

Appendix A Special Accounting Issues

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## SPECIAL ACCOUNTING ISSUES

### Separate Bank Accounts

It is the intent of the Board of Governors and the Chancellor's Office to encourage sound fiscal management practices among community college districts to facilitate the most efficient and effective use of moneys under district control. To that end, the Board of Governors has recognized districts need to maintain authorized bank accounts for certain types of district/college functions and activities. Accordingly, the governing board of any community college district may, for the purpose of expediting business service transactions and in accordance with sound business practices, establish separate bank accounts for functions or revenue-producing activities or operations not directly associated with, but complementary to, the regular instructional and noninstructional functions of the district and colleges. Permissible operations include:

- Co-curricular activities (activities and events that are an extension of classroom instruction or related community college programs)
- The cafeteria
- The bookstore
- Farm operations
- Other Proprietary Funds
- Direct student financial aid (excluding work-study; see Student Financial Aid Funds)
- Scholarship and loan activities
- Self-insurance trust accounts
- The associated student body

All money on deposit by the district should be in a financial institution whose accounts are federally insured. Amounts in excess of the federal insurance limit should be collateralized by agreement with the financial institution.

## Clearing Accounts

The governing board of any community college district may establish clearing accounts for the deposit and subsequent withdrawal of any miscellaneous receipts (including receipts from the sale of property or materials pursuant to Education Code Sections 81457 or 81458). All moneys in any such bank account shall be paid into the appropriate county treasury within a reasonable time period. However, cashier's checks, certified checks, and money placed in the custody of the community college district as security that a bidder will faithfully perform a contract may be deposited in a bank account but shall not be paid into the county treasury unless forfeited or not claimed by the bidder for a period of 12 months.

### **Annual Assessment of Need**

All authorized separate bank accounts are to be annually presented to the governing board for its review and confirmation of continuing need.

### **Preconditions**

Separate bank accounts must be established by governing board resolution. The resolution must state the necessity for the separate bank account, specific purposes for which the account will be used, and the district or college officials who shall serve as authorized agents with delegated authority for the account(s).

The district's governing board resolution shall be submitted for informational purposes to the county superintendent of schools, county auditor, and county treasurer.

The names of the accounts must include at least the district/college name and some description of the purpose of the account (e.g., district/college name, Student Financial Aid Account).

Banks in which the district deposits federal moneys must be so notified in accordance with federal regulations:

*Title IV program regulations require an institution to provide this notification by including the word "Federal" in the name of all accounts in which federal moneys will be deposited.*

All income derived from governing board-approved activities or functions shall be deposited in these accounts for authorized expenditure in accordance with rules and regulations of the governing board. The business services office shall assist the custodians in developing required accounting procedures and internal controls to safeguard all moneys in the accounts. The

custodian of each account shall be responsible for the payment of all moneys received into the account.

~~It is the responsibility of each district to assess their risk and exposure and provide the appropriate insurance coverage, including appropriate bonding of custodians.~~

## Financial Reporting

Bank accounts shall be reported in accordance with the prescribed community college fund structure and revenue and expenditure classifications established in this manual as follows:

### **Bank Accounts and Reporting Funds Structure**

<b>Bank Accounts</b>	<b>Reporting Funds</b>
Bookstore Account(s)	Bookstore Fund <sup>1</sup>
Cafeteria Account(s)	Cafeteria Fund <sup>1</sup>
Clearing Account(s)General Fund	General Fund, Other Agency Funds
Co-curricular Activities Account(s)	General Fund
Direct Student Financial Aid Account(s)	Student Financial Aid Trust Fund
Farm Operations Account(s)	Farm Operations Fund <sup>1</sup>
Other Enterprise Account(s)	Other Enterprise Fund
Other Internal Services Account(s)	Other Internal Services Fund
Retiree Benefits Account(s)	Other Internal Services Fund
Scholarship and Loan Activities Account(s)	Scholarship and Loan Trust/Agency Fund
Student Body Accounts	Fiduciary Funds
Self-Insurance Trust Account(s)	Self-Insurance Fund

<sup>1</sup> Under Special Revenue Funds or Enterprise Funds depending on governing board's intent.

If the district has an account not addressed in this list, the Chancellor's Office advice should be sought. Financial transactions must also be accounted for in a manner that meets the legal requirements imposed by any donors or granting agencies.

As determined by the district's business services office and governing board, the custodian must periodically prepare reports on the status of the account for review and inclusion in financial reports to the board. The balances in all separately established bank accounts must be reported on the CCFS-311 and included in the annual district audit, as required by Education Code section 84040.

