

# **1. Financial Accounting and Reporting**

## **Update 14**

**A MODULE OF THE**

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

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# 1. Financial Accounting and Reporting

## 1.1 Financial Accounting Structure

The purpose of financial accounting and reporting by state and local governmental entities is to accumulate and provide information to facilitate decision making by various user groups. Certain *requirements* have been established requiring school districts to maintain proper budgeting and financial accounting and reporting systems. In addition, *principles and policies* to ensure uniformity in accounting have been developed. Specifically, the following financial accounting and reporting topics are:

- GAAP and legal compliance
- Legal requirements
- Accounting principles and policies
- Fund accounting
- Basis of accounting
- Encumbrance accounting
- Interfund transactions
- Nonexchange transactions
- Accounting changes
- Hierarchy of GAAP for state and local governments

- GASB statement summaries
- Change in fiscal year

### 1.1.1 GAAP and Legal Compliance

Guidelines for financial accounting and reporting are derived from generally accepted accounting principles (GAAP). School districts are required to adhere to GAAP.

Legal and contractual considerations typical of the government environment are reflected in the fund structure basis of accounting and are a major factor distinguishing governmental accounting from commercial accounting.

Governmental financial operations are regulated by various kinds of legal provisions. Other types of financial matters often are also regulated by charters, ordinances, resolutions, governing body orders, and intergovernmental grant or contract regulations.

The annual operating budget is one of the most important of all legal documents governing financial transactions. Upon board of trustee approval, the expenditure requests in the budget become binding appropriations that may not legally be exceeded by the school district without an amendment. Taxes and other revenue sources that finance budgeted expenditures usually require board enactment.

An important function of governmental accounting systems is to enable administrators to assure and report on compliance with finance-related legal provisions. This assurance and reporting means that the accounting system, its terminology, fund structure and procedures must be adapted to satisfy finance related legal requirements. However, the basic financial statements of school districts should be prepared in conformity with GAAP.

In some instances legal provisions may conflict with GAAP. These differences often occur because constitutional, charter or other legal provisions governing fiscal operations are difficult to change. Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis but should include sufficient additional reports to permit GAAP-based reporting. If a school district prepares the budget on the cash basis or another basis not consistent with GAAP, financial management and reporting becomes complicated.

If legal requirements dictate another basis of accounts or reports, school districts should maintain the accounts and prepare budgetary reports on the legally prescribed budgetary basis to determine and to demonstrate legal compliance and maintain sufficient supplemental records to permit presentation of financial statements in conformity with GAAP. When financial statements prepared in conformity with GAAP do not satisfy legal and contractual requirements, the school district should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities.

### 1.1.2 Legal Requirements

The [Texas Education Code](#) (TEC) and other state statutes contain the legal requirements for public school finance, accounting, budgeting and reporting. In summary, the state requirements are:

*Accounting* - A standard school fiscal accounting system must be adopted and installed by the board of trustees of each school district. The accounting system must conform to generally accepted accounting principles. This accounting system must also meet at least the minimum requirements prescribed by the state board of education, subject to review and comment by the state auditor.

*Auditing* - Accounting documents and records must be audited annually by an independent auditor. Texas Education Agency (TEA) is charged with review of the independent audit of the local education agencies. The Auditing and Data Collection & Reporting modules of this *Resource Guide* provide additional information regarding audits of school districts and financial reporting.

*Budgeting* - Not later than August 20 (June 19 for school districts with a July 1 fiscal year start date) of each year, the superintendent (or designee) must prepare a budget for the school district. The legal requirements for funds to be budgeted are included in the Budgeting module of the *Resource Guide*. The budget must be adopted before expenditures can be made, and this adoption must be prior to the setting of the tax rate for the budget year. The budget must be itemized in detail according to classification and purpose of expenditure, and must be prepared according to the rules and regulations established by the state board of education. The adopted budget, as necessarily amended, shall be filed with TEA through the [Public Education Information Management System](#) (PEIMS) as of the date prescribed by TEA. The school district's board minutes should be used to record the adoption of the budget and any amendments to the budget. Budget

amendments are to be made prior to exceeding a detailed functional expenditure category, and these amendments are to be recorded in the board minutes. Filing of the final amended budget with TEA is satisfied whenever the annual audit report, showing a comparison of budget amounts with actual amounts, is filed. The Budgeting module of this *Resource Guide* provides additional information regarding budgeting issues.

*Reporting* - The commissioner of education may require reports concerning public school districts as deemed proper and furnish necessary blanks, forms and instructions for this purpose. The budgets and reports filed with TEA will be reviewed and analyzed by TEA staff to determine whether all legal requirements have been met and to collect data needed in preparing reports for the governor and the legislature. The law provides that the TEA may withdraw school accreditation from any school district failing to comply with budgeting, accounting, and reporting requirements. The Auditing, Data Collection, and Reporting modules of this *Resource Guide* provide additional information regarding audits of school districts and financial reporting.

*Expenditures* - In some areas, the laws are specific in restricting expenditures. There are many statutes, attorney general's opinions and state board of education rules concerned with authorized expenditures from school funds. These sources should be consulted when a question arises as to the legality of a proposed expenditure.

*Other financial matters* - The statutes also specify authorizations and restrictions concerning financial matters such as taxes, depositories, issuance of bonds and warrants, loans, investments, etc. In most cases, the school authorities should obtain competent legal advice pertaining to the specific transaction prior to its initiation.

### 1.1.3 Accounting Principles and Policies

Principles and policies adopted by the state board of education are official rules and constitute minimum budgeting, accounting, auditing and reporting requirements for independent school districts. The state board of education intent in prescribing these rules is to cause the budgeting and financial accounting and reporting system of independent school districts to conform with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) for accounting treatments not specified in GASB pronouncements. *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) Section 1100, "Summary Statement of Principles," defines twelve principles of accounting and reporting shown in Exhibit 1.

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**Exhibit 1. Summary Statement of Principles of Accounting and Reporting (as adapted from GASB Codification Section 1100)**

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- *Accounting and Reporting Capabilities* - A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the government in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.
- *Fund Accounting Systems* - Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report detailed information about the primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on *major* funds.

- *Types of Funds* - The following types of funds should be used by state and local governments:

#### *Governmental Funds*

- (1) *The General Fund* – to account for all financial resources except those required to be accounted for in another fund.
- (2) *Special Revenue Funds* – to account for the proceeds of specific revenue sources (other than trust for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specific purposes.
- (3) *Capital Projects Funds* – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.
- (4) *Debt Service Funds* – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt service funds are required if they are legally mandated and/or if financial resources are being accumulated for principal and interest payments maturing in future years.
- (5) *Permanent funds* – to report resources legally restricted so earnings, but not principal, may be used for purposes that support the school.

#### *Proprietary Funds*

- (6) *Enterprise Funds* – to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.
  - a.) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity.
  - b.) Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
  - c.) The pricing policies of the activity establish fees and charges designed to



recover its costs, including capital costs (such as depreciation or debt service).

(7) *Internal Service Funds* – to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

### *Fiduciary Funds*

To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust and agency funds therefore cannot be used to support the government's own programs. These include:

- 8) Pension (and other employee benefit) trust funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans.
  - 9) Investment trust funds should be used to report the external portion of investment pools reported by the sponsoring government.
  - 10) Private-purpose trust funds, such as a fund used to report escheat property, should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.
  - 11) Agency funds should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.
- *Number of Funds* - Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

- *Reporting Capital Assets* - A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds should be reported only in the statement of fiduciary net assets. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.

- *Valuation of Capital Assets* - Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be recorded at their estimated fair value at the time of acquisition plus ancillary charges, if any.

- *Depreciation and Impairment of Capital Assets*

Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets using the modified approach. Inexhaustible assets such as land and land improvements should not be depreciated. Depreciation expense should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net assets; and the statement of changes in fiduciary net assets. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined.

- *Reporting Long-term Liabilities* - A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net assets and in the government-wide statement of net assets. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets. All other unmatured general long-term liabilities of the governmental entity should not be reported in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.

- *Accrual Basis in Governmental Accounting* - The modified accrual basis of accounting or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.
  - (a) *Governmental fund* revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except of unmatured interest on general long-term debt, which should be recognized when due.
  - (b) *Proprietary fund statements net assets and* revenues, expenses and changes in fund net assets should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measurable; expenses should be recognized in the period incurred, if measurable.
  - (c) *Fiduciary funds* should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post employment healthcare plans.
  - (d) *Transfers* should be recognized in the accounting period in which the interfund receivable and payable arise.
- *Budgeting, Budgetary Control, and Budgetary Reporting*
  - (a) An annual budget(s) should be adopted by every governmental unit.
  - (b) The accounting system should provide the basis for appropriate budgetary control.
  - (c) Budgetary comparison schedules should be presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. (The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis.)
- *Transfer, Revenue, Expenditure, and Expense Account Classification*
  - (a) The statement of activities should present governmental activities at least at the level of detail required in the governmental fund statement of revenues,

expenditures, and changes in fund balances—at a minimum by function. Governments should present business-type activities at least by different identifiable activities.

- (b) Governmental fund revenues should be classified by fund and source. Expenditures should be classified by fund and source. Expenditures should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
  - (c) Proprietary fund revenues should be reported by major sources, and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.
  - (d) Proceeds of general long-term debt issues should be classified separately from revenues and expenditures in the governmental fund financial statements.
  - (e) Transfers should be classified separately from revenues and expenditures or expenses in the basic financial statements.
- *Common Terminology and Classification* - A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund or activity.
  - *Annual Financial Reports*
    - (a) Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.
    - (b) A comprehensive annual financial report should be prepared and published, covering all funds and activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section, management’s discussion and analysis (MD&A), basic financial statements, required supplementary information other than MD&A, combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units.
    - (c) The minimum requirements for MD&A, basic financial statements, and required supplementary information other than MD&A are:
      - (1) Management’s discussion and analysis.
      - (2) Basic financial statements. The basic financial statements should include:
        - (a) Government-wide financial statements.
        - (b) Fund financial statements.
        - (c) Notes to the financial statements.

(3) Required Supplementary information other than MD&A.

- (d) The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete (See GASB 39). The reporting entity's government-wide financial statements should display information about the reporting government as a whole distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Funds and component units that are fiduciary in nature should be reported only in the statements of fiduciary net assets and changes in fiduciary net assets.
- (e) The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

Overall summaries of the state mandated principles and policies are:

*Generally accepted accounting principles (GAAP)* - School district accounting systems must be kept in accordance with generally accepted accounting principles and shall present fairly and with full disclosure the funds and activities and results of financial operations in such a manner to determine and demonstrate compliance with finance-related legal and contractual provisions. Whenever conflicts exist between legal requirements and generally accepted accounting principles, the financial statements shall be prepared in conformity with *generally accepted accounting principles*, and additional schedules and/or narrative explanations shall be attached as necessary to satisfy or report legal compliance responsibilities and accountabilities. See [Statutory Modified Accrual Method](#) for the exception regarding GASB 45, OPEB.

*Fund accounting* - The accounting system shall be organized and operated on a fund basis. All funds of school districts shall be accounted for and included on the end-of-year combined balance sheet. A fund is defined as a fiscal and accounting entity with a self-

balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. All school districts shall establish and maintain only the minimum number of funds required for efficient operations, limited to those fund types presented in the Account Code section of this module of the *Resource Guide*.

*Central accounting* - Accounting for public funds of independent school districts shall be on an organization-wide basis covering all funds. Governmental, proprietary and fiduciary fund types shall be the accounting responsibility of a centralized unit or office within the organizational structure of a school district.

*Capital assets* - Capital assets shall be accounted for at historical cost (which includes any ancillary charges necessary to place in its location and condition for use). Donated capital assets shall be recorded at their estimated fair value at the time received. Capital assets shall include land, buildings, improvements other than buildings, vehicles, machinery, infrastructure, works of art and historical treasures, furniture and equipment that:

- Are not consumed as a result of use.
- Have a useful life of at least one year and a per-unit cost of \$5,000 or more.
- Can be controllable, identified by a permanent or assigned number or label, and be reasonably accounted for through a fiscal inventory system. Groups of like items may be included in the inventory system.

*Depreciation* - Depreciation of capital assets should be over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach.

- Depreciation of capital assets should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net assets; and the statement of changes in fiduciary net assets.

*Basis of accounting* - Generally accepted accounting principles (GAAP) shall be followed for financial budgeting, accounting and reporting purposes in [PEIMS](#) except for foundation school program (FSP) revenues. FSP revenues must be accounted for under a budgetary

basis of accounting as explained below. This budgetary basis must be reported in the annual financial report and reconciled to GAAP in the notes to the financial statements. Materiality is considered in GAAP requirements, and the determination of materiality is an exercise of the professional judgment of the independent auditor.

*Modified accrual or accrual method* - The basis of accounting shall be on the modified accrual or accrual method, as appropriate for the fund.

