be addressed in the comprehensive needs assessment, be described in the campus improvement plan if the program is implemented at the campus level, or be described in the district improvement plan if the program is implemented districtwide. The district and/or campus improvement plan, as appropriate, must also include the following:

- Comprehensive needs assessment - conducted to identify the strengths and weaknesses of existing programs, practices, procedures, and activities
- Total amount of state compensatory education funds allocated for resources and staff
- Identified strategies - aligned with the comprehensive needs assessment
- Supplemental financial resources for state compensatory education
- Supplemental FTEs for state compensatory education (This is not necessary if the schoolwide campus is at or above 40% and is combining SCE funds to support their Title I, Part A program.)
- Measurable performance objectives - stated in terms of what the student is expected to do and stated in terms of measurable and/or observable behavior to ensure that the plan is resulting in academic improvement
- Timelines for monitoring strategies and reaching goals – specific schedule for data collection during the school year
- Formative and summative evaluation criteria - Formative evaluation includes periodic measures that are utilized during the actual implementation of the interventions or strategies. The summative evaluation occurs at the end of the implementation period to provide the overall project and process evaluation.

State compensatory education resources must be redirected when evaluations indicate that programs and/or services are unsuccessful in producing desired results for students at risk of dropping out of school.

School districts are required to have local policies and procedures to identify:

1. Students who are at risk of dropping out of school under the criteria in [Section 29.081](#), TEC
2. Students who are at risk of dropping out of school under local criteria and document compliance with the 10% cap in [Section 29.081](#), TEC
3. How students are entered into the SCE program;
4. How students are exited from the SCE program;
5. The methodologies involving calculation of 110% satisfactory performance on all assessment instruments, in accordance with [Section 29.081](#), TEC and
6. The cost of the regular education program in relation to budget allocations per student and/or instructional staff per student ratio.

Law requires the district/campus improvement plan and is the primary record supporting expenditures attributed to the state compensatory education program.

The district must design the state compensatory education program based on the identified needs of students at risk of dropping out of school. In determining the appropriate accelerated, intensive compensatory programs and/or services, districts must use student performance data from the TAKS and other appropriate assessment instruments and achievement tests administered under Subchapter B, Chapter 39 of the Texas Education Code.

Many districts utilize their regional education service centers to assist in the development of their campus and/or district improvement plans. ESCs provide technical assistance to school districts and can provide a wealth of information on best practices and model programs.

5.2.4 Evaluation of Site-based Decision Making

At least every two years, each district must evaluate the effectiveness of the district's decision-making and planning policies, procedures and staff development activities related to district- and campus-level decision-making and planning to ensure that they are structured effectively to positively impact student performance ([TEC 11.252 \(d\)](#)).

The statute gives no specified guidelines for this bi-annual evaluation, other than that its scope must include all decision-making policies, procedures and staff development.

5.2.5 Other Resources

Additional resources about decision making and planning processes are available from the following organizations:

[Region 10 Education Service Center](#)

[Region 8 Education Service Center](#)

[Region 15 Education Service Center](#)

[Region 20 Education Service Center](#)

5.3 Site-based Budgeting

A major management process which should be adopted by school districts is site-based budgeting. The concept of site-based budgeting provides for input from community members, teachers, and other campus staff in the resource allocation decisions which affect their respective schools. Although site-based decision making allows for the involvement of these individuals in formulating campus goals, objectives and plans, site-based budgeting takes the process a step further by delegating more authority over financial resources to campus decision makers. Thus, site-based budgeting is more flexible than traditional budgeting because it decentralizes budgetary decision making to those individuals who best understand the needs of individual schools.

5.3.1 Budgetary Rules and Regulations

State law mandates that school districts implement site-based decision making through the development of policies and procedures for district- and campus-level planning and decision making. State law also requires district- and campus-level committees who develop improvement plans at both the district and campus levels (see State Requirements for Site-based Decision Making). The extent to which site-based decision making and planning is utilized in a district's budget process is ultimately determined by the superintendent of the district. While site-based budgeting is not a statutory requirement, it is highly recommended that the superintendent, in collaboration with the school board, utilize site-based budgeting methods in the development of the school district's annual budget. A school district's site-based budget plan, however, must adhere to rules established by TEA and the state legislature (e.g., legal level of control requirements).

Although state law mandates preparation and adoption of school district budgets by certain dates (see the Legal Requirements of Budgeting section of the Budgeting module of the *Resource Guide* for a full explanation of these requirements), no state requirement for the preparation and adoption of campus budgets exists. The requirements for campus budget preparation and adoption should therefore be determined by the school district's superintendent. These requirements (and related critical dates for submission) should be outlined in the school district's budget guidelines and budget calendar (see the Budgeting module of this *Resource Guide*).

5.3.2 Site-based Budgeting Roles and Responsibilities

School districts that adopt site-based budgeting should select plans that segregate budgetary responsibilities between campus and district levels. This selection should be made as a district develops and approves its annual budget preparation process. A school district should develop a budget preparation process which is tailored to its own goals, objectives and needs. A method by which a school district may assign budget preparation responsibilities is:

- State law mandates that the superintendent prepare, or cause to be prepared, the budget. Thus, the superintendent is responsible for preparing and presenting the preliminary budget to the board. Although the superintendent and other district administrators may be very involved in the preparation of the school district's budget, site-based budgeting delegates much of the authority to make resource allocations to the campus level. Campus decision makers, however, still require guidance and technical assistance from school district administrators to prepare campus budgets. School district administrators may provide such elements as enrollment projections, standard per pupil resource allocations, staffing guidelines, etc. The business office may also provide information to campuses about their budget status and expenditure reports. The business office often supplies valuable assistance in the areas of purchasing, the use of grant funds and amending the budget.
- In addition, school district administrators may prepare budgets for support services which are critical to the needs of the individual schools. For example, the director of personnel provides qualified personnel to each school. Directors of food services, transportation and plant maintenance (or their equivalents) control important services necessary to the operations of the campuses. Given the importance of such services to individual campuses, campus and district staffs should work closely during the budget preparation process to ensure that all campus/district expenditure items are included in the budget at the appropriate level.
- The principal is responsible for developing and maintaining the campus budget. Principals should work with campus resource planning groups (or their equivalents), department heads, and campus improvement teams to determine campus resource allocation and to develop non-allocated requests. Principals may also act as the representative of the campus in school district budget meetings as campus resource allocations and non-allocated requests are reviewed and approved. Because the budget provides financial resources necessary for the achievement of the campus goals, the principal is responsible for directing these resources to their most effective use.

5.3.3 Level of Budgetary Account Coding

School district budgets, at a minimum, must be developed and approved for the General Fund, the Food Service Fund and the Debt Service Fund on an annual basis. These budgets must be approved by the school board at the fund and detailed function level. In addition, the officially adopted annual budget must be reported to TEA through the Public Education Information Management System (PEIMS) and posted on the district website. PEIMS requires submission of a more detailed version of the budget than that required to ensure a legal level of control (see TEA Legal Requirements in the Budgeting module of the *Resource Guide* for an explanation of PEIMS requirements). Beyond these requirements, a school district has the authority to decide the level of detail for campus budgets. Since one of the major reasons for a budget is to compare the actual use of resources to projections, site-based budgets are usually developed at the same detailed level as the coding of expenditures.

The proper coding of the budget and classification of expenditures is critical for the accurate oversight of a school's budget. Time should be invested in training the campus staff to ensure their understanding of the budgetary account structure and specific rules associated with the use of special funds (e.g., federal grants). Because with site-based budgeting most budget activity is initiated at the campus, campus budget managers must know what funds are available and how the available funds can be used. Some school districts provide simple definitions of account code segments along with examples of classification of common expenses as part of their site-based budgeting documentation.

5.3.4 Budget Amendments

The school district's board adopted district budget projects available resources and how those resources are to be channeled to best meet student needs. Unforeseen events or changes in priorities which occur during the year often require redirection of funds. The budget is not intended to hinder these changes. Rather, procedures should be established which allow for necessary amendments to the school district budget.

