General Principles and Philosophy

Certain principles and philosophies have prevailed in the definition of the Financial Reporting System described in this manual. This section enumerates those principles and serves as a general introduction to the accounts and reports covered in the manual.

The following principles dictate the approach to the Financial Reporting System and establish the framework for the accounting and reporting system concepts.

Reporting Standards

This principle recognizes that there is a greater need for detailed information on the local level than at the state or federal level. Therefore, the reporting standards required by the Department of Elementary and Secondary Education (DESE) will not call for the same level of detail as that necessary to manage a local school district/charter school. The inclusion of a large number of codes in this manual provides LEAs with local options befitting their unique style of business management. These options are contained within an overall mandatory framework which, when aggregated at the state level, will ensure comparability. Reporting to building principals responsible for campus budgets is possible within this system. However, a more summarized basis is preferred for the superintendent and school board, and further summarization occurs when the same data are communicated to the patrons of the school district/charter school.

Decentralized Budgeting Capabilities

The reporting system should have the capability of providing a greater span of decision-making responsibility and authority within the district/charter school. This manual and the accounts structure make no attempt to require or mandate such decentralized decision-making, as this is a responsibility of the local district/charter school. If the district/charter school desires to involve administrators, department heads, etc., in the responsibility for expense control, system capabilities should exist to do so.

This principle also recognizes the differences in the content of decision-making information at the local level and at the state and federal levels. The level of detail necessary to make decisions or evaluate previous decisions is naturally much more detailed within or between departments within a school district/charter school than what needs to be reported to the state. Conversely, if all the details were reported to the state by all the school districts/charter schools, the volume of data would be so overwhelming that it would be unnecessarily costly and may actually obliterate “information”.

For example, to provide budgetary control in areas such as salaries, the detail of substitute salaries, premium pay, extra assignment compensation, etc., are needed at the local level. Data in these categories would be relatively meaningless at the state level. Therefore, the salary information is aggregated in only two (different) classifications for state reporting purposes.

Modularity of Data

Financial reporting is simply an accounting summation of a large number of individual transactions. Therefore, it is important that each transaction have, within its account description, adequate information that can be reported or identified in more than one way.
For example, an audiovisual aid purchased for use in a social sciences course at Stanley Senior High, authorized under a Title VI - ESEA project, should carry all that information in the account defining that expenditure. Reporting can then relate that expenditure either to audiovisual aids, to expenditures for Stanley High, to expenditures for the social science programs, to Title VI - ESEA expenditures, or any combination of these categories.

This principle also honors the concept of classifying and recording data once and using the data many times in many ways.

**Accounting Systems**

The objectives of any accounting system are to link revenues, expenditures and current financial status for an accounting period with a reasonable amount of accuracy. The system established in this manual assists in the presentation of fair and comparable financial data for all districts/charter schools in the state.

**Direct-Cost Reporting**

With a larger number of accounts available, direct-cost reporting is more attainable; that is, a larger number of individual expenditures can be wholly attributed to a wider selection of possible programs or activities. Conversely, with some items such as salaries, reporting for the spectrum of activities that a teacher or support personnel may be assigned increases with the availability of accounts.

The intention is to prorate or allocate very few items (before reporting to the state). These items will have well-defined rules to establish uniformity of application.

Cost allocations may be done at the district/charter school or at the state level subsequent to required reporting. These cost allocations will be done on a very simplified basis, either on the basis of financial or statistical information reported about an organizational unit or within the financial system itself.

The emphasis on direct-cost reporting accomplishes two things. It enables the post-report segregation of direct and indirect costs on a known basis. This requires a one-time only determination of where a given cost fits best. It also reduces the interdistrict variants in reported costs. When one of multiple cost allocation methods is used to distribute indirect costs and is reported as a “program” cost, costs may differ more in appearance than they do in reality. By the same token, costs that appear to be equal may, in reality, be very dissimilar.

The intent is to minimize the commingling of cost accounting with this reporting system. With the greater availability of more accurate unallocated and direct costs, the second priority of single or multiple attributions to a program is made possible.

**Auditing Financial Information Reported**

The account structure and reporting requirements are used for local decision-making for report purposes, the biennial audit, the annual financial report and other programmatic information supplied to DESE.

All of these should be reported under the same basis of accounting. By revising the chart of accounts and the reporting standards to more closely reflect the daily operations and the certified audit of those operations, adjustments, as reflected by the audit, must be used to correct any financial information reported to the state.

This accounting manual provides a basis for integrating and consolidating reporting requirements.
Balance Sheet Reporting

Use of general ledger accounts and the preparation of balance sheets for reporting by fund are encouraged as a management tool for analysis of the district's/charter schools’ financial condition by fund. Balance sheet preparation should not be a once-a-year activity completed by the auditor certifying the accounting records.
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