- Revenues and expenditures of *governmental fund types* shall be budgeted, recorded and recognized on the modified accrual basis. Revenues shall be recognized in the accounting period in which they become available and measurable. Additionally, FSP revenues earned for days of instruction for the new academic year occurring prior to the close of the current fiscal year as a ratio to the total days of instruction may be accrued as revenue if collectible within 60 days of fiscal year-end. Expenditures shall be recognized in the accounting period in which the fund liability is incurred (as services are rendered or title to property is transferred to the school district), if measurable, except for unmatured interest on general long-term debt, which shall be recognized when due. The annual financial reports and federal quarterly and final completion reports must be prepared on this same basis of accounting. Cash basis or reconciliation type reports may supplement modified accrual and accrual basis reports.
- Revenues and expenses of *proprietary fund types* shall be recognized on the accrual basis. Revenues shall be recognized in the accounting period in which they are earned and become measurable. Expenses shall be recognized in the accounting period in which they are incurred and become measurable.
- *Agency funds* shall be accounted for on the accrual basis (however, agency funds maintain only assets and liabilities).
- *Interfund transfers* shall be recognized in the accounting period in which the receivable and payable arise.

*Statutory modified accrual method* - GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, superseded GASB Statement No. 12. Since most districts don't offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance regarding a [statutory modified accrual basis](#) to be provided by the Comptroller. Please refer to the Comptroller's OPEB website for additional guidance.

*Budgetary basis of accounting* - The budgetary basis of accounting shall be consistently applied in budgeting, recording and reporting foundation school program (FSP) revenues in

[PEIMS](#) information. Under the budgetary basis, earned and material FSP revenues that are collectible beyond 60 days are to be treated consistently for budgeting, recording, and reporting through PEIMS and for tax rollback rate calculation purposes.

*Budgetary control/encumbrance accounting* - The official school district budget, as adopted, shall be recorded in the general ledger. Revenues and expenditures authorized in the budget shall be controlled in the accounting records and reported in the financial statements. Only the General Fund, Debt Service Fund and Food Service Fund must be included in the official school district budget. If the child nutrition program (Food Service) is accounted for in an Enterprise Fund, the fund must be budgeted and the budget must be reported through [PEIMS](#).

To control budgeted fund commitments as a result of unperformed executory contracts for goods or services, the accounting system shall employ a method of *encumbrance* accounting. Encumbrances shall be documented by contracts, purchase orders, or other evidence showing binding commitments for goods or services.

- Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed.
- Appropriations lapse at year end. A school district may intend to honor the encumbrance contracts in progress at year end (unless prohibited to do so by law or program regulations) or to cancel them. If there is intent and legal authorization to honor them, encumbrances outstanding at year end shall be a reservation of fund balance, and the subsequent year's appropriations shall provide the authority to complete these transactions.

*Uniform classifications and terminology* - Fund codes, mandatory account classifications and terminology prescribed in the Account Code section of this module of the *Resource Guide* shall be used by school districts. General ledger accounts prescribing a double entry system and distribution of related payroll expenses with payroll shall be uniformly used throughout the budgeting, accounting and financial reporting system.

- A school district accounting system shall use the accounting code structure presented in the Account Code section of the *Resource Guide*.



- Funds shall be classified and identified on required financial statements by the same code number and terminology provided in the Account Code section of the *Resource Guide*.
- Revenues shall be recorded on a gross basis and shall be classified by fund, source (object code), fiscal year and where fiscal integrity (separate accountability) is necessary, by program and/or project.
- Expenditures or expenses shall be classified by fund, function, object, organization, program intent and fiscal year.
- Special Revenue Fund programs requiring project accountability are to be identified by project through the use of the fiscal year code. Once the fiscal year code has been assigned a project, it shall remain with the project until its termination, regardless of the fiscal year in which termination occurs. Project accountability is a requirement for most federal projects; however, it rarely applies to state grants.
- Interfund transfers and proceeds from notes or other indebtedness shall be classified separately from and not recorded as fund revenues and expenditures or expenses.
  - Interfund transactions (except loans or advances, interfund service provided and used transactions and reimbursements) shall be accounted for as interfund transfers. Interfund transfers shall consist of *transfers* which are nonrecurring or nonroutine transfers of equity between funds.
  - Interfund service provided and used transactions and reimbursements shall not be accounted for as interfund transfers, but shall be appropriately accounted for as fund revenues, expenditures or expenses, or adjustments thereto. An example is a billing to the General Fund by the Internal Service Fund, thus constituting an expenditure for the General Fund and a revenue for the Internal Service Fund. Reimbursements shall be recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

*Accounting alternatives* - The accounting system shall allow certain flexibility in the recognition of relatively minor amounts of certain revenues and expenditures. Application of alternatives in accounting methods shall be consistently applied from accounting period to accounting period.

- Monies collected in advance and the property tax levy recorded in the school district's opening budget entries that will ultimately be recognized as revenues shall be recorded

as deferred revenues, and at the appropriate time shall be recognized as revenues of the accounting period to which they apply.

- Inventory items of materials, supplies, etc., may be considered expenditures/expenses either when purchased (purchases method) or when used (consumption method), but significant amounts of inventory shall be reported on the balance sheet.
- Expenditures/expenses for [insurance](#) and similar services extending over more than one accounting period need not be allocated between or among accounting periods, but may be accounted for as expenditures/expenses of the period of acquisition.

*Fund equity and other credits* - Fund equity is comprised of investments in capital assets (other credit); contributed capital; net assets; reserved fund balance; unreserved, designated fund balance; and unreserved, undesignated fund balance.

Once GASB 54 is effective (fiscal year 2010/11), fund equity consists of investments in capital assets (other credit); contributed capital; net assets; nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. See section 1.2.9.2 for additional discussion.

## 1.1.4 Fund Accounting

The school district's accounting system should be organized and operated on a fund basis. Each fund is a separate fiscal entity in the school district much the same as various corporate subsidiaries are fiscally separate in private enterprise. The separate funds are established by the school district for the specific activities and objectives in accordance with statutes, laws, regulations, restrictions, or for specific purposes. A fund is defined in GASB Codification Section 1300 as:

. . . a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The requirement for a *self-balancing* set of accounts means that the familiar debit and credit framework is applied to the recording of transactions and events in the accounting systems of each fund. But the requirement that a fund must be both a separate fiscal and accounting entity indicates that the self-balancing feature itself is not adequate alone; accounting control and accountability for the government's general capital assets and the unmatured principal of its long-term debt are also required.

Per GASB Statement No. 34, the general long-term debt account group and the general fixed asset account group are no longer included as part of the basic financial statements. However, school districts should continue to maintain these accounts as part of their internal control system. The general long-term debt fund and general capital asset fund are used to establish accounting control and accountability for the government's general capital assets and the unmatured principal of its long-term debt.

Legal reporting requirements and the varied nature of school district's operations preclude a *single set* of accounts for recording and summarizing all transactions. The records must be organized on a multiple-fund basis with each of the several funds complete and independent accounting entities. The absolute minimum number of funds appropriate for public school operations depends on the purposes and legal requirements of the various activities. The identified fund types are for group activities that are similar in nature or purpose. The required fund types and groups of self-balancing accounts as described in GASB Codification Section 1300.102 and 103 (excerpted) follow.

#### 1.1.4.1 Description of Fund Types

The three fund types are

*Governmental fund* reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance."

Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. The governmental fund measurement focus is on determination of *financial position and changes in financial position* (sources, uses, and balances of financial resources).

The financial statements required for governmental funds are a balance sheet and a statement of revenues, expenditures, and changes in fund balance.

*Proprietary Fund* reporting focuses on the determination of net income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Proprietary fund statements of net assets and revenues, expenses, and changes in fund net assets should be presented using the economic resources measurement focus and the accrual basis of accounting.

Required financial statements for proprietary funds are a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows.

*Fiduciary fund* reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post employment benefit plans.

#### **1.1.4.2 Description of Fund Code Categories and Capital Asset and Long-Term Liability Accounts**

*Accountability* for and control of the government's general capital assets and long-term liabilities are accomplished through a separate category of accounting entries, called the "account groups" prior to GASB 34. Since many accounting systems may not be modified for a while, many districts may continue their use.

*Account Groups* – may continue to be used to establish accounting control and accountability for the government’s capital assets and the unmatured principal of its long-term liabilities due to accounting system limitations.

Account groups have no place in the new reporting model; nowhere are they reported. School districts will continue to maintain their accounting systems on a fund basis. Some may find account groups a convenient means of keeping track of their long-lived assets and long-term liabilities-items that they will now have to incorporate in their government-wide statements

The government’s general capital assets – all capital assets except those accounted for in proprietary funds or fiduciary funds – are not financial resources available for expenditure. The unmatured principal of its general long-term liabilities – long-term liabilities not accounted for in proprietary funds or fiduciary funds – does not require an appropriation or expenditure . . . during the current accounting period. Hence, neither is accounted for in the governmental funds, but in self-balancing capital asset and long-term liability accounts. These accounts are not funds; they do not reflect available financial resources and related liabilities but are accounting records of the general capital assets and general long-term liability accounts, respectively, and certain associated information . . . . Exhibit 2 below describes some specific fund type uses.

**Exhibit 2. Matrix of Fund Usage**

<b>FUND DESCRIPTION *</b>	<b>EXAMPLES</b>
<b>GOVERNMENTAL TYPE FUNDS</b>	
<p>General Fund - Accounts for all financial resources except those required to be accounted for in another fund.</p> <p>Effective with implementation of GASB 54 – Accounts for all financial resources not accounted for and reported in another fund.</p>	<p>General Fund, including the Local Maintenance Fund, Food Service Fund, etc.</p>
<p>Special Revenue Funds - Account for the proceeds of specific revenue sources that have been restricted to expenditure for specific purposes</p> <p>Effective with implementation of GASB 54 – Account for the proceeds of specific revenue sources that have been restricted or</p>	<p>ESEA Title I, Part A, National School Breakfast and Lunch Program Fund, Career and Technical Education Fund, Campus Activity Fund, Shared Services Arrangements Funds, etc.</p>

<b>FUND DESCRIPTION *</b>	<b>EXAMPLES</b>
committed to expenditure for specific purposes not including capital project or debt service funds	
<p><b>Capital Project Funds</b> - Account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organization, or other governments.) Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.</p> <p>Effective with implementation of GASB 54 – Account for financial resources to be used for the acquisition or construction of major capital outlays, including capital facilities and other capital assets (other than those financed by proprietary funds or in trust funds for individuals, private organization, or other governments.) This includes amounts restricted, committed, or assigned. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.</p>	Locally Defined Capital Project Funds
<p><b>Debt Service Funds</b> - Account for resources set aside to pay interest and principal on long-term debt.</p> <p>Effective with implementation of GASB 54 – Account for and report resources set aside to pay interest and principal on long-term debt. This includes amounts restricted, committed, or assigned. Debt service funds should be used if legally mandated or just accumulating resources for principal and interest payments in future years.</p>	Locally Defined Debt Service Funds
<p><b>Permanent Funds</b> – should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is, for the benefit of the government or its citizenry.</p>	Scholarship Funds (limited to the use of only earned interest or revenue), etc.

<b>FUND DESCRIPTION *</b>	<b>EXAMPLES</b>
<b><i>PROPRIETARY TYPE FUNDS</i></b>	
<p>Enterprise Funds - Account for operations (a) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity, or (b) laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (c) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).</p>	<p>National School Breakfast and Lunch Program Fund (food service operations are to be accounted for in this fund when a school district intends for the food service operations to be financed from the NSLP program and user charges, rather than from General Fund subsidies), State Defined Enterprise Funds, Locally Defined Enterprise Funds</p>
<p>Internal Service Funds - Account for the financing of goods or services provided by one department or funds to other departments or funds within the same school district on a cost reimbursement basis.</p>	<p>Transportation Fund, Print Shop Fund, <a href="#">insurance</a> Fund, Computer Operation Fund, etc.</p>
<b><i>FIDUCIARY TYPE FUNDS</i></b>	
<p>Fiduciary Funds - should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the district’s own programs.</p>	
<ul style="list-style-type: none"> <li>Private-purpose trust funds used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.</li> </ul>	<p>Scholarship Funds (both principal and earned interest on revenue can be distributed)</p>
<ul style="list-style-type: none"> <li>Investment Trust Funds - Account for funds received from the external</li> </ul>	<p>Investments held on behalf of another district, an investment pool.</p>

<b>FUND DESCRIPTION *</b>	<b>EXAMPLES</b>
portion of investment pools reported by the sponsoring government.	
<ul style="list-style-type: none"> <li>Pension (and other employee benefit) Trust Funds - Account for defined benefit pension plans other than the Teacher Retirement System of Texas, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.</li> </ul>	Locally Defined Pension Trust Funds
<ul style="list-style-type: none"> <li>Agency Funds - Account for the collection and disbursement of assets held in a custodial capacity by a school district consisting of clearing accounts and funds that are the property of students or others.</li> </ul>	Tax Collection Fund, Textbook Waiver Refund Fund, Payroll Clearing Account Fund, etc.

<b>LONG-TERM LIABILITY ACCOUNTS AND GENERAL CAPITAL ASSET ACCOUNTS</b>	
<p>Long-term liability accounts - Account for non-current debts. Long-term liabilities will be offset by a debit to either amounts to be provided and/or amounts available in other funds. Long-term liabilities of Proprietary Fund Types and Fiduciary Funds are accounted for through those fund types and are not included in this account group.</p>	Formerly referred to as General Long-Term Debt Account Group
<p>General capital asset accounts - Account for those general capital assets not recorded in proprietary fund and fiduciary funds. This account group is for specific</p>	Formerly referred to as General Fixed Assets Account Group



FUND DESCRIPTION *	EXAMPLES
pieces of property such as equipment, land, and building, and all associated costs. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.	

\* See discussion of GASB 54, effective for fiscal year 2010-2011, regarding changes in descriptions of funds in Section 1.2.9.