At the district level, any amendment that would change budgeted fund or function totals at the district level requires formal board approval. As a result, budget amendments at the campus level must be submitted for board approval when they affect fund or function totals at the district level. Campus budget managers may be granted the authority (at the discretion of the school district board) to move budgeted funds from one expenditure object to another within a function. For example, a principal may transfer budgeted funds from Supplies and Materials (Object 6300) to Other Operating Costs (Object 6400) within Instruction (Function 11) without formal board approval. A request to amend funds from

Supplies and Materials (Object 6300) in Function 11 to Supplies and Materials in Function 12 for a campus would require official board approval.

There should be a clear segregation of duties within a school district as to the control of budgetary accounts. Funds budgeted to a campus for a particular service or project may be controlled at the district level limiting a principal's ability to make budget changes. For example, a principal wishing to redirect Title I supply funds to capital outlay may be required to make the request to the program director or manager charged with controlling Title I funds. Such a request would ensure that these resources are used for eligible purposes.

5.4 Site-based Accounting

Site-based accounting encompasses those administrative duties performed by campus-level personnel to provide accurate reporting of the school's activities. In this section, the following discussions will familiarize campus-based personnel with basic terminology and key concepts related to campus-level accounting.

- Financial Accounting
- Overview of Accounting System
- Roles and Responsibilities

5.4.1 Financial Accounting and Reporting

Financial accounting is essential to the successful operation of schools and school districts. The objective of financial accounting is to provide accurate and useful information that can be used in decision making. Users of accounting information include personnel within the school district, government agencies, the legislature, creditors and the general public. These users of accounting information may be interested in the financial activities of the school district but may not be directly involved in its operations. They must rely on the accuracy of the financial information reported by the school district.

The accuracy of financial information depends on the proper recording of individual transactions. Properly recording transactions at individual campuses is the responsibility of site-based personnel. Site-based personnel will be assisted in fulfilling this responsibility by the school district's administration and this *Resource Manual*.

5.4.1.1 Objectives of Financial Accounting

The basic objectives for accounting and financial reporting for public school districts are:

- To provide financial information useful for determining and forecasting the inflows and outflows of short-term financial resources and to track account balances
- To provide financial information useful for determining and forecasting financial condition and changes therein
- To provide financial information useful for monitoring performance under terms of legal, contractual and fiduciary requirements
- To provide information useful for planning and budgeting and for forecasting the impact of the acquisition and allocation of resources on the achievement of operational objectives
- To provide information useful for evaluating managerial and organizational performance
- To communicate relevant information in a manner which best facilitates its use

5.4.1.2 Overview of Accounting System

Many users of financial information compare the financial information of two or more school districts to evaluate the school districts' relative efficiencies, determine funding levels, etc. To provide comparability, a standardized accounting system for all Texas school districts has been developed.

The accounting system of Texas school districts is designed to accumulate vast numbers of transactions into meaningful aggregations of financial information. The accounting system utilizes funds to report major operational activities of the school district. A *fund* is a separate accounting entity designated or legally restricted for a particular activity of the school district. A fund is similar to a filing cabinet drawer that is designated for one purpose while other drawers are used for other purposes. School districts generally utilize the following funds:

- *General Fund* - This fund is used to account for transactions resulting from the operations of ongoing organizations and activities from a variety of revenue sources for which fund balance is controlled by and retained for the use of the school district.
- *Special Revenue Funds* - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds exclude expendable trusts and major capital projects.
- *Debt Service Funds* - These funds are used to account for general long-term debt principal and interest for debt issues and other long-term debts for which a tax has been dedicated.
- *Capital Projects Funds* - These funds are used to account on a project basis for projects financed from the proceeds from bond issues or for capital projects otherwise mandated for this type of fund.
- *Enterprise Funds* - These funds are proprietary fund types accounted for on the accrual basis and not required to be reported in budget data submitted through PEIMS to TEA. The exception is for child nutrition operations accounted for in an enterprise fund in accordance with generally accepted accounting principles. Generally accepted accounting principles for the private sector are applicable for determination of financial position, results of operations and cash flows.
- *Internal Service Funds* - This fund type may be used to account for the financing of goods or services provided by one organizational unit of the school district to other organizational units of the school district, or to other school districts or governmental units on a cost reimbursement basis. An example of an internal service fund is a school district-operated print shop.
- *Trust and Agency Funds* - These funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other

governmental units and/or other funds. These funds consist of nonexpendable trust funds, expendable trust funds and agency funds.

5.4.1.3 Account Code Composition

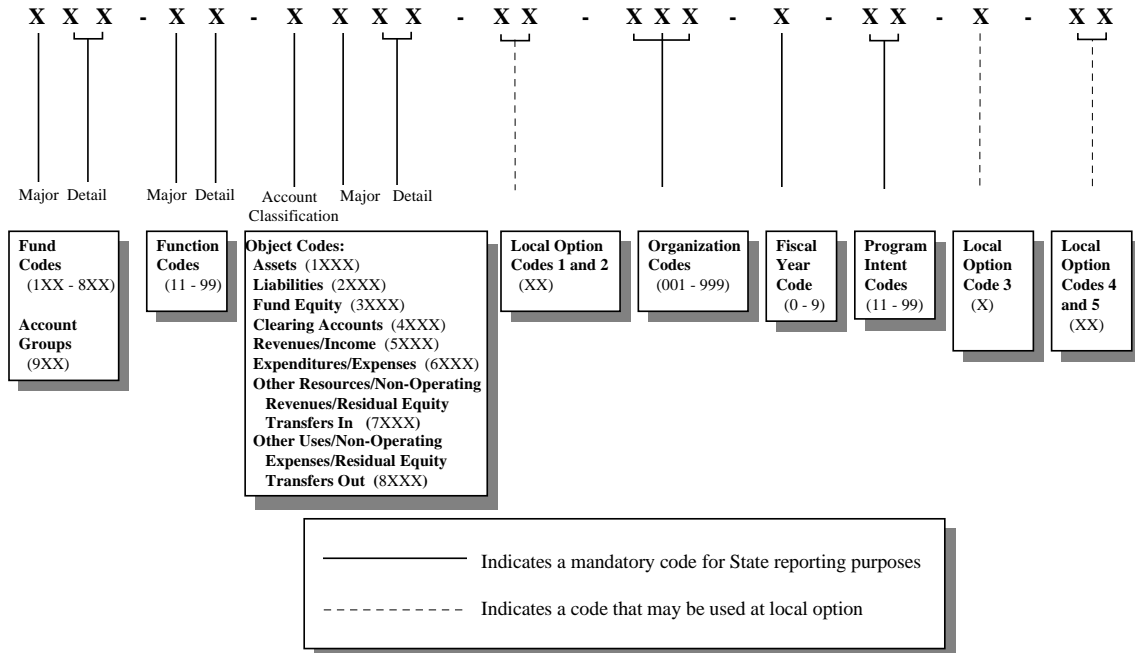
Within each fund, transactions are recorded in *account classifications* which when summarized present the financial operations of the fund's activity. An *account* is a pre-defined label for a particular activity within a fund. Using the example of a filing cabinet, an account is similar to an individual file within a drawer of the cabinet. Each file may contain multiple documents having a common nature. The sequence of numerical codes within the structure is referred to as the *account number*.

Section 44.007 of the Texas Education Code requires that a standard school fiscal accounting system be adopted by each school district. The system must meet at least the minimum requirements prescribed by the state board of education. The system will also be subject to review and comment by the state auditor's office. This section further requires that a report be provided on or before the date set by the State Board of Education to monitor the funding process and to determine educational system costs by district, campus, and program/service.

The account code structure in [Exhibit 2](#) establishes the standard school fiscal accounting system required by law. Although certain codes may be used at local option, the sequence of the codes within the structure and the funds and chart of accounts are to be uniformly used by all school districts in accordance with generally accepted accounting principles.