## Revolving Funds

The district is authorized to establish, by governing board resolution, revolving funds for the use of securing or purchasing services and/or materials, and for otherwise authorized purposes, including prepayments and salary advances. The district may also establish a revolving fund in any bank whose deposits are insured by the Federal Deposit Insurance Corporation.

### Preconditions

What follows is a general description of the preconditions for establishing revolving funds. Revolving funds must be established by governing board resolution. The resolution must state the necessity for the revolving fund, specific purpose for which the fund will be used (e.g., prepayment, securing or purchasing services or materials), the district or college officials who shall serve as authorized agents with delegated authority for the account, and the amount to be maintained. A copy of the resolution shall be transmitted to the county auditor.

Revolving funds must be established in one or more banks insured by the Federal Deposit Insurance Corporation. Each fund shall be known as the revolving fund of the district/college, for example, "The Revolving Fund of (name of district/college)". The fund must be established to the custody of the officer for whom the fund is created and who is responsible for the accounting of all moneys and expenditures subject to such regulations as the governing board prescribes.

The official who has control of the revolving fund must be bonded by an authorized surety company in an amount not less than double the amount of the revolving fund.

An ~~reconciliation report~~ invoice shall be presented ~~or prepared~~ to the district at least monthly for the reimbursement of the fund in the same manner as other invoices are presented. Invoices must be supported by required receipts.

## **Financial Reporting**

The revolving funds must be reported as part of the district's General Fund cash balances ~~beginning and ending cash balance.~~

## **Investments**

The district is authorized to invest excess cash in accordance with Government Code section 53600 et seq. The Chief Fiscal Officer shall annually render to the governing board a statement of investment policy.

## **Capital Leases**

~~One of the most common ways community college districts acquire equipment is through lease purchase agreements. Governmental Accounting and Financial Reporting Standards (GASB Codification) Section L20.109 requires that a lease agreement that meets any one of the following criteria be capitalized:~~

- ~~1. The lease transfers ownership of the property to the lessee by the end of the lease term.~~
- ~~2. The lease contains a bargain purchase option.~~
- ~~3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.~~
- ~~4. The value at the beginning of the lease's term of the minimum lease payments, excluding that portion of the payments representing executory costs to be prepaid by the lessor but including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease.~~

The following rules apply to accounting for capital leases in the governmental funds:

- ~~1. At the inception of the lease, record the capital lease in the fund acquiring the asset as a debit to Object 6400, Equipment, for the amount of the entire principal that is due. The credit is to Object 8900, Proceeds from Capital Leases.~~
- ~~2. As lease payments are made, record the payment in the fund acquiring the asset as a debit to Objects 7100, Debt Service Interest, and 7100, Other Debt Service Principal.~~

As an example of accounting for a capital lease, assume that a vehicle was leased for a five-year period, which is the economic life of the equipment. The lease is signed on June 30, 2012, and beginning on this date, five annual payments of \$10,000 will be made.

The lease agreement contains the following amortization schedule, which shows the breakdown of the annual payments into the principal and interest components:

Amortization Schedule

<u>Date</u>	<u>Lease Payment</u>	<u>Interest Expenditure</u>	<u>Principal Expenditure</u>	<u>Principal Balance</u>
6/30/12				\$41,710
6/30/12	\$10,000		\$10,000	\$31,710
6/30/13	\$10,000	\$ 3,170	\$ 6,830	\$24,880
6/30/14	\$10,000	\$ 2,485	\$ 7,515	\$17,365
6/30/15	\$10,000	\$ 1,735	\$ 8,265	\$ 9,100
6/30/16	\$10,000	\$ 900	\$ 9,100	\$ — 0

Note—The schedule above is usually computed from the amortization schedule provided in the lease agreement.

The amortization schedule is necessary to make the entries that are needed to record the capital lease.

The entries for the lease would be recorded as follows: General Fund

Equipment — \$41,710

Proceeds from Capital Leases — \$41,710

(To record the acquisition of equipment with a capital lease at 6/30/2012)

Other Debt Service—Principal — \$10,000

Cash in County Treasury — \$10,000 (To record the first lease payment at 6/30/2012)

Debt Service—Interest                      \$ 6,830

~~Other Debt Service—Principal      \$3,170~~

~~Cash in County Treasury              \$10,000~~

~~(To record the second lease payment at 6/30/2013)~~