### 1.1.5 Basis of Accounting

Basis of accounting is a term used to refer to when revenues, expenditures, expenses, and transfers and their related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the *timing* of the measurements made, regardless of the nature of the measurement. The *accrual basis* of accounting generally relates to the recording of the financial effects on a school district of transactions and other events and circumstances that have cash consequences to the school district in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid. The *modified accrual basis* refers to the accrual basis of accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Thus, under modified accrual basis of accounting, then, amounts are recognized as revenue when earned, only so long as they are collectible within the period or soon enough afterwards to be used to pay liabilities of the current period.

The measurement focus hinges on whether the primary objective of accounting is to reflect the sources and uses of financial resources which necessitates the use of *revenues and expenditures*, or whether the primary objective is to allocate costs to periods benefited which necessitates the use of *revenues and expenses*. Expenditures refer to a *decrease* in net financial resources while expenses refer to the *outflows* or other use of assets or incurrence of liabilities.

The modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results of the various fund types of the school district as follows:

- *Governmental Funds* - Revenues and expenditures of Governmental Fund Types should be budgeted, reported, and recognized on the *modified accrual basis*. *Revenues* shall be recognized in the accounting period in which they become susceptible to accrual, that is, when they become both available and measurable. In this instance, the term available generally means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. School districts generally consider all revenues available if they are collected within 60 days after year end. Measurable refers to the ability to quantify in monetary terms the amount of the revenue.

*Expenditures* should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due, rather than as it accrues, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. GASB Codification Section 1600.120 discusses expenditure recognition of *debt service* as follows:

. . . Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets. Further, to accrue the debt service fund expenditures and liability in one period but record the transfer of financial resources for debt service purposes in a later period would be confusing and would result in overstatement of debt service fund expenditures and liabilities and understatement of the fund balance. Thus, disclosure of subsequent year debt service requirements is appropriate, but they usually are appropriately accounted for as expenditures in the year of payment. . . .

The government-wide statement of net assets and the statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from nonexchange transactions should be recognized in accordance with Section N50, “Nonexchange Transactions.” (GASB 34 ¶16)

In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

- *Proprietary Funds* - Revenues and expenses of proprietary fund types should be recognized on the *accrual basis*. Revenues should be recognized in the accounting period in which they are earned and become measurable. Expenses should be recognized in the accounting period in which they are incurred and become measurable. Proprietary fund statements of net assets and revenues, expenses, and changes in fund net assets should be presented using the economic resources measurement focus and the accrual basis of accounting.
- *Fiduciary Funds* - Revenues and expenses or expenditures of fiduciary type funds should be recognized on the basis consistent with the fund's accounting measurement objective. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and other postemployment benefit plans.
  - *Agency Fund* assets and liabilities should be accounted for on the *modified accrual basis*.

## 1.1.6 Encumbrance Accounting

Budgets are the legal authority for expenditures. To exercise this authority, the administrator must have accurate up-to-date information on the status of the budget balances at all times. Knowing how much money has been spent to date is generally not sufficient. The amount *committed* must also be known to avoid over expenditure of budgeted funds. An encumbrance accounting system is a method of ascertaining the availability of funds and then reserving funds to cover outstanding obligations.

Encumbrances represent commitments related to contracts not yet performed (executory contracts), and are used to control expenditures for the year and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes.

The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources. Likewise, the account reserve for encumbrances is not

synonymous with a liability account since the liability is recognized only when goods are received or the services are actually performed.

When the invoice comes in and is approved, the budgetary accounts are eliminated and the actual expenditure and related liability are recorded. Any difference between the encumbrance and the expenditure is reflected as an adjustment to the remaining encumbrance balance. The original encumbrance entry is based on the estimated costs of goods and services and may, as illustrated above, differ from the eventual cost of the item.

During the budgetary period, a school district can determine the remaining amount of the new commitments that can be signed by comparing the amount of appropriations to the sum of expenditures recognized and encumbrances outstanding.

### **1.1.6.1 Encumbrance Liquidation**

An encumbrance may be liquidated in whole or in part or canceled when any of the following situations occur:

- Satisfactory receipt or legal acceptance of a partial or complete shipment of goods or services
- Notice from or failure of the vendor to fulfill terms of the order or contract
- Cancellation of the order
- If funds are not available due to lack of funds

Since many purchase orders are based on catalog prices or quotes subject to changes, amounts of encumbrances may vary from the amounts of expenditures. In any case, the total encumbrance is liquidated at the same amount as originally booked.

### **1.1.6.2 Treatment at Year End**

Prior to the end of the year, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the fiscal year end, the school

district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the fiscal year. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually reappropriated in the following year's budget.

When outstanding encumbrances are allowed to lapse at year end but the school district intends to honor the commitment, the encumbrances should be disclosed either as a reservation of the fund balance or in a note to the financial statements, and authorization for the eventual expenditure should be included in the following year's budget appropriation.

## 1.1.7 Interfund Transactions

Interfund activity within and among governmental, proprietary, and fiduciary fund categories should be classified and reported as follows:

*Reciprocal interfund activity* - is the internal counterpart to exchange and exchange-like transactions and includes:

- *Interfund loans*-amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan. GASB has not defined the term 'reasonable time' and it should, therefore, be based on professional judgment. Expectation means that the district intends to, and is able to, repay the loan. For example, if recurring payments have been made to reduce the balance, that may provide evidence that repayment is expected.
- *Interfund services provided and used*-sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as external transactions. Therefore revenues are reported in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets. Items previously reported as quasi-external transactions meet the definition of interfund services provided and used.

*Nonreciprocal interfund activity* - is the internal counterpart to nonexchange transactions and includes:

- *Interfund transfers*-flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers should be reported after nonoperating revenues and expenses.
- *Interfund reimbursements*-repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

## 1.1.8 Nonexchange Transactions

Transactions that do *not* involve the exchange of equal or approximately equal value are referred to as nonexchange transactions according to GAAP. The two parties in a nonexchange transaction are the provider of the resources and the receiver of the resources. The provider of the resources could be the federal government, a state or local government, or a nongovernmental entity (such as an individual or a business entity). The receiver of the resources could be a state or local government or a nongovernmental entity. For governmental entities, nonexchange transactions range from taxes raised by governmental entities to grants made by one governmental entity to another governmental or nongovernmental entity.

In March 1997, GASB issued an Exposure Draft titled “Accounting and Financial Reporting for Nonexchange Transactions” to provide guidance for nonexchange transactions involving financial or capital resources. These standards were finalized with the issuance of GASB 33 in December 1998 and address the issue of when pass-through grants should be recognized.

It is to be noted that GASB 33 did not make significant changes to standards for the recognition of revenues and expenditures under modified accrual accounting principles.

GASB takes the position that all nonexchange transactions are fundamentally controlled by either legislation or contractual requirements or both, and these factors are essential in determining when revenues from nonexchange transactions should be recognized.

The standards established by GASB 33 generally apply to both revenue and expense recognition at the same time. When both parties to the nonexchange transactions are governmental entities, the same standards that the recipient government used to determine whether revenue should be recognized should be used by the provider governmental entity to determine when an expense should be recognized. In general, when both governmental entities use the same basis of accounting, they should recognize the revenue (recipient government) and the expense (provider government) in the same accounting period.

The April 2002 issue of the GAAFR Review, published by the Governmental Finance Officers Association, mentioned certain accounting issues relating to GASB 33 that were clarified in the GASB's second implementation guide to GASB 34 titled, Guide to Implementation of GASB Statement 34 and Related Pronouncements (Guide), which complemented the GASB's Spring 2000 implementation guide titled, Guide to Implementation of GASB Statement No. 34 on Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The issues mentioned in the April 2002 GAAFR Review were as follows:

- “Donated services do not fall within the scope of GASB Statement No. 33.
- Fines should be recognized when they are legally enforceable. The Guide states, legal enforceability generally occurs when the parties pay their fines or, if disputed, when a court later rules that the fine is enforceable (net of estimated refunds).
- Taxes normally only become revenue “in the period for which the taxes are levied.” Sometimes there has been confusion on how to interpret this guidance in situations where several different fiscal periods are covered (e.g., the fiscal period of the government collecting the taxes, the fiscal period of the government levying the taxes, and the period during which the taxed property was owned). The appropriate period for revenue recognition would be “the budget or fiscal period of the entity initiating the levy.”
- Property taxes levied for future debt service normally should be recognized as revenue of the period for which they are levied rather than as revenue of the period in which the related debt service payment will be made.

- The defining feature of an expenditure-driven grant is that the resources remain the property of the grantor until allowable costs are incurred.
- Under the modified accrual basis of accounting, revenues associated with expenditure-driven grants should be recognized only when they become available.
- A grantor's liability for expenditure-driven grants should reflect not only actual claims submitted, but also estimated claims incurred but not yet reported.
- As a general rule, revenue related to expenditure-driven grants should not be recognized before appropriation by the grantor, even if the grant period has begun and eligible expenditures have been occurred. An exception to this general rule occurs, however, when grant payments are legally authorized prior to appropriation.
- The provisions of Accounting Principles Board Opinion No. 21, Interest on Receivables and Payables, apply only to balances arising in connection with exchange and exchange-like transactions. Consequently, there is no requirement to report grant receivables at their present value, as illustrated in example 21a of GASB Statement No. 33.
- GASB Statement No. 33, footnote 12, explains that an essential eligibility requirement for an endowment is that the donated resources, once received, not be sold, disbursed, or consumed. Accordingly, no receivable should be reported for endowments that have not yet been received.
- Tax recoveries should be considered in the process of determining the initial balance of uncollectible accounts.”

### **Time Requirements**

Resources may be provided by one governmental entity or another party to a governmental entity with the requirement that the resources be used in (or begin to be used in) a specified period(s). GASB 33 notes that “time requirements specify the period or periods when resources are required to be used or when use may begin.” In most instances, when a nonexchange transaction is subject to a timing requirement, that requirement generally affects the period in which revenue is recognized by the governmental entity.



## **Purpose Restrictions**

Purpose restrictions relate to the use of resources that arise from a nonexchange transaction. A purpose restriction does not affect the timing of the recognition of a nonexchange transaction. In fact, GASB notes that a purpose restriction cannot be met unless a nonexchange transaction has taken place.

During the period between when a governmental entity records a nonexchange transaction that has purpose restrictions and when the entity uses those resources, the entity should indicate in the equity section of its statement of position the amount of resources that is restricted. Governmental funds should report the restriction as a “reserve,” and funds that use proprietary fund accounting should refer to the purpose restriction as a “restriction” of their equity, net asset balance, or fund balance.

The standards established by GASB 33, for the most part, apply to four categories of nonexchange transactions and not to specific types of nonexchange transactions. For this reason GASB requires a governmental entity to evaluate the characteristics of each of its nonexchange transactions and decide which of the following four categories should be used to classify a particular transaction.

## **DERIVED TAX REVENUES**

Derived tax revenues are revenues from taxes that are imposed on exchange transactions. Although the tax is imposed on an exchange transaction, the source of revenue is considered revenue from a nonexchange transaction because the exchange transaction is between two parties that do not include a governmental entity. Derived revenue has the following principal characteristics.

- A governmental entity imposes the tax on the provider (the individual or enterprise that acquires the income, goods, or services)
- The imposition of the tax is based on an exchange transaction

For example, revenue obtained from a retail sales tax is a derived tax revenue because the tax is imposed by the governmental entity on an exchange (the sale) between a retailer (provider of the tax resource) and a customer.

## **Revenue Recognition**

A governmental entity should recognize derived tax revenue when (a) the exchange that the tax is based on has occurred, (b) the amount is measurable, and (c) the tax is expected to be collected (realizable).

A governmental entity usually cannot collect all taxes that are legally due and, therefore, it should report as revenue only the estimated tax that it expects to realize.

GASB 33 requires that derived tax revenues be recorded in the same period in which the exchange transaction that generates the tax revenue occurs. Thus, once the taxable transaction has occurred, the governmental entity has an enforceable legal claim to the tax resources. If the resources related to the enforceable legal claim are available to the governmental entity, then, under the modified accrual basis of accounting, the governmental entity should record revenue.

### **Asset Recognition**

A governmental entity must record an asset arising from a derived tax revenue transaction when the related exchange transaction occurs or when the entity receives resources, whichever comes first. That asset will be recorded as cash as tax receipts are collected during the accounting period, but it will take the form of a receivable when revenue is accrued at the end of the year. However, if the entity collects taxes before the conditions of revenue recognition (as described above) are satisfied, it should record the receipt of cash as deferred revenue (liability account).

### **Purpose Restrictions**

As noted earlier, purpose restrictions do not affect the timing of revenues related to nonexchange transactions; however, because resources are restricted the governmental entity must disclose that fact in its financial statements. This disclosure requirement may be accomplished by establishing a fund balance reservation (for governmental fund types) or a restriction of retained earnings or net assets (for proprietary fund types).

## **IMPOSED NONEXCHANGE REVENUES**

Imposed nonexchange revenues result from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions.

## Revenue Recognition

A governmental entity should recognize imposed nonexchange revenues (a) in the period when use of the resources is required or is first permitted by time requirements, (b) when the amount is measurable and (c) when the tax is expected to be collected (realizable).