Exhibit 2. Account Code Structure

The Code Structure



5.4.1.4 Basic System Code Composition

- *Fund Code* - A mandatory 3 digit code is to be used for all financial transactions to identify the fund group and specific fund. The first digit refers to the fund group, and the second and third digit specifies the fund. For example, the Special Revenue Fund could be coded 211. The 2 indicates the Special Revenue Fund, the 11 specifies [ESEA Title I Part A](#), Improving Basic Programs.
- *Function Code* - A mandatory 2 digit code that identifies the purpose of the transaction is applied to expenditures. The first digit identifies the major service area and the second digit refers to the specific function within the area. For example, the function

"Health Services" is coded 33. The first 3 specifies Support Services Student (Pupil) and the second 3 is Health Services.

- *Object Code* - A mandatory 4 digit code identifying the nature and object of an account, a transaction or a source. The first of the four digits identifies the type of account or transaction, the second digit identifies the major area, and the third and fourth digits provide further sub-classifications. For example, money received for current year taxes is classified in account 5711. The 5 denotes revenue, the 7 shows revenue from local, intermediate and out-of-state sources, the 1 denotes local real and personal property tax revenue and the final 1 specifies current year levy.
- *Optional Codes 1 and 2* - A 2 digit code for optional use to provide special accountability at the local level.
- *Organization Code* - A mandatory 3 digit code identifying the organization, i.e., high school, middle school, elementary school, superintendent's office, etc.
- *Fiscal Year Code* - A mandatory single digit code that identifies the fiscal year of the transaction or the project year of inception of a grant project.
- *Program Intent Code* - A 2 digit code used to designate services provided to students.
- *Optional Code 3* - A single code that is used at the local option.
- *Optional Codes 4 and 5* - An optional 2 digit code that may be used by the school district to further describe the transaction.

5.4.1.5 Account Code Example

199-11-6399-00-001-X-11-0-00

Instructional Supplies at Washington High School

Fund/Group 199

Function	11
Object	6399
Local Option Code 1 and 2	00
Organization	001
Fiscal Year	X
Program Intent Code	11
Local Option Code 3	0
Local Option Code 4 and 5	00

Individual transactions within a fund are classified as discussed above based on the intended use of the item or service. These transactions may also be broadly referred to as an asset, liability, fund equity, revenue or expenditure transaction. A definition and examples of each of these broad categories are:

- *Assets* are items or services that will provide future benefit by their use. Examples of assets include cash, taxes receivable and capital assets.
- *Liabilities* are obligations of the school district such as accounts payable.
- *Fund equity* is the amount of assets remaining after deducting liabilities of a particular fund.
- *Revenues* are the school district's cash resources or other inflows including tax receipts, state funding and miscellaneous receipts.
- *Expenditures/Expenses* represent the school district's outflow of resources.

5.4.2 Roles and Responsibilities

Site-based decision making has been implemented to give campus level personnel the opportunity to respond to the school's unique needs. Underlying this opportunity is the responsibility for site-based accounting procedures. These site-based accounting procedures will enable schools to monitor their own budgets and provide other users the financial information they need. Thus, the authority and responsibility for site-based accounting are placed at the campus-level.

5.4.2.1 School Principal or Designee

The school principal or other designated campus administrator is primarily responsible for site-based accounting procedures. The principal or campus administrator is often assisted by grade-level principals, assistant principals, secretaries, clerks or volunteers. All personnel performing site-based accounting procedures should be familiar with this manual and other local-district guidance. Everyone should strive for the correct, consistent and concise application of site-based accounting procedures.

5.4.2.2 Responsibilities of Central Accounting

While campus-level personnel are primarily responsible for site-based accounting procedures, they will be assisted by the school district's central accounting department. The central accounting department's responsibilities generally include:

- Providing overall support for the daily accounting procedures performed by site-based personnel
- Processing accounting transactions made by campuses
- Preparing the budgetary status and transaction summary reports for campus-level personnel
- Establishing accounting procedures performed by site-based personnel
- Provide for the staff development and training of site-based personnel

5.4.2.3 Campus-Based Personnel Financial Accounting Responsibilities

Financial accounting procedures performed at each campus by campus-level personnel are:

- Supplies and materials ordering
- Capital asset purchasing
- Cash receipting
- Petty cash accounting
- School and student activity fund accounting

Common among each of these broad accounting areas is the need to classify transactions for proper accounts (e.g., coding a purchase order and recording the proceeds received from candy sales).

5.4.3 Account Classifications - Coding

The procedures which apply to a particular transaction to designate the proper account number are referred to as *account classification or coding*. As discussed in the Overview of the Accounting System section above, the account number is the numerical code sequence providing the most detailed level of financial reporting by program. Appropriate procedures for determining account classifications or coding require answers to a number of questions and determination of the availability of budgeted funds.

5.4.3.1 Account Code Determination

The important questions to answer in determining the proper account coding are *how, why, what and where*. These are illustrated in the following examples:

- *Question:* How is the expenditure financed?
- *Answer:* Fund/Group Code (e.g., general fund, special revenue funds, etc.; based on the definitions discussed in the Account Codes section).
- *Question:* Why was the expenditure made?
- *Answer:* Function Code - the fourth and fifth digits in the code structure. These are used exclusively for recording expenditures (e.g., instruction, Cocurricular/extracurricular activities, etc.).
- *Question:* What was purchased?
- *Answer:* Object Code - these four digit codes are the sixth through ninth digits in the code structure. These codes classify the item as a particular asset, liability, equity, revenue, expenditure, other resources or other uses.
- *Question:* Does the school district want to use a local option code?
- *Answer:* Use of the tenth and eleventh digits is optional. (Must be cleared with school district's central administration office)
- *Question:* Where is the beneficiary of the expenditure located?
- *Answer:* Organization Code - the twelfth through fourteenth codes in the code structure. These are used to specify the location for which the transaction was made. Each campus and department will be assigned an individual organization code.
- *Question:* In which fiscal year did the transaction occur?
- *Answer:* For the school district's fiscal year, the last digit of the school year is to be used; e.g., 2005-06 fiscal year is represented by a "6."
- *Question:* What is the particular need of a specific set of students?

- *Answer:* Program Intent Code - the sixteenth and seventeenth digits in the code structure are used to account for the cost of instruction and other services that are directed toward a particular need of a specific set of students. The intent (of the service being provided) determines the program intent code, not the demographic make-up of the students served.

- *Question:* Does the school district want to use a local option code?

- *Answer:* The eighteenth digit can be used at the district's option. (Must be cleared with school district's central administration office)

- *Question:* Does the school district want to use a local option code?

- *Answer:* The nineteenth and twentieth digits can be used at the school district's option. (Must be cleared with school district's central administration office)

5.4.3.2 Budget Availability

Following the determination of the proper account classification for a transaction, the availability of budgeted funds should be determined. These procedures are necessary for expenditures (purchases of goods or services) from sources other than the school and student activity funds. On a periodic basis, the school district's accounting department should provide to campus-level personnel a budget summary showing expenditures to date and available budgeted funds. Through the use of this report or information on an automated system, the following procedures should be performed:

- Locate the transaction account code in the budget report or on an automated system.

- If the budgeted funds available (including other approved expenditures since the effective date of the report) exceed the transaction's estimated cost, then budgeted funds are available. Budgeted funds availability can be ascertained either on line through an automated query or manually. Many automated systems will not allow transactions to be processed if budgeted funds are not available.

- If the transaction's estimated cost exceeds the available budget for that account code, the school district's accounting department should be consulted. The accounting department may authorize the transaction and propose a budget transfer or alternative procedures.

5.4.4 District Purchasing Options

Note: Additional information may be found in the Purchasing module of this *Resource Guide*.

There are legal requirements governing two classifications of school district purchases:

- Contracts valued at \$50,000 or more
- Contracts valued at \$50,000 or more for the Child Nutrition Program

For contracts/purchases valued at \$50,000 or more, Texas Education Code Section 44.031 outlines nine procurement options available to school districts for the purchase of goods and services. These procurement options include:

- Competitive bidding
- Competitive sealed proposals
- Request for proposals
- Interlocal contract
- Design/build contract
- Contract to construct, rehabilitate, alter or repair facilities using a construction manager
- Job order contract for the minor construction, repair, rehabilitation, or alteration of a facility
- Reverse auction

- The formation of a political subdivision corporation under [Section 304.001](#), Local Government Code

Districts must utilize one of these nine options for all contracts, except the purchase of produce or vehicle fuel, valued at \$50,000 or more in the aggregate for each twelve-month period. The procurement option utilized should provide the best value to the district.