**Property tax (and other ad valorem taxes)** Generally, the most important example of an imposed nonexchange revenue is property tax. GASB-33 notes that the date that a governmental entity has an enforceable legal claim against a property owner is usually included in the enabling legislation. The basic principle adopted by GASB-33 is that a “receivable should be recognized as soon as the government has a legal claim to a provider’s resources that is enforceable through the eventual seizure of the property.” The entity should record the revenue/receivable at that date even if the property owner has the right to appeal the assessment or has other due process rights.

The amount of the property taxes receivable is based on the assessed value of the property and the current property tax rate used by the governmental entity. Even though a governmental entity has an enforceable legal claim against property owners, all property taxes assessed will not be collected, and the entity will need to make a reasonable estimate of the amount of uncollectible property taxes and to provide an appropriate allowance.

There is one exception to the enforceable legal claim date. In some instances a governmental entity levies property taxes for one particular period but the enforceable legal claim date or the payment due date(s) occurs in another period. Under this circumstance, GASB-33 requires the entity to record the property taxes as revenue in the period in which it levied the taxes.

Some governments do not have an enforceable legal claim to property taxes until the period after the period for which the property taxes are levied. GAAP specifically directs governments in that situation to recognize property tax revenue in the period for which the taxes are levied, even though an enforceable legal claim does not arise until the following period.

All other imposed nonexchange revenues should be recorded in the governmental entity’s financial statements as of the date an enforceable legal claim arises unless the enabling legislation establishes a time requirement. When a time requirement is imposed, the entity should recognize revenue when the resources are permitted to be used.

## **Asset Recognition**

A governmental entity must record an asset from imposed nonexchange transactions when the entity has an enforceable legal claim to the asset or when the entity receives resources, whichever comes first. That asset will be in the form of cash from tax receipts, fines, and so on, which are collected during the accounting period, but the asset will take the form of a receivable when revenue is accrued at the end of the year. However, if the entity collects imposed nonexchange revenue before the revenue recognition criteria are satisfied, the entity should record the receipt of cash as deferred revenue. In the case of property taxes and other ad valorem taxes, it is possible for the entity to recognize a receivable before revenue is recognized. That is, it can record property taxes as a receivable/deferred revenue when the entity has an enforceable legal claim even if it levies the taxes after the date of the enforceable legal claim. Under this circumstance, as the entity receives cash (before the period for which the taxes were levied), it reduces the receivable but its deferred revenue remains the same.

## **Time restrictions**

When a governmental entity receives resources that are subject to a time restriction, it should record the asset (cash) but recognize deferred revenue rather than revenue. Once the time restriction has occurred or been met, the entity can recognize the imposed nonexchange revenue.

## **Purpose restrictions**

A purpose restriction does not affect the recognition of imposed nonexchange revenues. A governmental entity can record those revenues when the criteria described above are satisfied; however, the entity must indicate in its financial statements that the restricted resources received from an imposed nonexchange revenue source are to be used for a specified purpose. This is accomplished by establishing a fund balance reservation (for governmental fund types) or a restriction of retained earnings or net assets (for proprietary fund types). For example, an entity recognizes \$1,000,000 of property taxes during the accounting period (based on the enforceable legal claim concept) and the amount is restricted for the construction of a public school library. At the end of the accounting period the entity would have to reserve a fund balance of \$1,000,000.

## GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS

Revenues from government-mandated nonexchange transactions arise when a governmental entity provides resources to a governmental entity that is at a lower level than the governmental entity that is providing the resources and the provider entity “requires the recipient government to use them for a specific purpose or purposes established in the provider’s enabling legislation.” An example of this is when a state government (provider government) makes resources available to other local governmental entities (recipient government). GASB-33 notes that government-mandated nonexchange revenues have the following principal characteristics:

- The provider government requires that the recipient government institute a specific program (or facilitate the performance of a specific program) conducted by the recipient government or nongovernmental entity (secondary recipient entity).
- Certain performance requirements must be fulfilled.

Because the resources received by the recipient must be used for a particular purpose, such resources always create a purpose restriction. In many instances the resources are also subject to eligibility requirements, including time restrictions.

In a government-mandated nonexchange transaction, if the two governmental entities that are involved in the transaction are state and local governments, they are both subject to GASB accounting and reporting standards. For this reason, the standards established by GASB 33 will apply to the recognition of revenue (by the recipient government).

### Revenue Recognition

In a government-mandated nonexchange transaction, the recipient government should recognize revenue when all eligibility requirements (which include time requirements) are satisfied. The eligibility requirements are categorized as follows:

- Required characteristics of recipients
- Time requirements
- Reimbursements

All eligibility requirements must be satisfied before the recipient government in a government-mandated nonexchange transaction can recognize an operating transaction. If cash or another asset is provided before the eligibility requirements are satisfied, the recipient government records the transaction as an advance rather than an operating transaction (a transaction that affects the operating statement).

### **Time Requirements**

Provider governments, either through enabling legislation, related regulations, or as part of the appropriations, may identify the period during which recipient governments may expend resources or they may identify the period when recipient governments can begin expending the resources. A recipient government should not recognize resources that it received or expects to receive as operating transactions (i.e. presented on the statement of activity) until the recipient government satisfies the time requirements (and all other eligibility requirements), except:

*When a recipient government receives government-mandated nonexchange transactions to finance operations or to acquire capital assets in or beginning in a specific period, the recipient government should recognize revenues/receivable when the specified period begins, assuming all other eligibility requirements are satisfied.*

### **Reimbursements**

Some government-mandated nonexchange transactions are based on a reimbursement arrangement. These transactions are referred to as reimbursement-type transactions or expenditure-driven grant programs. The fundamental characteristic of these types of programs is that the provider government “stipulates that a recipient cannot qualify for resources without first incurring allowable costs under the provider’s program.” When government-mandated nonexchange transactions are subject to a reimbursement eligibility requirement, the recipient government should not recognize revenue until the recipient has incurred costs that are reimbursable under the program.

GASB-33 notes that a reimbursement eligibility requirement is not a purpose restriction and, therefore, is not subject to financial statement presentation requirements that apply to purpose restrictions.

## Asset recognition

An asset (receivable) must be recorded by the recipient government when the revenue criteria for government-mandated nonexchange transactions are satisfied. If the recipient government collects the government-mandated nonexchange revenue before the revenue recognition criteria are satisfied, the recipient government should record the receipt of cash as deferred revenue.

Under the modified accrual basis of accounting, a recipient governmental entity should record resources received from another governmental entity that are considered government-mandated nonexchange transactions as revenue when the recipient entity has satisfied all eligibility requirements and the related resources are available to the entity.

## VOLUNTARY NONEXCHANGE TRANSACTIONS

Voluntary nonexchange transactions arise from “legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties.” A voluntary nonexchange transaction can be based on either a written or an oral agreement, assuming the latter is verifiable. The principal characteristics of voluntary nonexchange transactions are listed below.

- They are not imposed on the provider or the recipient
- Satisfaction of eligibility requirements (other than the provision of cash or other assets in advance) is necessary for a transaction to occur

Examples of voluntary nonexchange transactions include certain grants, some entitlements, and donations. Voluntary nonexchange transactions may involve purpose restrictions and/or time requirements, and they often require that resources be returned to the provider if purpose restrictions or eligibility requirements are contravened after the voluntary nonexchange has been recognized by a governmental entity.

## Revenue Recognition

In a voluntary nonexchange transaction, the provider and the recipient should recognize the nonexchange transaction when all eligibility requirements (which include time requirements) are satisfied. If a recipient government receives cash or

other assets before the eligibility requirements are satisfied, the entity must record the transaction as an advance rather than an operating transaction (a transaction that affects the operating statement).

GASB 33 requires that the governmental entity record revenues related to a voluntary nonexchange transaction when all eligibility requirements have been satisfied and the related resources are available to the entity.

### **Time Requirements**

An especially common condition of eligibility is a time requirement. That is, resources often are provided to fund a particular period (such as a specific academic year); or, the use of resources may not be permitted prior to a particular period. Indeed, if a government is the resource provider and there is no explicit time requirement, GAAP actually mandate that such a time requirements be presumed by the recipient and that the provider's fiscal year be used as the applicable period. In the case of pass-through grants, this rule is to be applied to the immediate provider of the resources.

Providers of resources in voluntary nonexchange transactions may identify the period during which resources provided may be expended or the period when the resources can begin to be expended (and be expended in one or more periods).

During the time restriction period (which means indefinitely for a permanent endowment), the recipient should note in its statement of position the fund balance reservation for a governmental fund type or retained earnings restriction or similar description for a proprietary fund type.

The Exposure Draft relating to GASB 33 concluded that when a governmental entity receives a permanent endowment, the entity should record the transaction not as revenue but as a direct addition to the entity's restricted net assets or as restricted equity or fund balance. After considerable debate and much disagreement, the GASB concluded that contributions to a governmental entity's permanent endowment and similar transactions should be recorded as revenue (not a direct addition to an entity's net assets), assuming the entity has satisfied all other eligibility requirements. Because of the somewhat unique nature of permanent endowments, the GASB recommends (but does not require) that "it may be appropriate to separately display revenues that are required to be added to endowment principal or to disclose in the notes the amount of those revenues recognized in the financial statements for the period."

If a governmental entity receives contributions of works of art, historical treasures, or other similar assets for its collection, the entity should not capitalize those receipts if the collection to which the assets are being added is not capitalized.



For administrative or practical purposes, a governmental entity may receive resources early from a provider. The receipt of these resources under this circumstance is not considered the receipt of endowments or other similar receipts as described in the previous paragraph. Therefore, the recipient government should not record this type of receipt as revenue until the entity meets all eligibility requirements that apply to the voluntary nonexchange transaction.

When the provider government does not establish time requirements, the recipient government and the provider government should recognize revenue and expenses, respectively, when all other eligibility requirements are satisfied. Assuming there are no other eligibility requirements, both the recipient government and the provider government should recognize revenue/expense as of the first day of the provider government's fiscal year.

In a voluntary nonexchange transaction the GASB believes that it is not reasonable to expect a recipient government to be aware of the fiscal year of the nongovernmental entity that provided the resources.

If there is no time restriction(s) (or other eligibility requirements) that applies to the donation, the GASB requires that the recipient government recognize the full amount of the donation as revenue. If the installments are spread over more than one year, the entity should recognize the amount of revenue as the present value of the future cash flows.

### **Reimbursements**

Some voluntary nonexchange transactions are based on a reimbursement arrangement. When voluntary nonexchange transactions are subject to a reimbursement eligibility requirement, the recipient should not recognize revenue until the recipient has incurred costs that are reimbursable under the program.

GASB 33 notes that a reimbursement eligibility requirement is not a purpose restriction and, therefore, is not subject to financial statement presentation requirements that apply to purpose restrictions.

### **Asset recognition**

An asset (receivable) must be recorded by the recipient when it has satisfied the revenue criteria for voluntary nonexchange transactions described above. If the recipient collects resources from a voluntary nonexchange transaction before the recipient satisfies the revenue recognition criteria, the recipient should record the receipt of cash as deferred revenue.

## Pledges

Voluntary nonexchange transactions often involve pledges (promises to pay) from nongovernmental entities (e.g., individuals, business enterprises, or not-for-profit organizations). Such promises may involve cash, works of art, and various other assets, and they may or may not involve purpose restrictions or time requirements. The recipient government should record pledges as revenue by the recipient government when “all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable for collection.”

## Nonexchange Transactions in Government-Wide Financial Statements

Revenues presented in a governmental entity’s statement of activities should be based on accrual accounting concepts and be consistent with the standard established by GASB-33.

### 1.1.9 Accounting Changes

Guidance on accounting changes is contained primarily in *Accounting Principles Bulletin* (APB) Opinion No. 20, “Accounting Changes.” Additional sources of guidance include:

- APB Opinion No. 8
- FASB Statement No. 63
- FASB Statement No. 73
- FASB Statement No. 111
- FASB Interpretation No. 1
- FASB Interpretation No. 20

The following information, which is based on the guidance included in APB Opinion No. 20, summarizes accounting requirements relating to accounting changes. School business

officials should also consult the relevant authoritative literature when consideration is given to making accounting changes.

APB Opinion No. 20 defines accounting changes as a change in the following:

- An accounting principle - e.g., adoption of a generally accepted accounting principle that is different from the one previously used in reporting financial information
- An accounting estimate - e.g., change in useful lives of assets, the uncollectibility of receivables, estimation of the amount of inventory considered to be obsolete, the number of future periods to be benefited by deferred costs

The term accounting principle includes not only the accounting principles and practices used, but also the methods used to apply them.

GAAP assumes that an accounting principle will not change once it has been adopted. Frequent changes in accounting principles used or the method of applying them reduces comparability of financial data from one period to the next. In order for a school district to change accounting principles, it must demonstrate that the new principle is preferable. Also the issuance of new accounting principles by standard setting bodies may require a school district to make a change in accounting principle.

### **1.1.9.1 Accounting Treatment**

APB Opinion No. 20 describes accounting treatment for both accounting principle and accounting estimate changes.

#### ***Change in Accounting Principle***

APB Opinion No. 20 requires that the following disclosures be made in reporting a change in accounting principle (FASB *Current Text, Accounting Standards* Section AO6.115):

- Financial statements for prior periods included for comparative purposes shall be presented as previously reported.

- The cumulative effect of changing to a new accounting principle on the amount of net assets at the beginning of the period in which the change is made shall be included in net income of the period of the change.
- The effect of adopting the new accounting principle on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change shall be disclosed.
- Income before extraordinary items and net income computed on a pro forma basis shall be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected.