For contracts valued at \$25,000 or more for the federal child nutrition program, federal regulations require these contracts to be awarded through competitive procurement methods, (i.e., competitive bidding, request for proposals).

The Handbook on Purchasing for Texas Public Schools, Junior Colleges and Community Colleges is a reference tool for districts concerning purchasing procedure and contains information concerning:

- Purchasing ethics
- Questions and answers about bidding and purchasing topics
- Purchasing documents, giving examples
- Purchasing laws
- Texas attorney general opinions
- Definitions for purchasing terms

This module provides a general overview of each of the procurement options available to districts as well as campus-level purchasing procedures.

5.4.4.1 Competitive Bids

Competitive bidding is a formal process that may also be referred to as competitive sealed bidding, sealed bidding or formal bidding. It is an option available to school districts for the procurement of goods and services. The competitive bidding process requires that bids

be evaluated and awards made solely upon bid specifications, terms and conditions contained in the request for bids document, and according to the bid prices offered by vendors and pertinent factors that may affect contract performance.

The purpose and intent of competitive bidding is to help public schools secure the best work and materials at the lowest practical prices in the best interest of the taxpayers by stimulating competition. If a school district advertises purchasing needs relating to large expenditures, then economies of scale (purchasing in large quantities) will probably result in lower costs either per unit item or in the aggregate.

State law requires that the purchase, lease or lease-purchase of a school bus must be competitively bid when the contract is valued at \$20,000 or more. In addition, federally funded child nutrition program purchases of \$50,000 or more must either be competitively bid or purchased through a competitive Request for Proposals process.

[Chapter 2254 Government Code](#) prohibits competitive bidding for certain types of professional services, including engineering, architectural, accounting and certain other services.

5.4.4.2 Competitive Sealed Proposals/Request for Proposals

The competitive sealed proposal process is an alternative to competitive bidding. An important difference between competitive sealed proposals and competitive bidding relates to the finality of initial offers. Under competitive sealed proposals, changes in the nature of a proposal, and in prices, may be negotiated after proposals are opened. In contrast, changes in the price of goods and services are not negotiable in the competitive bidding process. Competitive proposal procedures are recommended where other procurement procedures are not required according to state or federal rules, laws or regulations, in order to stimulate competitive prices for services. Examples of services which may be obtained through a competitive sealed proposal include: accounting, architectural and consulting services (see [Chapter 2254, Government Code](#)).

A Request for Proposals (RFP) is a part of the competitive sealed proposal process. The RFP is the mechanism that generates the receipt of competitive sealed proposals and should contain several key elements:

- Newspaper advertisement
- Notice to proposers

- Standard terms and conditions
- Special terms and conditions
- Scope of work
 - Scope and intent
 - Definitions and applicable documents
 - Requirements
 - Quality assurance
- Acknowledgment form/response sheet
- Felony conviction notice
- Contract clause

Note: Requests for Proposals may also generate non-sealed competitive proposals which would allow a school district to open the proposal upon receipt.

5.4.4.3 Catalog Purchases

Catalog purchases as provided by Subchapter B, [Chapter 2157, Government Code](#) were eliminated as a method to competitively purchase contracts valued over \$25,000 effective September 1, 2007. ([§44.031\(a\) Texas Education Code](#), enacted by 80th Legislative Session [HB-2918](#))

Prior to September 1, 2007 school districts could participate in the catalog purchasing program of the Texas Building and Procurement Commission which provided purchasing

services for local governments. Catalog purchase procedures were allowed for the acquisition of computer equipment, software and services *only*. Catalog purchases were an alternative to competitive bidding if the catalog purchasing process provided the best value to the district.

See the next section, 5.4.4.4 Interlocal Contract and Purchasing Module section 3.5.2 Cooperative Purchasing Arrangements, for more information on how a school district can participate in purchasing with the state and other local governments.

5.4.4.4 Interlocal Contract

A school district can contract or agree with another local government, the state or a state agency, including the Comptroller (formerly Texas Building and Procurement Commission or General Services Commission) to perform governmental functions and services. Purchasing is a typical governmental function for which interlocal contracts are formed. Interlocal contracts are often formed in order to provide greater purchasing power for the school districts involved. These arrangements are often referred to as “cooperatives” and are used for a variety of school district purchases.

5.4.4.5 Design/Build Contract

Design/build is a method of project delivery in which the owner contracts with a single entity to take responsibility for both the design and construction of a project. All design (including construction drawings) is done by a single entity, the design/build contractor.

The use of a design/build contract must be through request for qualifications, as described in [Section 44.036](#), Texas Education Code, for selection of the vendor to provide the facility and/or financing. Districts should consider contracting with a separate construction manager to supervise design/build activities in light of the complexity of monitoring a design/build project.

The goal of all procurement methods is to provide the best value to the district. Consequently, design/build should be carefully selected and monitored to ensure that the district receives the highest quality product and services at a fair value.

5.4.5 Price Quotes

Prior to June 19, 2009 for the purchase of personal property costing *at least \$10,000 but less than \$25,000* over an aggregate twelve (12) month period, the school district *was required to solicit vendors* to supply the particular item(s) through a formal *newspaper advertisement*. In the procurement of this item(s), the district was required to obtain price quotes from at least three applicable vendors (or every vendor if fewer than three respond to the advertisement for inclusion on the vendor list). Because they were subject to audit, quotes were required to be in writing and be maintained by the school district. Alternatively, the school district could have utilized one of the more restrictive competitive procurement options described in this section and in Texas Education Code 44.031. [HB 987, 81st](#) Regular Legislative session, repealed [TEC 44.033](#), which required price quotes for purchases of personal property between \$10,000 and \$25,000. It also increased the threshold for competitive procurement from \$25,000 to \$50,000.

In order to obtain the most competitive price, a school district at its option *may obtain price quotes* for items costing *less than \$50,000*. The district's purchasing procedures should clearly define the lower figure for which quotes are required and *obtain and retain* written verification of the prices quoted. Unlike the mandatory competitive procurement procedures described for purchases over \$50,000, if an item costs less than \$50,000, a school district may choose to utilize price quotations to stimulate competition and to attempt to receive the most favorable pricing.

5.4.6 Purchasing Methods

There are two common methods that districts and campuses utilize in the actual ordering of supplies and materials:

- Purchase orders
- Requisitions from central warehouse

5.4.6.1 Purchase Order Procedures

A common method in which schools order supplies and materials is through the use of purchase order procedures. The school district needs to ensure that they have complied

with local and state bidding requirements before initiating a purchase order procedure. If supplies and materials will be purchased from an *outside vendor*, the purchase order would be processed on a purchase requisition form. The most common procedures involved in utilizing purchase order procedures are as follows:

- The school initiates the purchase order requisition, or accesses through an automated system an accurate description of the item, quantity, and an estimated cost of the items. The proper account number should be included on the purchase order based on the intended use of the supplies and materials.
- The completed and approved purchase order, or automated equivalent, is sent to the purchasing department for review and approval
- The purchasing department selects the vendor, obtains the price and delivery terms and assigns a number to the submitted purchase order. The purchasing department will also ensure that the requesting school has sufficient available funds to make the requested purchase. (Texas Education Code Section 44.052 states that a superintendent who approves any expenditure of school funds in excess of the amount appropriated for that item(s) in the adopted budget for the school district commits a Class C misdemeanor offense)
- Purchased supplies and materials are delivered to the requesting school through either a direct shipment from the vendor or through a delivery mechanism of the school district.

Campus-level personnel are responsible for ensuring the completeness, accuracy, and working condition of supplies and materials delivered to the school. Generally, the delivery of damaged or inaccurate orders should not be accepted.

5.4.6.2 Requisition from Central Warehouse

Central warehouses stock standard supply and material items that schools and departments use. These items are normally listed in a central warehouse catalog or other similar document (these catalogs may be in a hard copy form or accessible through an automated system). Some supplies and materials (which are not stocked in the central warehouse) must be purchased from outside vendors.

Schools which require supplies or materials should review a school district's central warehouse catalog for the item needed. If the item is maintained at the central warehouse, the order can be processed on a warehouse requisition form or requisitioned through an

automated system. The warehouse requisition form or automated alternative should be completed by staff authorized or designated in the purchasing policy and procedure manual and approved by the school principal or other campus administrator.

Below are representative steps that are often followed in a central warehouse requisition of supplies and materials:

- The school selects items from the central warehouse catalog, or automated alternative.
- The school completes the warehouse requisition form, or automated alternative, including the quantity ordered, the warehouse item number and an appropriate description of the item.
- The school codes the warehouse requisition form, or automated alternative, with the proper account number based on the intended use of the supplies or materials and the availability of funds within that budget code.
- The school principal or campus administrator having budgetary authority signs the requisition form or gives approval on the automated alternative.
- The school forwards the completed requisition form, or automated alternative, to the central warehouse.

Once a completed requisition is received at the central warehouse, the warehouse prints a delivery ticket and delivers the supplies or materials to the campus. Campus-level personnel are responsible for verifying the completeness, accuracy and condition of the supplies and materials delivered to the school. This verification is done by comparing a count of the individual items of inventory with the quantities shown on the warehouse delivery ticket and inspecting the order before accepting delivery. Generally, damaged or inaccurate orders should not be accepted.

A central warehouse strives to maintain an inventory of regularly used supplies and materials. The determination of supplies and materials to stock in a central warehouse is usually made with input from various warehouse users. Should a particular item requested by a school not be available due to a back-stock delay, it would be indicated on the warehouse requisition form. A copy of the warehouse requisition form would be returned to the school to notify campus-level personnel of the backorder delay. The warehouse

would most likely order these items and deliver the supplies or materials to the campus upon receipt. Other supplies or materials requested by the school are usually not delayed by the backorder of some items.

5.4.7 Capital Asset Management

Site-based personnel normally share responsibility for recording the addition and deletion of capital assets. Capital assets are physical items of equipment or property having an expected life longer than one year; are of a significant value at purchase; and may be reasonably identified and controlled through an inventory system. Examples of capital assets include land, buildings, furniture, computers and other equipment.

The purchase of capital assets entails additional procedures to record the item in the capital asset records and identify the asset as school property for security and tracking purposes. The school district's purchasing department may assist site-based personnel in complying with these requirements.

Local policies usually require that individual items or groups of similar items purchased simultaneously have a minimum value to be treated as a capital asset. Generally, this amount is \$5,000 or greater. Small equipment, tools or similar items having a cost less than \$5,000 are treated as supplies. Items having a cost of less than \$5,000, that the school district would like to maintain economic control over, may be classified as capital assets.

Depreciation expense for capital assets is required to be reported in the statement of activities. See Section 1.2.4 of the FAR (Financial Accounting and Reporting) module of this *Resource Guide* for more information.

5.4.8 Cash Receipts

At times it will be necessary to accept cash from various sources on behalf of the school district, school or activity funds. It is very important that appropriate procedures be followed to ensure the proper handling of cash. Large cash balances on hand should be minimized by making regular bank deposits. Prenumbered tickets for athletic and non-athletic events are mandatory in order to ensure proper reconciliation of sales and cash receipts to daily bank deposits of cash. Additionally, cash received from miscellaneous sources should never be commingled with the petty cash fund.

Separate procedures for cash receipts from activity fund sources are described in Activity Fund Accounting later in this module.

The following procedures are suggested for cash receipting:

- Count and verify the cash received while in the presence of the person presenting the cash.
- Prepare and sign a pre-numbered Official Cash Receipt for all cash and/or checks received. The Official Cash Receipt should include a description of the purpose of the cash receipt, the identification of the source of the cash, the amount, the appropriate account code and be signed. The person presenting the cash should also sign the Official Cash Receipt. Under no circumstances should Official Cash Receipts be pre-signed.
- The original Official Cash Receipt copy should be given to the person presenting the cash and/or check.
- Prepare a bank account deposit or Cash Transfer Form when cash balances become large, generally greater than \$100. Daily deposits or transfers should be made during periods of high cash activity. The Bank Account Deposit Slip or Cash Transfer Form should be completed showing the total cash to be deposited or transferred and the number sequence of the Official Cash Receipts supporting the deposit or transfer.
- Reconcile the amount deposited to the record of prenumbered tickets that were sold and the amount of cash recorded in cash receipt forms or records.
- Perform one of the following, depending on local district procedures:
 - Forward a copy of the Bank Account Deposit Slip and a photocopy of the supporting Official Cash Receipts to the school district's accounting department.
 - Deliver the Cash Transfer Form and the cash to the school district's accounting department.
 - Courier the funds to the school's designated bank. The courier who delivers the funds to the bank should be a member of the school's staff.

On occasion, due to clerical error, a pre-numbered Official Cash Receipt must be voided. If a receipt needs voiding, the word "Void" should be clearly written on the receipt and the receipt should be maintained in the Official Cash Receipt book.

5.4.9 Petty Cash Accounting

Often campuses need to make immediate small cash payments. In response to these cash needs, a petty cash fund may be established. A petty cash fund must be authorized by school district policies and approved by central administration. The school principal or campus administrator is responsible for maintaining and protecting the petty cash fund. The petty cash fund's cashier is that person assigned to manage the fund on a daily basis.

Most school district policies require very restrictive operational practices for petty cash funds. At a minimum, the school district should adopt policies related to the following items:

- A maximum amount for which cash payments should be made (usually \$25 to \$100)
- A prohibition against cashing employees' payroll or other checks
- A requirement that petty cash funds not be a source for loans to employees or other persons
- Assurance that petty cash not be commingled with cash obtained from other sources

In most instances, petty cash funds should not maintain balances of more than \$200.

Petty cash funds should be operated under an imprest system. Under an imprest system, a signed receipt (indicating the name of the payee and the reason for the payment) is required for each payment out of the fund. These receipts may be printed in pre-numbered form. Additionally, a ledger or running total of the remaining cash in the fund should be maintained. At all times, the total of the remaining cash and the receipts for payments made should equal the original balance of the petty cash fund.

The petty cash fund should be replenished when the remaining cash balance becomes low. A request for replenishment of the fund should be supported by a summary of the payments made and sent along with the receipts to the school district's accounting department.

The following procedures summarize the petty cash fund operations:

- Once established, the petty cash fund should be maintained in a secure location such as a locked filing cabinet or safe. The original balance of the petty cash fund should be verified by site-based personnel and noted on the Petty Cash Ledger.

- For an approved payment from the petty cash fund, complete a Petty Cash Receipt showing the purpose of the payment, the amount and the appropriate account code. A sales ticket or other supporting documentation should be attached to the Petty Cash Receipt. The receipt should be signed and dated by the cashier and completed before any cash is given out. An approved payment should be for an authorized school activity and be supported by appropriate documentation.

- Record the Petty Cash Receipt in the Petty Cash Ledger.

- Periodically, but at least monthly, the petty cash fund should be reconciled. The balance of the petty cash fund should be proven in two ways:
 - The total of the remaining cash in the petty cash fund should agree at all times with the Petty Cash Ledger
 - The total of the remaining cash and the Petty Cash Receipts should agree with the original balance of the petty cash fund as noted in the Petty Cash Ledger

- When the remaining cash balance of the petty cash fund becomes low, the fund should be replenished. Complete a Request for Replenishment summarizing the Petty Cash Receipts. The Request for Replenishment should be forwarded along with the Petty Cash Receipts to the school district's accounting department.

- Verify the total cash received to replenish the fund and agree this amount to the copy of the completed Request for Replenishment.

- Record the receipt of cash in the Petty Cash Record and perform the procedures to *reconcile* the fund as described above.

5.5 Activity Fund Accounting

Activity funds are defined as funds consisting of resources received and held by the school as trustee to be expended or invested in accordance with conditions of the trust.