### ***Change in Accounting Estimate***

APB Opinion No. 20 paragraph 31 describes requirements for changes in accounting estimates:

. . . the effect of a change in accounting estimate shall be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in an estimate shall not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.

#### **1.1.9.2 Correction of Errors**

The correction of an error is not an accounting change. Accounting changes occur due to a change in an accounting principle or a change in accounting estimate, as discussed above. *Errors* in financial statements result from mathematical mistakes, incorrect application of an accounting principle or inattention to the facts at the time of preparation of the financial statements.

Reporting on the correction of an error requires the following financial statement disclosures in the period that the correction is reported:

- Retroactive restatement of prior period financial statements

- Disclosure of the nature of the error and the effect of the correction on income before extraordinary items and net income

## 1.1.10 Hierarchy of GAAP for State and Local Governments

The Governmental Accounting Standards Board is the standard-setting authority of GAAP for state and local governments. In those cases where there is no applicable GASB pronouncement, other authoritative sources of guidance exist. In 1991, the AICPA issued SAS No. 69, *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report*, which established a hierarchy of GAAP applicable to state and local governments. This pronouncement indicates the level of authority of various sources of authoritative literature. In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in order to incorporate GAAP into GASB's authoritative literature. It should not result in a change in current practice. The hierarchy of GAAP for state and local governments is as shown in the following chart. Category (a) is the highest level of the hierarchy with the other categories shown in descending order.

Category (a)	<p><i>GASB Statements and Interpretations</i></p> <p><i>AICPA and FASB pronouncements</i> that have been specifically made applicable to state and local governments by GASB Statements or Interpretations (periodically incorporated in the <i>Codification of Governmental Accounting and Financial Reporting Standards</i>)</p>
Category (b)	<p><i>GASB Technical Bulletins</i></p> <p><i>AICPA Industry Audit and Accounting Guides, and Statements of Position</i> that have been made applicable to state and local governments by the AICPA and approved by the GASB</p>
Category (c)	<p><i>AICPA Practice Bulletins</i> that have been made applicable to state and local governments by the AICPA and approved by the GASB. These bulletins contain consensus positions of groups of accountants organized by GASB (GASB has not organized such a group as of the date that this</p>

	<i>Resource Guide</i> was released)
Category (d)	<i>GASB Implementation Guides</i> . These guides describe practices that are widely recognized and prevalent in state and local government.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, superseded GASB Statement No. 12. Since most districts don't offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance to be provided by the Comptroller (see [Postemployment Benefit Reporting Under the Statutory Accounting Standard](#)). Please refer to the Comptroller's OPEB website for additional guidance.

In the absence of a pronouncement covered by Rule 203 or another source of established accounting principles, other accounting literature may be considered depending on its relevance to the circumstances. Other accounting literature includes:

- GASB Concepts Statements
- Pronouncements referred to in categories a through d of GASB 55
- FASB Concepts Statements
- Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements
- AICPA Issues Papers
- International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board
- Pronouncements of other professional associations or regulatory agencies

- Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids
- Accounting textbooks, handbooks, and articles

The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority.

### 1.1.11 GASB Statement Summaries

The following is a summary of the issuance and effective dates of Governmental Accounting Standards Board (GASB) Statements 1 through 56:

Number	Title	Date issued	Effective Date
1	Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide	July 1984	July 1984
2	Financial Reporting of Deferred Compensation Plans Adopted Under the Provisions of Internal Revenue Code Section 457	January 1986	Periods ending after December 15, 1986
3	Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements	April 1986	Periods ending after December 15, 1986
4	Applicability of FASB Statement No. 87, "Employers' Accounting for Pensions," to State and Local Government Employers	September 1986	September 1986
5	Disclosure of Pension Information by	November 1986	Periods ending

<b>Number</b>	<b>Title</b>	<b>Date issued</b>	<b>Effective Date</b>
	Public Employee Retirement Systems and State and Local Governmental Employers		after December 15, 1986
6	Accounting and Financial Reporting for Special Assessments	January 1987	Periods beginning after June 15, 1987
7	Advance Refundings Resulting in Defeasance of Debt	March 1987	Periods beginning after December 15, 1986
8	Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations, to Certain State and Local Governmental Entities	January 1988	January 1988
9	Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting	September 1989	Periods beginning after December 15, 1989
10	Accounting and Financial Reporting for Risk Financing and Related Insurance Issues	November 1989	Periods beginning after June 15, 1990 for Pools; Same as GASB 11 for Other Entities (See also GASB 17)
11	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements	May 1990	Periods beginning after June 15, 1994 (See also GASB Statement No. 17 which postponed the effective date of GASB Statement No. 11 indefinitely)



<b>Number</b>	<b>Title</b>	<b>Date issued</b>	<b>Effective Date</b>
12	Disclosure of Information on Post employment Benefits Other Than Pension Benefits by State and Local Governmental Employers	May 1990	Periods beginning after June 15, 1990
13	Accounting for Operating Leases with Scheduled Rent Increases	May 1990	Generally for leases with term beginning after June 30, 1990 (See also GASB 17)
14	The Financial Reporting Entity	June 1991	Periods beginning after December 15, 1992
15	Governmental College and University Accounting and Financial Reporting Models	October 1991	Periods beginning after June 15, 1992
16	Accounting for Compensated Absences	November 1992	Periods beginning after June 15, 1993
17	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements (an amendment of GASB 10, 11, and 13)	June 1993	June 1993
18	Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs	August 1993	Periods beginning after June 15, 1993
19	Governmental College and University Omnibus Statement (an amendment of GASB Statements No. 10 and 15)	September 1993	Periods beginning after June 15, 1993 for Pell Grants; Periods beginning after June 15, 1994 for

<b>Number</b>	<b>Title</b>	<b>Date issued</b>	<b>Effective Date</b>
			financial statements
20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting	September 1993	Periods beginning after December 15, 1993
21	Accounting for Escheat Property	October 1993	Periods beginning after June 15, 1994
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	December 1993	Periods beginning after June 15, 1994
23	Accounting and Financial Reporting for Refundings of Debt Reported By Proprietary Activities	December 1993	Periods beginning after June 15, 1994
24	Accounting and Financial Reporting for Certain Grants and Other Financial Assistance	June 1994	Periods beginning after June 15, 1995
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans	November 1994	Periods beginning after June 15, 1996
26	Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans	November 1994	Periods beginning after June 15, 1996
27	Accounting for Pensions by State and Local Government Employers	November 1994	Periods beginning after June 15, 1997
28	Accounting and Financial Reporting for Securities Lending Transactions	May 1995	Periods beginning after December

Number	Title	Date issued	Effective Date
			15, 1995
29	The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities	August 1995	Periods beginning after December 15, 1995
30	Risk Financing Omnibus—an amendment of GASB Statement No. 10	February 1996	Periods beginning after June 15, 1996
31	Accounting and Financial Reporting for Certain Investments and for External Investment Pools	March 1997	Periods beginning after June 15, 1997
32	Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	October 1997	Periods beginning after December 31, 1998
33	Accounting and Financial Reporting for Nonexchange Transactions	December 1998	Periods beginning after June 15, 2000
34	Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments	June 1999	Periods beginning after August 31, 2001 <b>in all school districts</b>
35	Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities an amendment of GASB Statement No. 34	November 1999	Periods beginning after June 15, 2001
36	Recipient Reporting for Certain Shared Nonexchange Revenues an amendment of GASB Statement No. 33	April 2000	Periods beginning after June 15, 2000
37	Basic Financial Statements—and Management's Discussion and	June 2001	Coincides with the effective date of

<b>Number</b>	<b>Title</b>	<b>Date issued</b>	<b>Effective Date</b>
	Analysis—for State and Local Governments: Omnibus  an amendment of GASB Statements No. 21 and No. 34		GASB Statement 34 for the reporting government.
38	Certain Financial Statement Note Disclosures	June 2001	Coincides with the effective date of GASB Statement 34 for the reporting government.
39	Determining Whether Certain Organizations are Component Units	May 2002	Periods beginning after June 15, 2003
40	Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3	March 2003	Periods beginning after June 15, 2004
41	Budgetary Comparison Schedules— Perspective Differences—an amendment of GASB Statement No. 34	May 2003	Periods beginning after June 15, 2002
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	November 2003	Periods beginning after December 15, 2004
43	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	April 2004	3 phases based on total annual revenues 1 <sup>st</sup> fiscal year ending after June 15, 1999--  > \$100 million - periods beginning after December

Number	Title	Date issued	Effective Date
			15, 2005; $\geq$ \$10 but < \$100 million - periods beginning after December 15, 2006; < \$10 million - periods beginning after December 15, 2007
44	Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1	May 2004	Periods beginning after June 15, 2005
45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	June 2004	3 phases based on total annual revenues 1 <sup>st</sup> fiscal year ending after June 15, 1999--  > \$100 million - periods beginning after December 15, 2006; $\geq$ \$10 but < \$100 million - periods beginning after December 15, 2007; < \$10 million - periods beginning after December 15, 2008
46	Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34	December 2004	Periods beginning after June 15, 2005
47	Accounting for Termination Benefits	June 2005	Periods beginning after June 15, 2005

<b>Number</b>	<b>Title</b>	<b>Date issued</b>	<b>Effective Date</b>
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	September 2006	Periods beginning after December 15, 2006
49	Accounting and Financial Reporting for Pollution Remediation Obligations	November 2006	Periods beginning after December 15, 2007
50	Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27	May 2007	Periods beginning after June 15, 2007 with exceptions
51	Accounting and Financial Reporting for Intangible Assets	June 2007	Periods beginning after June 15, 2009; retroactive to intangibles acquired in fiscal years ending after 6/30/1980 (with exceptions) for Phase 1 and 2 governments for GASB 34 implementation; Phase 3 governments encouraged but not required to retroactively report
52	Land and Other Real Estate Held as Investments by Endowments	November 2007	For periods beginning after June 15, 2008
53	Accounting and Financial Reporting for Derivative Instruments	June 2008	For periods beginning after June 15, 2009

Number	Title	Date issued	Effective Date
54	Fund Balance Reporting and Governmental Fund Type Definitions	March 2009	For periods beginning after June 15, 2010
55	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	March 2009	Effective upon issuance
56	Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards	March 2009	Effective upon Issuance

Summaries of Governmental Accounting Standards Board (GASB) Statements 1 through 56 are referenced in Appendix 1. Summaries of the statements are provided for convenience; the actual pronouncements should be reviewed for determination of the appropriate accounting treatment of a particular situation. The original pronouncements can be obtained from GASB.

## 1.1.12 Change in Fiscal Year

### *Change in Fiscal Year*

According to [TEC 44.0011](#), school districts may choose a fiscal year that begins on either July 1st or September 1st of each year. A school fiscal year that begins on July 1st will end on June 30th of the next calendar year. In lieu of making a change in this area, districts may continue the current fiscal year reporting period that begins on September 1st and ends on August 31st of the next calendar year.

In order to change the fiscal year start date to July 1, districts must file with TEA no later than June 30 of the preceding year, a Notification of Intent to Change the Fiscal Year Start Date. If the district wishes to make a change and the June 30<sup>th</sup> deadline has passed, please contact Paul Moreno in the Financial Audits Division at 512-463-9095 to discuss available options. This form (FIN-003) is available on the TEA website at

[http://ritter.tea.state.tx.us/school.finance/audit/FIN\\_003.pdf](http://ritter.tea.state.tx.us/school.finance/audit/FIN_003.pdf)

### ***Change to June 30 Fiscal Year End***

In the first year of implementation, the financial accounting period will span ten months in those districts that opt to change, beginning September 1, 200A and ending June 30, 200B. However, certain aspects of financial management and reporting will require adjustments in the first year of implementation. These adjustments are required since the state and federal fiscal years did not change, and the administration of state and federal regulatory activities, as well as state funding calculations under the Foundation School Program, require financial data on a 12-month reporting basis. This means that all financial data reported for the first year of implementation, except for the annual financial report, must be based on a twelve-month reporting period, as follows:

- Budget financial data reported through the Public Education Information Management System (PEIMS) for the year of implementation must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup> (two months beyond the July 1<sup>st</sup> start date of the following fiscal year);
- Actual financial data reported through the PEIMS collection system must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31 (two months beyond the July 1<sup>st</sup> start date of the following fiscal year), including the actual financial accounting record type 032, and the shared services arrangement actual record type 033. The independent auditor will be required to apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a twelve-month basis, in accordance with Section 44.008(b), Texas Education Code. As a result of this special reporting requirement, the twelve-month data representing actual financial data will match the reporting period for twelve-month data reported for budget financial data;
- Financial data reported to the public for tax rate decision-making processes must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup> to support the calculation of a tax rate for the fiscal year that the start date has been changed to July 1<sup>st</sup>. This requirement is necessary to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year that the start date has been changed to July 1<sup>st</sup> and ending June 30<sup>th</sup>. For example, it is anticipated that the setting of a debt service tax rate for the ten-month period ending June 30<sup>th</sup> may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year.