Specifically, they are funds accumulated from various school-approved money-raising activities and the receipt of student dues or fees, commissions, investment interest and donations. These funds are to be used to promote the general welfare of the school and the educational development and morale of all students. All funds collected by school district personnel from students are defined as activity funds and must be handled through the activity funds accounts.

5.5.1 Major Classes of Activity Fund Operations

Activity funds historically have been accounted for by school districts in various fund groups: general fund, special revenue funds and agency funds. A school district should consider the following questions to determine the proper method and fund in which activity funds should be accounted:

- Does local board policy allow for recall of excess or unused fund balances into the general fund for general school district use? If so, these activity funds should be accounted for in the *general fund*, and revenues and expenditures should be budgeted.
- Do other persons besides the students involved in the activity fund (teachers, sponsors, principals, administrators, etc.) have access to activity fund? If so, this money should be accounted for in *Fund 461 - Campus Activity Funds*.
- Do activity fund financial decisions rest solely with the students? If so, this money should be accounted for in *Fund 865 - Student Activity Account* which serves as an agency account for student club or class funds.

Effective September 1, 2009, [HB 3646](#), 81st Regular Legislative session, requires school districts to adopt a policy governing the expenditure of local funds from vending machines, rentals, gate receipts, or other local sources of revenue over which the district has direct control. The policy must require discretionary expenditures of local funds to be related to the district's educational purpose and provide a commensurate benefit to the district or its students and meet the standards of [Section 52, Article III, of the Texas Constitution](#) regarding expenditure of public funds. If funds are received from a donor or booster

organization and that donor or organization has designated a specific purpose for the use of those funds, the district should spend the funds according to the specific purpose.

If funds are received from teachers or other employees as contributions to a “flower fund” or break-room fund, those funds would be categorized and accounted for as an agency fund.

5.5.2 Methods of Administering Activity Fund Accounting

Two common methods of administering activity fund accounting are:

- Centralized in which funds are controlled and disbursed through the school district's Accounting Department
- Decentralized in which funds are accounted for and controlled at the various school sites.

Advantages and disadvantages of accounting for activity funds on a centralized basis exist. Some of the *advantages* are:

- Better internal controls, assuming that the school district has good internal controls, as all receipts and disbursements flow through one central accounting system rather than systems that can vary from school site to school site
- Easier access for performing internal and external audits
- Consistency in the manner in which repetitive matters are handled
- Better control of cash management operations including assurance that proper collateralization of cash and investment balances is occurring
- More consistency in applying district policies and procedures
- Lessened requirements to perform an audit of funds if the school principal and/or finance clerk is replaced

Some *disadvantages* are:

- Less control at the school site
- Possible delay in information and reporting to the school site

Regardless of whether a school district uses a centralized or decentralized method of accounting for activity funds, every school district should have formally adopted policies and procedures for activity fund accounting.

5.5.3 Responsibility for Activity Funds

The responsibility for activity funds involves principals, staff such as the school secretary or clerk, fund sponsors and auditors. The responsibilities are that of:

- *The school principal, or designate*, who is personally responsible for the proper collection, disbursement and control of all activity funds at the school. This responsibility includes providing for the safekeeping of funds at the school.

Money on hand at the end of the school day ideally should be placed in a night depository at the school's bank. If this is not feasible, the principal should store the money in a locked, secured area.

The principal is not responsible, however, for funds collected, disbursed and controlled by parents, patrons or alumni organizations, and these funds should not be accounted for in a school district's activity funds (i.e., Parent Teacher Organizations, athletic and band boosters clubs, etc.).

- *The school secretary/clerk* who is responsible for maintaining an adequate supply of various activity fund forms. This person should be responsible for issuing cash receipt books as needed to teachers and other persons authorized by the school principal. This clerk must keep a distribution record of all receipt books issued, which is part of the official activity fund records. The school secretary/clerk is commonly responsible for the depositing of activity funds into the bank, accounting and reporting for activity fund

activities and cash management (if the school district uses a decentralized activity fund method).

- *The individual activity fund sponsors* who are responsible for managing their respective activity funds. This responsibility can include developing fund raising plans, monitoring the financial position of the activity fund, reviewing the activity fund financial statements, safekeeping activity fund money until it is deposited by the school district and other fiduciary responsibilities.
- *The internal auditor* who is often responsible for the annual audit of each activity fund and other periodic audits of such funds as deemed necessary by school district management or the board of trustees. If a school district does not have an internal auditor, periodic audits of activity funds should be performed by an independent internal or external party.

5.5.4 Procedures for Handling Activity Funds

Common procedures for accounting for activity funds concern receipts, disbursements, banking and checking, payments and petty cash.

5.5.4.1 Activity Fund Receipts

Cash receipts records are the means of accurately recording cash received and provide support to substantiate each bank deposit. Most school districts use prenumbered cash receipts books or other similar forms to record all cash and/or checks received.

In order to maintain effective cash control, if possible, at least two persons should be involved in the functions of collecting cash and receipting cash. The person who collects the cash should not be responsible for receipting cash receipts.

The procedures that should be followed for activity fund receipting are:

- An official receipt should be prepared immediately for any cash and/or checks received. Receipts should be issued in prenumbered sequence and should be prepared in ink. The school district should not accept postdated checks.

- A form that includes details about the payer and a description of the receipt should be completed for cash receipts.
- An actual cash count by the person signing the receipt should be made in the presence of the person turning in the money. The total of cash and checks should be shown separately on the cash receipt.
- The maker of a check must be indicated on the receipt if the maker is someone other than the person turning in the money. The account name should be placed on each check.
- A copy of the receipt should be given to the person paying the money.
- Originals of receipts must be retained in the activity fund cash receipt book.
- Under no circumstances should a receipt amount or the signature be altered. If either of these errors occurs in the preparation of a receipt, void the receipt and issue a new receipt.
- The original of the voided receipt must remain attached in the activity fund cash receipt book. The principal should approve the voiding of a receipt by signing the original receipt.
- Receipts are not to be pre-signed or predated.
- Deposit slips should include receipt numbers to allow for a proper audit trail for the disposition of all prenumbered receipts.

5.5.4.2 Activity Fund Disbursement Vouchers

To limit irregularities, all expenditures should be paid by prenumbered check from the activity fund checking account. In addition checks made out to "cash" or to the paying school should never be issued. Many school districts require two signatures on the checks to further limit the possibility of irregularities.

Income received from a specific group should be expended for that group. No expenditure of funds should be approved by the principal unless sufficient funds are available in the appropriate activity account. Some school districts allow for transfers as loans between two or more activity funds. When transfers as loans occur, the school district should ensure that appropriate approvals have been received and that the loans are repaid by the end of the school year in which the loan was granted.

Disbursement vouchers are the authority to issue a check drawn on the activity fund checking account and the support to substantiate each bank withdrawal. Permanent original (e.g. not copies) documentation (invoices, etc.) must support the payment and should be attached to the original disbursement voucher. After payment of a voucher, the original documentation should be defaced (stamped as paid, or perforated) to ensure that invoices are not mistakenly paid twice.

5.5.4.3 Supplemental Activity Fund Checks

With a centralized activity fund structure, issuing emergency checks requires special care. The nature of centralized funds may require prenumbered checks at the school site. The school district should outline in its activity fund guide the nature and acceptability of incorporating emergency checks into the activity fund process. It is recommended that emergency checks have an upper limit on the dollar amount.

The school activity fund financial secretary or clerk should contact the central business office regarding the details of specific district policy regarding emergency check issuance.

5.5.4.4 Bank Deposit Slips

As cash is collected and counted, deposit slips should be completed by the appropriate activity fund personnel. When properly validated by the bank, these deposit slips serve as evidence of money deposited on specific dates. These slips are vital supporting documents for accurate cash records and should be retained as a financial record of the school district.

5.5.4.5 Monthly Bank Statements

The bank statement is the official bank record of all transactions affecting the cash balance on deposit during the preceding month. All bank accounts should be reconciled on a monthly basis by a person who is independent of safeguarding the activity fund assets (cash or investments). The monthly bank statements should be sent directly to the school

principal in original sealed envelopes, and the principal should review the statements for unusual items.

When properly reconciled, the statement serves as official support for the cash balance indicated in the activity fund records. A bank statement should be received and reconciled for all accounts. The school principal should document approval of the bank reconciliations by signing the bank reconciliation form.

5.5.4.6 Bank Accounts

Business conducted with the bank shall not be in violation of any board policies, rules or regulations. Each school should have only one bank checking account. Excess funds should be placed in district-approved investment alternatives. A school district's combined total of cash and investments at any one financial institution should not exceed \$100,000 without adequate securities pledged to the school district for proper collateralization. The monitoring of bank accounts is generally easier under a centralized activity fund structure.

Schools should not borrow funds or enter into deferred payment contracts from any and all sources without the written consent of the central administration office.

5.5.4.7 Cashing of Checks

The practice of cashing personal and/or payroll checks should be discouraged in activity funds and in other school sources. The practice of cashing personal and/or payroll checks can weaken the school district's system of internal controls.

5.5.4.8 Advance Payments

Advance payment may sometimes be requested for expenses anticipated by clubs or other student groups engaged in out-of-town travel. A travel advance should be noted on the payment, and the group sponsor should return any unused funds to the activity fund clerk with supporting documentation as soon as the event is completed. A cash receipt for unused advance funds should be issued to the activity fund sponsor when such unused funds are returned.

5.5.4.9 Supplemental Payments to Employees for Services

A campus may find a need to compensate school district employees for services performed beyond their regular duties (i.e., maintenance employees who set up a school facility during off duty hours, school personnel judging contests outside of the normal school day, etc.). Such auxiliary services are those discharged by the employee in addition to their normal, specified duties and will usually be performed outside of regular work hours. These payments should not be made directly to the employee, but rather should be made through the district payroll office.

5.5.4.10 Payments to Non-employees for Contracted Services

To authorize payment of non-district personnel for consultant/instructor services, a Contract for Consultant Services or similar form should be completed before the services are rendered. The social security number of the individual should be obtained along with all critical data required for IRS Form 1099. Club sponsors *should not be allowed* to pay nonemployees using either their own personal check or cash and then seek reimbursement from the activity fund.

At the end of each calendar year, a list of all contractors who provided services during the calendar year should be prepared. The list should include the name, address, social security number and amount paid and should be sent to the business office to ensure issuance of a Form 1099.

5.5.4.11 Petty Cash Funds

A petty cash fund may be established at the discretion of the principal for the purchase of small, miscellaneous items. Disbursements from petty cash funds should not exceed the school district's preset limit for petty cash purchases, and employee and other checks should not be cashed from petty cash funds.

All activity fund petty cash fund procedures should adhere to the school district's petty cash accounting policies. Original invoices or other suitable documentation must be obtained for all petty cash expenditures and should be defaced after payment.

5.5.4.12 Transfers of Funds between Activity Accounts

Some activity funds are revenue producing by their very nature (i.e. vending machine accounts, interest accumulation accounts) and many school districts routinely transfer these proceeds to other activity funds. Any transfer of moneys between accounts should be approved by the school principal as well as the involved activity fund sponsors.

5.5.4.13 Purchases or Donations of Capital assets from Activity Funds

Activity funds may be used to purchase capital assets which meet the school district's capital asset capitalization policy, and such capital assets may subsequently be donated to the school district. These donated capital assets should be catalogued in the school district's capital asset records.

5.5.4.14 Audits of Activity Funds

Schools should be prepared to have their activity funds audited at least annually. Many school districts require an audit when a change in principals or financial clerks occurs. The audits of activity funds are commonly performed by an internal auditor if the school district has one. Activity funds are also subjected to audits by external auditors on a test basis.

5.5.4.15 Retention of Records

Activity fund records should be kept by the school district for the same length of time as other accounting records which generally are kept five years after the conclusion of the fiscal year in which the transaction occurred.

5.5.4.16 Competitive Procurement Requirements

Activity fund purchases should comply with the district's purchasing procedures and relevant statutes. Purchases which exceed \$50,000 must comply with the Texas Education

Code, Section 44.031. Comprehensive information relating to school district purchasing is provided in the Purchasing module of this *Resource Guide*.

5.5.4.17 Vending Machines

One of the common methods of raising activity fund revenues is through vending machines on the school campuses. Vending machines have been a common area for problems in the past due to a lack of control over inventory and cash receipts. Vending machines can be either school-serviced or vendor-serviced. The advantages of a vendor-serviced arrangement is that an outside company is responsible for the stocking of the machines, collection of moneys, etc., which relieves the school principal from overseeing inventories of drinks and cash collection procedures.

5.5.5 Taxable Status of Purchases

For a more comprehensive discussion of taxes, refer to the Application of Texas Sales and Use Taxes in the Tax Concerns and Obligations section 1.9.2 of the FAR (Financial Accounting and Reporting) module of this *Resource Guide*.

All items purchased by a public school for the school's own use qualify for an exemption from sales tax if the items purchased relate to the educational process. The school, school district or an authorized agent should provide the seller a tax exemption certificate. To be valid, the certificate must state that the merchandise being purchased is for the organization's own use in providing education, is being made in the name of the organization, and that payment shall be made from the organization's own funds. The school district should not reimburse employees for sales tax they paid on purchases made on the behalf of the school district.

Purchases for their own use by individuals, even though connected with a school or school organization, are not exempt from the tax. As an example, cheerleaders purchasing their own uniforms, teachers purchasing computer equipment, band members purchasing their own instruments and athletic teams purchasing their own jackets are not tax exempt.

5.5.5.1 Exempt School Items

Public schools and school-related organizations are not required to collect sales tax on the following:

- Fees and admission tickets, if the event is entirely for educational purposes
- Student club memberships
- Sales of food and soft drinks that are
 - Sold or served during the regular school day
 - Sold or served by a parent-teacher association during a fund-raising sale, the proceeds of which do not benefit an individual
 - Sold by a person under 19 years of age who is a member of an organization devoted to the exclusive purpose of education, and groups associated with public or private elementary or secondary schools as a part of a fund-raising drive sponsored by the organization for its exclusive use

5.5.5.2 School Sponsored Trips

Meals purchased by the school for athletic teams, bands, etc. on authorized school trips are exempt from the sales tax if the school contracts for the meals. The school must pay for the meals and provide the eating establishment with an exemption certificate.

Individual members of teams or other organizations may not claim exemption from the sales tax on the meals they purchase while on a school-authorized trip.

An exemption may also be claimed by the school from the hotel occupancy tax if the school contracts and pays for the accommodations. This exemption is only for the *state* hotel occupancy taxes; it does not exempt the school district from local hotel occupancy taxes.

Teachers, coaches, and other staff may not claim exemption from sales tax on individual purchases while on school business even though they are reimbursed by the school for expenses. For example, a teacher who is attending a conference out of town would not be able to claim a sales tax exemption on the purchase of an individual meal at a restaurant.

5.5.5.3 Taxable Sales

Public schools and school-related organizations must collect the sales tax on all sales which are not specifically exempted. For example, sales taxes must be collected on the following:

- School purchased supplies sold directly to students including athletic equipment and physical education uniforms
- Fees for materials when the end product becomes a possession of the student
- Student publications such as yearbooks and football programs
- School rings
- Books sold to students at book fairs

This list is not comprehensive; other taxable sales may be made by a school district.

5.5.5.4 Tax-free Sales

Effective August 30, 1993, each school district, each school, and each bona fide chapter of each school is allowed to have two, one-day tax-free sales each calendar year. During these tax-free sales, the organization may sell any taxable item tax-free when the price of the item is \$5,000 or less. There is no limit on the number of bona fide groups at a school or school district. One-day tax-free sales mean that collection and remittance of state sales taxes is not required on qualified sales on that day. While the sale of yearbooks can be selected as one of the two one-day tax-free fund-raisers, a book fair is usually not a qualified sales event because the school is not the seller, and the school is therefore acting as an agent for the vendor. The sale of items received from a vendor, in which the school and the

respective vendor have an agreement that the vendor will take back any unsold items, would also generally not qualify as a one-day tax-free sale.