It is also to be noted that compliance with the legal requirements in Subchapter A, Chapter 44, Texas Education Code, is further complicated by the lack of a certified taxable value when the combined budget and tax rate notice is published in the newspaper prior to adopting a budget no later than June 30<sup>th</sup> for districts that change their fiscal year start date



to July 1<sup>st</sup>. This will require publication of a second notice in the newspaper prior to setting a tax rate after the certified taxable value is provided to the district;

Financial data prepared for the board of trustees for legal budget adoption purposes will be on a ten-month basis for the fiscal year beginning September 1<sup>st</sup> and ending June 30<sup>th</sup>, and must be supplemented with additional financial data prepared on a twelve-month basis for information purposes and to support data reported to the public for tax rate decision-making processes; and

Financial data reported in the annual financial report (audit report) will be prepared on a ten-month basis in all financial statements and exhibits for the fiscal period beginning September 1<sup>st</sup> and ending June 30<sup>th</sup>, and will include an additional schedule containing supplemental financial data reporting tax collections for the twelve-month period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup>.

For all subsequent fiscal year periods following the first year of implementation of a July 1st fiscal year start date, all financial data will be reported on a twelve-month basis spanning July 1st through June 30th. Please note that additional considerations may affect a school district's decision to implement a change in its fiscal year start date, including the installation of new financial accounting software and/or significant problems in internal financial management activities such as general ledger reconciliation problems. Some school district officials have indicated that the elimination of accrued payroll liabilities will be the primary benefit of a change in the fiscal year start date; however, it is important to understand that this change will not eliminate all accrued payroll liabilities (the exact impact on accrued payroll liabilities can be clarified by visiting with the district's independent auditor). Prior to making this change, it is also recommended that the district's administration advise the board of trustees and have the board ratify administration's proposed decision to change the start date of the fiscal year. District administration should also inform the board of trustees about the impact this change will have on various administrative processes, such as the budget development calendar. It will also be important to monitor any activity during the upcoming legislative session that may impact certain aspects of this financial management issue. Lastly, it is recommended that the district consult with its independent auditor before making a change in the fiscal year start date.

### ***Change Back to August 31 Fiscal Year End***

In the first year of implementation, the financial accounting period will span fourteen months in those districts that opt to change back, beginning July 1, 200D and ending August 31, 200E. However, certain aspects of financial management and reporting will

require adjustments in the first year of implementation. These adjustments are required since the state and federal fiscal years did not change, and the administration of state and federal regulatory activities, as well as state funding calculations under the Foundation School Program, require financial data on a 12-month reporting basis. This means that all financial data reported for the first year of implementation, except for the annual financial report, must be based on a twelve-month reporting period, as follows:

Budget financial data reported through the Public Education Information Management System (PEIMS) for the year of implementation must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup> (two months beyond the July 1<sup>st</sup> start date of the preceding fiscal year);

Actual financial data reported through the PEIMS collection system must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31 (two months beyond the July 1<sup>st</sup> start date of the preceding fiscal year), including the actual financial accounting record type 032, and the shared services arrangement actual record type 033. The independent auditor will be required to apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a twelve-month basis, in accordance with Section 44.008(b), Texas Education Code. As a result of this special reporting requirement, the twelve-month data representing actual financial data will match the reporting period for twelve-month data reported for budget financial data;

Financial data reported to the public for tax rate decision-making processes must be on a twelve-month basis for the period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup> to support the calculation of a tax rate for the fiscal year. This requirement is necessary to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year. For example, it is anticipated that the setting of a debt service tax rate for the fourteen-month period ending August 31<sup>st</sup> may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year;

Financial data prepared for the board of trustees for legal budget adoption purposes will be on a fourteen-month basis for the fiscal year beginning July 1<sup>st</sup> and ending August 31<sup>st</sup>, and must be supplemented with additional financial data prepared on a twelve-month basis for information purposes and to support data reported to the public for tax rate decision-making processes; and

Financial data reported in the annual financial report (audit report) will be prepared on a fourteen-month basis in all financial statements and exhibits for the fiscal period beginning July 1<sup>st</sup> and ending August 31<sup>st</sup>, and will include an additional schedule containing supplemental financial data reporting tax collections for the twelve-month period beginning September 1<sup>st</sup> and ending August 31<sup>st</sup>.

For all subsequent fiscal year periods following the first year of implementation of a September 1st fiscal year start date, all financial data will be reported on a twelve-month basis spanning September 1st through August 31<sup>st</sup>. Please note that additional considerations may affect a school district's decision to implement a change in its fiscal year start date, including the installation of new financial accounting software and/or significant problems in internal financial management activities such as general ledger reconciliation problems.

## 1.2 Financial Statement Elements

The elements of financial statements are those items that are derived from various accounts. The major elements are discussed in detail in this section.

### 1.2.1 Cash and Investments

Cash and [investments](#) often represent one of the largest assets on a school district's balance sheet. The investment of excess school district funds should be made with judgment, care, prudence, discretion, and with diligent management. A [cash flow](#) projection report is an important management tool that directs decisions about the maturity of various investment instruments, in accordance with projected uses of cash to liquidate financial obligations. The investment of public funds should never be made for speculative purposes, but rather with consideration for the probable safety of principal and probable return on such investments.

This cash and investment section will not contemplate all of the possible investment scenarios that can be utilized by a school district; however, the following three general rules may protect the school district from problems related to investment decisions.

- The purchase of investments should be made with the intent and ability to hold the investment to maturity if necessary.
- All investments should be made with the school district's cash needs and cash flow forecast in mind.
- The school district *must* understand the investment instrument, the investment mechanics and the associated risk of the investment.

Knowledge of these factors and the variables that affect the market value of each investment will assist the school district in determining its investment policies and strategies.

This section provides guidance on required presentations and footnote disclosures for cash and investments and is organized into the following discussions:

- Definitions
- Public Funds Investment
  - Investment policies
  - Types of investments
- Financial statement presentation and disclosures
  - GASB Statements No. 3 and 40 Disclosures
  - Required disclosures and accounting treatment of repurchase agreements
- Interest income and accrued interest receivable
- Depository contracts

### **1.2.1.1 Definitions**

Certain commonly used words have limited definitions for the purposes of accounting. The definitions are:

*Cash* is considered to be the most liquid (readily available) asset on the financial statement of a school district. Cash includes readily available cash held by the school district, current bank accounts and certificates of deposits and investment pools that have the same

characteristics as a demand deposit (resources can be deposited or withdrawn without notice or penalty).

*Cash equivalents* are short-term highly liquid (readily convertible to known amounts of cash) investments that are so near to their maturity that they present an insignificant risk of changes in value resulting from changes in interest rates. Generally only investments with original maturities of three months and less qualify under this definition. Items commonly considered as cash equivalents are *treasury bills*, *commercial paper*, and *money market funds*. Investments that qualify as cash equivalents are not all required to be treated as cash equivalents. A school district should establish a policy concerning short term highly liquid investments (that satisfy the definition) which are to be treated as cash equivalent. A school district must disclose its policy for cash equivalents in the notes to the financial statements presented in the statement of cash flows. Any change in that policy represents a change in accounting principle that shall be affected by restating financial statements for earlier years presented for comparative purposes. A school district may adopt their own definition of cash equivalents, provided their definition is more restrictive than the GAAP definition.

*Investments* are defined as securities and other assets acquired primarily for the purpose of obtaining income or profit. Therefore, a school district's purpose for acquiring a particular asset often is important to identifying it as an investment. Interest-bearing deposits (including certificates of deposits) with financial institutions should be treated as *deposits*, not as investments. Guidance for certain investments held by governmental entities is found in GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

A *security* is a transferable financial instrument that evidences ownership or creditor status. Securities that are often held by or pledged to school districts generally include US Treasury bills, notes and bonds, federal agency and instrumentality obligations, direct obligations of the state of Texas or its agencies, commercial paper, negotiable certificates of deposit, fully collateralized repurchase agreements, mutual funds and prime domestic bankers' acceptances. Securities could expose a district to potential loss if someone else has custody.

*Pooling of cash and investments* allows school districts to pool their cash and investments of all funds with other entities cash and investments. The advantages of pooling can include better physical custody and control, enhanced investment opportunities and ease of operations. Pooling cash may simplify custody, collection and disbursements. In some situations, pooling cash and investments may be prohibited in contractual clauses or through legal restrictions. The school district should be cognizant of bond indentures that might prohibit the pooling of cash.

### 1.2.1.2 Public Funds Investment

School districts are required to comply with the Public Funds Investment Act ([Chapter 2256](#), Government Code) which specifies investment policy guidance and allowable investments for school districts. Paragraphs 65 and 66 of GASB Statement 3 require disclosures about the legal and contractual provisions that govern the district's deposits and investments.

#### Investment Policies

Section 2256.005 of the Government Code provides the law to be followed regarding investment policy for school districts. Standard of care is addressed in Section 2256.006, and training requirements are specified in Section 2256.008. Internal management reporting requirements are detailed in Section 2256.023.

#### Types of Investments

The following investments are authorized as listed by the Government Code section noted.

#### Section 2256.009

Obligations issued, guaranteed, or insured by the U.S. or its agencies and instrumentalities (includes letters of credit)

Obligations issued, guaranteed, or insured by the State of Texas or its agencies and instrumentalities

Collateralized Mortgage Obligations (CMOs) with a stated final maturity date of 10 yrs. or less (excludes Principal-Only or Interest-Only CMOs, those with interest rates determined by index that adjusts opposite to changes in a market index)

Obligations of States (other than Texas), Agencies, Counties, Cities and Other Political Subdivisions of any state rated not less than A or its equivalent by at least one nationally recognized investment rating firm

#### State of Israel Bonds

#### Section 2256.010

Certificates of Deposit issued by a depository institution that has its main office or a branch office in Texas and guaranteed or insured by FDIC or National Credit Union Share Insurance and properly secured as described in the PFIA or other applicable law.

Certificates of Deposit issued by one or more federally insured depository institutions, wherever located, provided that the funds are invested through a depository institution that has its main office or branch office in Texas and the full amount of the principal and accrued interest of each certificate of deposit is insured by the U.S. or an instrumentality of the U.S. The depository institution through which the entity's funds are invested shall receive an amount of deposits from customers of other federally insured depository institutions that is equal to or greater than the amount of funds invested (CDARS – Certificate of Deposit Account Registry Service).

#### Section 2256.011

Repurchase Agreements with a defined termination date which are fully collateralized as described in the PFIA. Securities purchased must be pledged to the entity, held in the entity's name, and deposited with the entity or with a third party selected and approved by the entity. Investments must be placed through a primary dealer or a financial institution doing business in Texas. Reverse agreements must not exceed 90 days; securities held as collateral must not mature later than the agreement's expiration date.

#### Section 2256.0115

A Securities Lending Program if the value of securities loaned is collateralized at not less than 100%, including accrued income. Loans must be allowed to be terminated at any time and secured as described in the PFIA. Securities held as collateral must be pledged to the entity, held in the entity's name and deposited with the entity or with a third party selected and approved by the entity. A loan under the program must be placed through a primary dealer or a financial institution doing business in Texas. The securities lending agreement may not have a term greater than one year.

#### Section 2256.012

Bankers' Acceptances with a 270 day or less stated maturity from date of issuance and accepted by a bank rated not less than AI or P-I or an equivalent rating by at least one nationally recognized rating agency.

#### Section 2256.013

Commercial Paper with a 270 day or less stated maturity from date of issuance and rated not less than A-1 or P-1 or an equivalent by at least two nationally recognized rating agencies, or; rated not less than A-1 or P-1 or an equivalent by one nationally recognized



rating agency plus fully secured by an irrevocable letter of credit issued by a domestic bank.

#### Section 2256.014

No-Load Money Market Mutual Fund registered with and regulated by the Securities and Exchange Commission which provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940. Must have a dollar-weighted average stated maturity of 90 days or less and include in its objectives the maintenance of a stable net asset value of \$1 per share.

No-Load Mutual Fund registered with the Securities and Exchange Commission with an average weighted maturity of less than two years. Must be rated not less than AAA or its equivalent by at least one nationally recognized investment rating firm and can only invest in obligations approved by the PFIA. Must conform to information and reporting requirements for investment pools as described in Government Code Section 2256.016. School district may invest no more than 15% of its monthly average fund balance, excluding bond proceeds, reserves, and debt service funds and may not invest any bond proceeds, reserves, and debt service funds. The school district may not own more than 10% of the fund's total assets.

#### Section 2256.015

Guaranteed Investment Contracts are authorized for bond proceeds investment only. GICs must have a defined termination date and be secured by U.S. Government direct or agency obligations approved by the PFIA in an amount equal to the bond proceeds. Security must be pledged to the school district and deposited with the district or a third party. Term must be limited to five years from the date of bond issuance, excluding reserves and debt service funds. In addition, the school board must specifically authorize GICs when bonds are issued and the district must purchase the highest yielding GIC from the qualifying bids from at least 3 providers with no material financial interest in the bonds. The price of the GIC must consider the drawdown schedule for the bonds and the provider must certify the administrative costs expected to be paid to third parties.

#### Section 2256.016

Investment Pools if the school board specifically authorizes investment in pool and the pool only invests in obligations approved by the PFIA. The investment pool must be continuously rated no lower than AAA or AAA-m (or equivalent) by at least one nationally recognized rating service. The pool must receive certain reports prior to investment and on a monthly basis and maintain a specified advisory board. In addition, the pool must be created to function as a money market mutual fund and must mark its portfolio to market daily and stabilize at a \$1 net asset value.

There is a publication titled [Banks to Bonds: A Practical Path to Sound School District Investing](#) originally issued by the Comptroller of Public Accounts (and currently found on the [Legislative Budget Board](#) site) which contains guidelines and other information about investments.

### 1.2.1.3 Financial Statement Presentation and Disclosures

#### ***GASB Statements No. 3 and 40 Disclosures***

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, was issued in April 1986, and was effective for periods ending after December 15, 1986. GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, was issued in March 2003, and became effective for periods beginning after June 15, 2004.

Summaries of required disclosures in accordance with GASB Statements No. 3 and 40 are:

#### **Cash deposits with financial institutions**

- Disclose legal or contractual provisions. The school district should briefly describe in the notes to the financial statements the legal or contractual restrictions related to cash deposits, such as the requirement for collateralization or bonding. Significant violations during the period of legal or contractual provisions for deposits should also be disclosed, as well as corrective actions taken.
- Disclose policies for cash deposits. The district's policies regarding custodial credit risk should be disclosed or if there is no policy, then the fact that there is no policy must be disclosed. Custodial credit risk is the risk that if a depository institution fails, the district will not be able to recover its funds or any collateral securities held by another party. The school board must have formally adopted an investment policy for it to qualify for financial statement disclosure--past practices are not sufficient. If the district adopts the state law as its policy, a description of the provisions of the law should be provided.
- Disclose exposure to custodial credit risk as of the date of the financial statements. If any amount of cash deposits is not covered by depository insurance, it is exposed to custodial credit risk under the following conditions:

- Deposits are *uncollateralized* (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the school district's name.)
- Collateral for deposits is *held by the pledging financial institution*.
- Collateral for deposits is *held by the pledging financial institution's trust department or its agent, but not in the school district's name*.

### **Investments**

- Disclose external investment pool information. If the district participates in an external investment pool note registered with the Securities and Exchange Commission (SEC), the district must describe any regulatory oversight of the pool and whether the fair value of its position in the pool equals the value of the pool shares. If the district involuntarily participates in a pool, that would be disclosed.
- Disclose information concerning realized gains and losses if elected. Under GAAP, districts are not allowed to separate realized vs. unrealized gains and losses on face of the financial statements. The district can disclose the information in the notes to the financial statements if desired.
- Disclose legal or contractual provisions. The school district should briefly describe in the notes to the financial statements the types of investments authorized by legal or contractual provisions. Significant violations during the period of legal or contractual provisions for investments should also be disclosed, as well as corrective actions taken.
- Disclose policies for investments. The district's policies regarding credit risk (including custodial credit risk), concentration risk, interest rate risk, and foreign-currency risk should be disclosed if the district is exposed to the risk, or if there is no policy, then the fact that there is no policy must be disclosed. The school board must have formally adopted an investment policy for it to qualify for financial statement disclosure--past practices are not sufficient. If the district adopts the state law as its policy, a description of the provisions of the law should be provided.
- Disclose exposure to custodial credit risk as of the date of the financial statements. For investments, custodial credit risk is the risk that a school district won't be able to recover the value of an investment or collateral securities held by an outside party if the counterparty to a transaction fails. The exposure occurs when investments are held by the counterparty or the counterparty's trust department or agent, but not in the school district's name.

- Disclose other credit risk exposure. Four other types of credit risk should be disclosed.

Credit ratings must be disclosed for all investments in debt securities. If no rating is available, that should be disclosed. If ratings are available from more than one rating organization, the least favorable should be disclosed. Modifiers used for additional information are not required to be disclosed. Ratings can be summarized by investment type. The credit ratings for pools or mutual funds that hold debt securities must be disclosed (including pools following SEC Rule 2a7).

Does **not** apply to U.S. government or agency obligations **explicitly** guaranteed by U.S. government: GNMA, SBA.

**Does** apply to U.S. government instrumentalities **implicitly** guaranteed by U.S. government: FNMA, FHLB, FHLMC, FFCB, SLMA.

Concentration risk must be disclosed if there are positions greater than 5 percent in a single issuer. This isn't required for U.S. government obligations or those explicitly guaranteed by the U.S. government.

Interest-rate risk must be disclosed related to the risk that changes in interest rates can affect the fair value of an investment by one of five methods:

Specific identification

Segmented time distribution

Weighted average maturity

Duration

Simulation model

The school district should disclose the method used in actually managing the district's investments, which can vary by type of investment. Also, any terms that cause the fair value of the investment to be highly sensitive to changes in interest rates should be disclosed (multipliers, benchmark indexes, reset dates, and embedded options).

Foreign currency risk would be disclosed if there were any investments exposed to foreign currency risk.

### **Other general information**

- The following types of investments normally must be reported at fair value:
  - Interest-earning investment contracts such as GICs
  - External investment pools
  - Mutual funds
  - Debt securities
  - Equity securities
  - Option contracts
  - Stock warrants
  - Stock rights
- The following investments are exceptions to reporting at fair value:
  - Nonparticipating interest-earning investment contracts
  - Short-term money-market securities if acquired within one year of maturity
  - Short-term interest-earning investment contracts if acquired within one year of maturity
- Fair value is the price between a willing buyer and seller, typically the last quoted market price on the principal exchange on which it is traded as of the date of the financial statements.
- All investment income (including changes in the fair value of investments) should be recognized in the government-wide statement of activities.
- The school district should disclose losses recognized during the period due to default by counterparties and any amounts recovered from prior-period losses if not separately displayed on the financial statements.

- For purposes of GASB Statement No. 3 credit risk classification, a counterparty is the party that pledges collateral or repurchase agreement securities to the school district, or that sells investments to or buys them for the school district. For collateral on deposits on financial institutions, the pledging financial institution is a counterparty. For brokerage accounts, the broker or dealer is a counterparty. The counterparties in a repurchase agreement can include both the seller-borrower and the broker-dealer or financial institution that acquires the repurchase agreement for the school district.
- Disclose the basis of allocation of investment and interest income to various funds. It is common for school districts to utilize a depository bank or other financial institutions for the deposit of reserves, and then to transfer or “sweep” those deposits daily into overnight investments (i.e., SEC registered money market fund). When a school district participates in such investment activity, the school district must take steps to ensure that the cash balances invested in overnight securities (typically owned by the depository) and cash balances collected in the depository bank are fully collateralized to ensure that the district’s funds are protected in the event that the depository bank or financial institution were to be liquidated.
- Cash and investments balances are segregated into individual funds and depending on contractual requirements, may be classified as restricted assets. If a fund overdraws its share of a pooled cash account, the overdraft should be reported as a liability of that fund. Fund overdrafts of this type should be reported as interfund payables and receivables.
- Disclosures in the notes to the financial statements related to cash and investment balances required by GASB Statements No. 3 and 40 should be reconciled to the cash and investment balances on the face of the financial statements.

For further guidance on GASB Statements No. 3 and 40, refer to the *Comprehensive Implementation Guide* published by GASB.

### ***Required Disclosures and Accounting Treatment of Repurchase Agreements***

Income from repurchase and fixed coupon repurchase agreements should be shown as interest income. Yield maintenance repurchase agreements should be accounted for as purchases and sales, and gains or losses should be recognized.

## ***Required Disclosures and Accounting Treatment of Reverse Repurchase Agreements***

The assets and liabilities arising from reverse repurchase and fixed coupon reverse repurchase agreements should not be netted on the balance sheet. These agreements should be reported as a fund liability, Obligations under reverse repurchase agreements, and the underlying securities should be reported as Investments.

The interest cost of reverse repurchases and fixed coupon reverse repurchase agreements should be shown as interest expenditure/expense. This interest cost should not be netted with interest earned on any other related investments. Yield maintenance reverse repurchase agreements should be accounted for as purchases and sales, and gains and losses should be recognized.

## ***GASB Statement No. 28 Disclosures (Securities Lending Transactions)***

GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions issued in May 1995, is effective for reporting periods beginning after December 15, 1995. Summaries of required disclosures in accordance with GASB Statement No. 28 are:

- Disclose legal or contractual provisions. The school district should briefly describe in the notes to the financial statements the types of investments authorized by legal or contractual provisions. Significant violations during the period of legal or contractual provisions for deposits and investments should also be disclosed.
- Disclose:
  - the type of securities lent,
  - the types of collateral received,
  - whether the school district has the ability to pledge or sell collateral securities without a borrower default,

- the amount by which the value of the collateral provided is required to exceed the value of the underlying securities,
  - any restrictions on the amount of the loans that can be made, and
  - any loss indemnification provided to the school district by its securities lending agents.
  - fair values of underlying securities at the balance sheet date.
- Disclose whether the maturities of the investments made with cash collateral generally match the maturities of their securities loans, as well as the extent of such matching at the balance sheet date.

Note: School districts are prohibited from purchasing investments whose maturity dates exceed the term of reverse repurchase agreements with the cash collateral received from such agreements.

- Disclose the amount of credit risk. If the school district has no credit risk, that fact should be stated, and disclosure of the net amounts owed to borrowers is not required.
- Disclose the amount of any losses resulting from securities lending transactions during the period from the default of a borrower or lending agent. Additionally, any amounts recovered from prior-period losses should be disclosed, if they are not shown separately on the operating statement.

#### 1.2.1.4 Interest Income and Accrued Interest Receivable

School districts must record *interest income* using the *modified* accrual basis of accounting for *government* type funds and using the *accrual* basis of accounting for *proprietary* funds. Interest income is usually recorded when received. However, necessary journal entries are made at period end to accrue for interest income receivable. In addition interest income needs to be allocated to the various funds based on the average participation of each fund in the cash and investment pools. The basis of allocation of interest and income needs to be disclosed in the notes to the financial statements.



### 1.2.1.5 Depository Contracts

A school district's depository contract should be authorized by a financial institution's board of directors and not just a bank officer, or a risk of the validity of such contract may arise.

Section [45.205](#) of the Texas Education Code requires that depository contracts for each Independent School District (ISD) be renewed every two years. Section 45.205(c) states that the contract term and any extension must coincide with the school district's fiscal year. Around January or February of each odd-numbered year, districts will be provided with information for depository contract renewal. The renewal process will be completed by late summer of each odd-numbered year.

Prior to the passage of [HB 2411](#) by the 80<sup>th</sup> Legislature, the only method of choosing a depository bank was by competitive bids. [HB 2411](#) allows use of the competitive sealed proposal method. In addition, a school district and depository bank may extend a depository contract for two additional two-year terms. In the past, the extension was allowed only for one two-year term. Under the new law, a district could go out for bids or proposals every six years if both extensions are used.

Information and forms are available at the [Financial Audits](#) website.

## 1.2.2 Accounts Receivable

Receivables usually arise as a result of revenue transactions. The following are the main sources of revenues of school districts that would result in outstanding receivables:

- Property taxes
- State and federal grants
- Interest income
- Intergovernmental revenues

This section addresses the accounting of receivables and allowances for bad debt in different fund types and will concentrate on property tax receivables. Receivables relating to the Foundation School Program are addressed in the Accounting for Foundation School Revenue section.

### **1.2.2.1 Accounting for Receivables in Different Fund Types**

The accounting for revenues and related accounts receivable in school districts depends on the fund type in which the revenue is recorded.

#### ***Accounting for Receivables in Governmental Funds***

Government funds are required to use the *modified accrual basis* of accounting. GASB Codification sections 1600.106 through 1600.115 provide that governmental fund revenues and other resources should be recognized in the accounting period in which they become susceptible to accrual (that is, when they become both measurable and available to finance expenditures of the fiscal period). “Available” refers to the collectibility of the receivable within the current period or soon enough to be used to pay for liabilities of the current period. A general criterion for availability is 60 days. Each school district should adopt its own revenue accrual policy that implements the susceptibility to accrual criterion and apply it on a consistent basis. The revenue accrual policy should be disclosed in the notes to the financial statements.

#### ***Accounting for Receivables in Proprietary Funds***

Revenues earned are recognized in a proprietary fund in the same manner as in commercial accounting. Proprietary funds use the *accrual basis* of accounting to determine when revenues and related receivables should be recorded. Revenues need to be earned before they are recognized. Revenues are usually recognized when the earning process is complete and an exchange has taken place.

### **1.2.2.2 Property Taxes**

In the state of Texas, central appraisal districts perform appraisals of property tax valuations. Generally, school districts levy and collect property taxes. However, in some

instances the property taxes are levied and collected either by cities, counties or other school districts and remitted to the appropriate school districts when received.

### ***Accounting for Property Taxes***

Property taxes are assessed to finance expenditures of a fiscal year. On the assessment date or levy date, the property taxes become a lien against the assessed property. Property taxes should be recorded as revenues in the General Fund and Debt Service Fund using the modified accrual basis of accounting, and, therefore, are recorded when they are both measurable and available.

The amount of the property taxes receivable is based on the assessed value of the property and the current property tax rate. However, not all property taxes assessed will be collected and are measurable only if the school district can make a reasonable estimate of the amount of uncollectible property taxes. These estimates should be based on prior experience.

When taxes are levied, the receivable should be recorded and the deferred tax revenue account should be credited for the amount of the levy less an amount equal to the expected uncollectible taxes. As taxes are collected, they are recognized as realized revenues of the current period.

Revenues are considered available when they can be used for expenditures incurred during the current year or are expected to be collected after the end of the year but in time to pay liabilities outstanding at the end of the current year. GASB Codification Section P70.104 specifically states that the property tax must be collected within sixty days after the end of the period in which the property tax revenue was recognized. However, it states that if because of unusual circumstances the facts justify a period over 60 days, the government entity should disclose the period being used and the facts that justify it.

When it is concluded that assessed property tax revenue will not be available, the revenue cannot be recognized in the current assessment period. In this situation, the amount that will be collected after 60 days should be recorded as deferred revenues.