According to the State Comptroller's office a bona fide chapter is a group that must be organized for some business or activity other than instruction or a participatory group. Essentially, any student group that is recognized by the school and is organized by electing officers (not just participatory captains), holding meetings, and conducting business are bona fide chapters of the school and each group may have two, one-day, tax-free sales in a calendar year. Groups meeting for classroom instruction or team sports are not categorized as bona fide chapters and do not qualify for the tax-free day sales.

For example:

The school district qualifies for a tax-free day.

The school-wide fundraiser qualifies for a tax-free day.

The Basketball Club qualifies, but the basketball team does not.

The Cheerleader Club qualifies, but not the cheerleader team.

The Debate Club qualifies, but debate teams and classes do not.

The French Club qualifies, but the French classes do not.

The Senior Class qualifies, but not one particular class that has seniors in it.

One-day means 24 consecutive hours; the delivery should be made on a single day. Generally title passes to the purchaser when the item is given to the purchaser. In the case of pre-ordered and pre-paid sales, title can transfer as soon as the seller (school) receives the order. Therefore, the date the items are delivered by the vendor to the seller is designated as the one-day for the purposes of the tax-free sales. However, persons buying from surplus stock on subsequent dates after the tax-free day owe tax on the items.

When the school or school group receives a commission, the tax-free day sale provisions cannot apply because the sale is the vendor's sale, not the school's sale. The school group would collect and remit tax to the vendor, and the vendor would report the sale and remit tax to the Comptroller's office.

5.5.5.5 Toll Free Number

The state comptroller's office maintains a toll-free information number for quick response to any state tax question at 1-800-252-5555.

5.5.6 Definition of Fund-Raising Activities for a School

Fund-raising activities are not confined to regular school hours but are considered an extension of the school program. When fund-raising activities are in the name of the school, all funds raised become school funds, belonging to the school-sponsored group responsible for raising the money.

It is often advisable for the various school principals to submit an annual plan for fund-raising to the central office which would list the organizations which will engage in fund-raising activities with the intended use of the funds specified. At the end of the school year, schools commonly report the outcome of each fund-raising activity and how the funds were used.

5.5.6.1 Policy Regarding Expenditure of Local Funds

Effective September 1, 2009, [HB 3646](#), 81st Regular Legislative session, requires school districts to adopt a policy governing the expenditure of local funds from vending machines, rentals, gate receipts, or other local sources of revenue over which the district has direct control. The policy must require discretionary expenditures of local funds to be related to the district's educational purpose and provide a commensurate benefit to the district or its students and meet the standards of [Section 52, Article III, of the Texas Constitution](#) regarding expenditure of public funds.

5.5.6.2 Raffles/Drawings

See information regarding [raffles or drawings](#) on the Attorney General's website. School districts are not qualified organizations. [Attorney General Opinion JM-1176](#) also ruled that independent school districts are not qualified to hold charitable raffles.

5.5.6.3 Other Organizations

Booster clubs and parent-teacher organizations are separate legal entities from the school district and must maintain separate federal identification numbers and bank accounts. The University Interscholastic League ([UIL](#)) provides booster club guidelines on its website, as do national and/or parent-teacher organizations.

5.5.7 Insurance

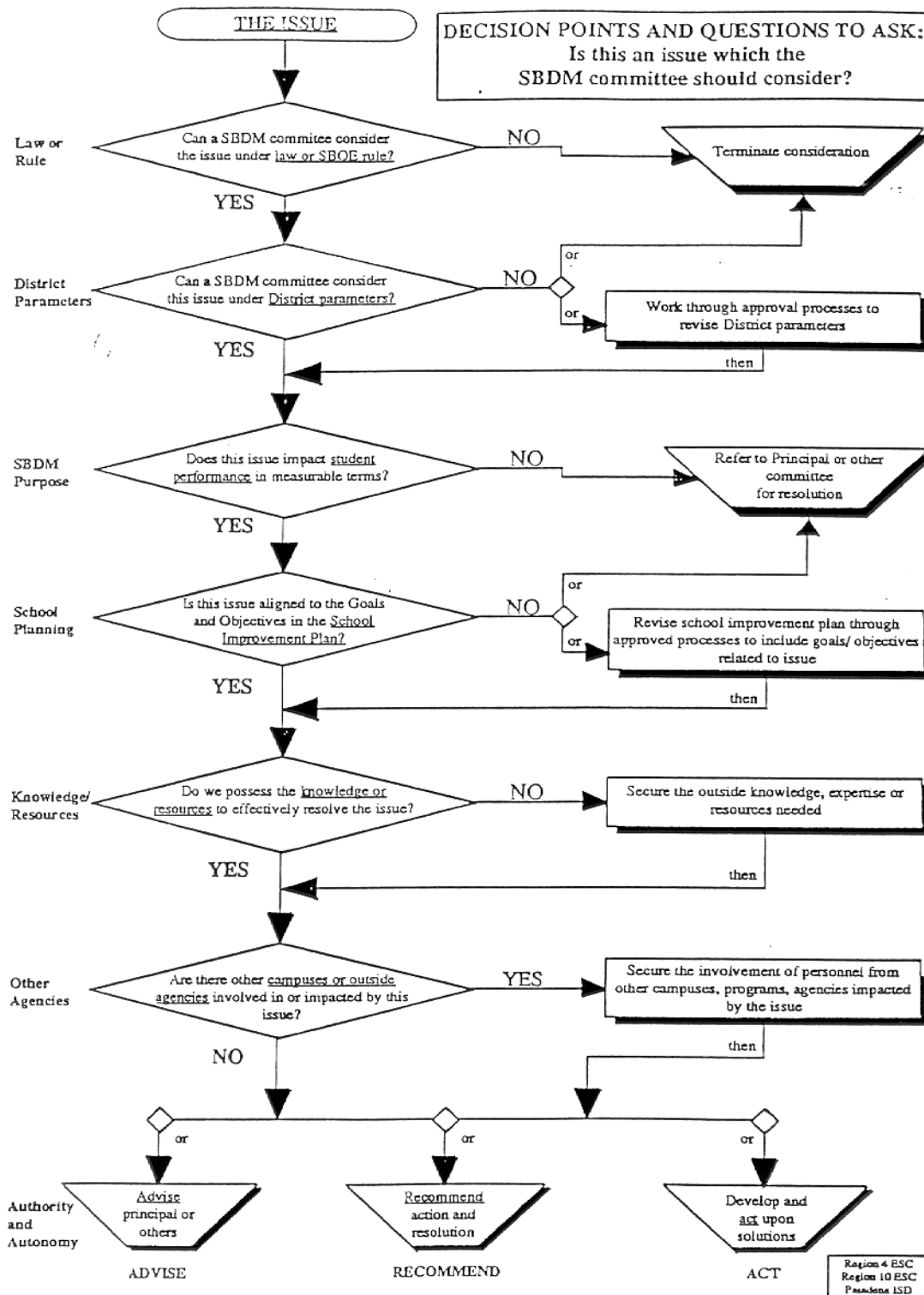
The school district should adopt a policy regarding insurance coverage for theft, fraudulent or dishonest acts of employees relating to activity funds.

5.5.8 Monthly "To Do" List

Presented below is a general list of common procedures which should be performed at least daily or monthly, where applicable, as they relate to activity funds:

- Enter deposits
- Enter payments
- Enter transfers and adjustments
- Enter investment purchases and/or withdrawals
- Enter debit/credit memos received from the bank statement
- Enter interest earned and bank charges from the bank
- Complete a sales tax report
- Reconcile the bank statement
- Print month-end reports
- Send activity fund documentation to the central business office if required

Appendix 1 - Pasadena Independent School District Site-based Decision Making Matrix



(Courtesy of Pasadena Independent School District)

List of Acronyms

AEIS – Academic Excellence Indicators

ESC – Education Service Center

ESEA – Elementary and Secondary Education Act

FTE – Full-Time Equivalent

ISD – Independent School District

PEIMS - Public Education Information Management System

RFP – Request For Proposal

SBDM - Site-based Decision Making

SCE – State Compensatory Education

TAKS – Texas Assessment of Knowledge and Skills

TEC – Texas Education Code

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