If taxes levied to finance next fiscal period were collected in advance in the current period, the revenue should not be recognized, and the amount collected should be recorded as deferred revenues. In the next fiscal year, a journal entry will be recorded to recognize the deferred revenue amount that was collected.

When property taxes are delinquent are expected to be collected, they should be reported as deferred revenues if it is estimated that the taxes will not be available to pay current obligations of the governmental fund. Generally, this situation would mean that the delinquent property taxes are not expected to be collected within sixty days of the close of the fiscal year.

Note: See Appendix 7, "Accounting for Property Taxes" for sample property tax entries. Sample entries for consolidated taxing districts are also included in Appendix 7.

### ***Disclosure Requirements***

A school district should disclose the important dates associated with assessed property taxes. These dates include the assessment date, levy date, due dates and collection dates. In addition, school districts must disclose their accounting policies for recognition of property taxes.

#### **1.2.2.3 Allowance for Bad Debts**

The property tax levy revenues are recorded net of the estimated amount of uncollectible property taxes. For financial reporting purposes, bad debt expense should not be reported in a governmental fund type Statement of Revenues, Expenditures and Changes in Fund Balance because the measurement focus is the flow of current financial resources. The revenue is reported as a net amount because only the net amount is expected to be available during the fiscal period. Since revenues are reported as a net amount, it is not appropriate to record a bad debt expense because the "expense" does not represent an actual expenditure of current financial resources during the period.

Uncollectible taxes should be recorded in such a manner as to reflect the amount of taxes actually believed to be uncollectible based on prior experience. Any amount recorded as uncollectible should be supportable.

It may be determined during the fiscal year that the allowance for uncollectible accounts was either over estimated or under estimated. When this conclusion is reached, the allowance and the revenue account should be appropriately adjusted to reflect the change in the accounting estimate. The adjustment is made directly through the revenue account, avoiding the use of a bad debts expense account. Refer to Exhibit 3 for a summary of limitations on collections of taxes in the state of Texas.

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**Exhibit 3. Texas Tax Code**

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**Sec. 33.05. Limitation on Collection of Taxes**

- Personal property may not be seized and a suit may not be filed:
  - To collect a tax on personal property that has been delinquent more than four years;  
or
  - To collect a tax on real property that has been delinquent more than 20 years.
- A tax delinquent for more than the limitation period prescribed by this section and any penalty and interest on the tax is presumed paid unless a suit to collect the tax is pending.
- If there is no pending litigation concerning the delinquent tax at the time of the cancellation and removal, the collector for a taxing unit shall cancel and remove from the delinquent tax roll:
  - (1) a tax on real property that has been delinquent for more than 20 years;
  - (2) a tax on personal property that has been delinquent for more than 10 years; and
  - (3) a tax on real property that has been delinquent for more than 10 years if the property has been owned for at least the preceding eight years by a home-rule municipality in a county with a population of more than 3.3 million.

**1.2.2.4 Other Receivables**

The following is a summary of other types of receivables that may be utilized by school districts:

### ***Due from State***

This receivable represents amounts allocated to or earned by the school district from state resources that exceed the amounts received during the year. A school district should also use the measurable and available criteria in governmental funds to record revenues due from the state. A revenue due from the state that was earned during the fiscal year, including amounts earned for days of instruction for the initial portion of the new school year occurring in July and/or August, and expected to be received within 60 days from the financial statement date are recorded as a receivable in this account.

### ***Due from Federal Agencies***

This account is used to record amounts earned by a school district under a federal financial assistance program that is expected to be available to finance current liabilities. Such revenues are usually accounted for in special revenue funds using the measurable and available criteria. Revenues may be recognized only to the extent that expenditures have been incurred.

### ***Due from Other Governments***

In some instances, school districts earn revenue from providing instructional services to other public schools. The receivable *earned* from such revenue should be recorded only if it also meets the measurable and available criteria. Thus, when the services are provided, the school district should record revenues and receivables for the amount *earned*. If the amount of outstanding receivable at the end of a fiscal year is not expected to be collected within 60 days from the financial statement date, the school district should record a deferred revenue for the outstanding amount by debiting revenues and crediting deferred revenues.

### ***Accrued Interest Receivable***

Accrued interest represents the amount of interest earned and accruable at month end or fiscal year end on all cash accounts and [investments](#) outstanding at that date. Accrued interest should be computed for all outstanding investments and cash accounts that earn interest (in all governmental *and* proprietary funds) regardless of the expected payment date of the interest.

### 1.2.3 Inventory

Governmental accounting generally requires that amounts spent for the purchase of goods be recorded as an expenditure at the time of the purchase. An exception to this general rule is made for inventory. If the amount of inventory on hand at year end is significant, the value of such inventory should be recorded on the balance sheet as an asset. Since the fiscal year end of school districts often coincides with the start of a new school year, it is not uncommon for many school districts to have a relatively high level of inventory at year end. This inventory should be disclosed on the balance sheet and the method of accounting for inventory should be disclosed in the footnotes to the financial statements. School districts often distribute inventoried supplies to schools prior to fiscal year end to accommodate the beginning of the new academic school year. Such inventories in schools either may be included in inventory at year end if they have not been consumed or may be expensed in the year of distribution.

Inventory generally represents goods which are insignificant when taken individually, but are significant when taken as a whole. Items that should be included in inventory can be described as:

- Consumable goods which have a relatively short shelf life. Common examples of consumable inventory items include office supplies, paper, computer supplies, building and maintenance supplies and science lab supplies.
- Items that are expected to be used within a short period of time. Items with a short shelf life could include cafeteria foods which might be partially comprised of commodities received from the United States Department of Agriculture (USDA).
- Personal property that is durable but does not meet the school district's criteria for capitalization as a capital asset. Examples of durable items that may be included in inventory are textbooks, calculators and physical education equipment.

The accounting for inventory can be broken down into two general areas:

- Monitoring and valuation of inventory
- Accounting for transactions related to inventory

It is recommended, for internal control purposes, that these two functions be performed by different people (or departments, if the school district is of sufficient size), and that the results of the two processes be reconciled to each other by other, independent personnel.

### 1.2.3.1 Monitoring and Valuation of Inventory

There are two methods by which the quantity of inventory can be determined at the end of the fiscal year: the perpetual inventory system or the periodic inventory system. Under the periodic inventory system, the inventory is physically counted on the last day of the period under review. A perpetual inventory system is continuously updated over the course of time for the use and purchases of inventory, so that at the end of the year, the quantities shown in the perpetual records should be equal to the quantities actually on hand.

The choice of which method to use depends on the size of the inventory and the relative cost of maintaining perpetual records as compared to the time and effort required to perform a complete count at year end. Under either method, it is recommended that a physical count of actual inventory be performed on a periodic basis. See additional information in the Physical Inventories section below. Although the perpetual method should reflect the actual inventory, loss from breakage or theft may reduce the actual inventory available. Regular counts during the year will serve to update the perpetual inventory and increase administrative control over the inventory.

After the quantity of inventory is established, the value must be determined using one of several methods.

- The *value of each item* in the inventory can be specifically identified, which is a difficult method if there are a large number of low value items in the inventory.
- An *average cost* can be determined using a *weighted average* method with periodic inventory systems, or a *moving average* cost with perpetual inventory systems.
  - Under the weighted average method, the total cost of purchases for the year, including beginning inventories, is divided by the total units purchased. The average price per unit is then multiplied by the quantity of inventory on hand.
  - The moving average cost is determined in the same fashion except that the cost of new purchases is added to the existing value of the perpetual inventory and divided by the new total number of units in inventory. The only change to unit price occurs



when new inventory is purchased. Issuances of inventory are made at the current moving average cost.

- Another valuation system is the First-In, First-Out (FIFO) method. Using the FIFO method, the items in the inventory may not be the newest additions; however, they are assigned the most recent costs as though they were just purchased. There are many other methods of accounting for inventory, including the Last-In, First-Out (LIFO) method, Moving-average method and others.

### 1.2.3.2 Inventory Accounting

Accounting for the cash transactions related to inventories in the general ledger can be accomplished using the *consumption* method or the *purchase* method. Each method will produce the same end result, and both should be reconciled on a regular basis to the physical inventory.

#### ***Consumption Method***

The consumption method first records purchase transactions in the inventory account, then, when inventory is actually used, an entry is posted to the appropriate expenditures account to reflect the relief of inventory.

Note: See Appendix 7, "Accounting for Inventories," Illustration #1 for an example of entries associated with the consumption method of accounting for inventory.

#### ***Purchase Method***

Under the purchase method, the inventory is first recorded as an expenditure when purchased and then adjusted at the end of a period to reflect the value of inventory at that period end.

Note: See Appendix 7, "Accounting for Inventories," Illustration #2 for an example of entries associated with the purchase method of accounting for inventory.

## ***Accounting for Commodities***

Many school districts record the value of federal commodities received during the year as revenues and expenditures/expenses at the time of the receipt. School districts are required to perform a physical inventory count of such commodities at least annually and record the value of commodities on hand as both inventory and deferred revenue at fiscal year-end. The school district should also adjust its revenues and expenditures/expenses for the value of such commodities inventory at year end.

The value of the inventory will need to be determined for three different situations.

- Purchased products for which you receive no USDA commodity equivalent. An example of products that a school would purchase commercially but would not receive as a USDA commodity would be condiments such as catsup and mustard. It is suggested that you base their inventory value for such items on the net purchase prices for that item.
- USDA commodity products for which you purchase no commercial equivalent. Examples of USDA commodities that schools receive but usually does not purchase commercially include poached salmon, frozen diced chicken and prune puree. The Texas Health and Human Services Commission (HHSC, formerly TDHS) will continue to provide you with the value of USDA commodities, which is based on the actual cost per pound.
- Products that you purchase as well as receive as commodities. Canned fruits and vegetables are examples of such products. You may base the value of these products on the net cost to purchase such products, on the commodity value provided by HHSC, or you could also use an average or weighted average of the two values.

Note: See Appendix 7, "Accounting for Inventories," Illustration #3 for an example of entries associated with commodity inventories.

### **1.2.3.3 Inventory Reporting**

If the school district's inventory balance is material to the school district's balance sheet, the following two additional disclosures are necessary for the proper recording of inventories.

- A reserve for the investment in inventory is established in the fund balance of governmental funds that have inventory. This reserve should be equal to the balance recorded in the inventory account less amounts representing commodities inventory.
- The Summary of Significant Accounting Policies in the footnotes to the financial statements will contain a description of the method of accounting used (either purchase or consumption method), and the method used to value such inventory.

### 1.2.3.4 Physical Inventories

School districts have various options in the methods by which they perform their physical counts of inventory. Independent auditors are required by generally accepted auditing procedures to conduct physical observations of inventories at least annually when such inventories are material to the school district's operations. The physical observations should be conducted as of the balance sheet date, or as of a single date which is within a reasonable time before or after the balance sheet date. The independent auditor is usually present at the time of the inventory so that the effectiveness of the inventory-taking procedures can be assessed, as well as to determine the reliance that the independent auditor can place on the school district's representations relating to the physical condition and quantities of the inventory. The most common physical inventory count methods are:

- Cycle counts
- Full counts taken at fiscal year end
- Full counts taken at times other than fiscal year end

#### ***Cycle Counts***

Cycle Counts are a method of performing a physical count of inventories in which a school district inventories different portions of their warehouse at various times throughout the fiscal year. The advantages of cycle counts are that such counts can lead to the early detection of problems relating to the school district's inventory. Cycle counts also allow the school district to place a greater emphasis on portions of the inventory that are considered to be of greater value or of a greater risk by conducting more cycle counts in those areas than in lower risk inventory areas.

### ***Full Counts Taken at Fiscal Year End***

Many school districts conduct an entire physical inventory of their warehouse at fiscal year end. This method of inventory procedure allows the school district to reconcile the physical inventory to the general ledger as of the last day of the fiscal year.

### ***Full Counts Taken at Times Other Than Fiscal Year End***

School districts often take their physical inventory on a date which does not match its fiscal year end. Many times the dates selected for physical inventories are made to minimize the disruptions that such inventories have on the school district's operations. The date selected for the physical inventory should be sufficiently close to year end to allow for the reconciliation of inventory to the year end general ledger.

## **1.2.4 Capital Assets**

School districts are responsible for accounting for both current and noncurrent assets. Included within noncurrent assets are capital and intangible assets. Capital assets have certain properties that distinguish them from other types of noncurrent assets. Capital assets are:

- Tangible in nature
- Long-lived (have a life of longer than one year)
- Of a significant value at purchase or acquisition time
- Reasonably identified and controlled through a physical inventory system

They may include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, works of art and historical treasures, furniture and other equipment which are intended to be held or used over a long period of time. "Fixed" denotes probability or intent to continue use of an asset and does not indicate immobility of an asset.

The emphasis in governmental accounting for capital assets is on control and accountability. Accordingly, a variety of data relating to a school district's capital assets must be accumulated to maintain control and accountability over them. These data include:

- Quantity
- Location
- Condition
- Life expectancy

Capital asset records are necessary to designate accountability for the custody and maintenance of individual items, and to assist in approximating future requirements. All capital transactions for the acquisition of capital assets should be controlled through a well-defined authorization procedure. If the budget does not authorize the purchase of specific items, approval power, subject to specific monetary limits, should be assigned to the chief administrator or to a person designated by the chief administrator. The school district should adopt policies to govern this situation even if it has not been an issue in the past.

Note: Separate accountability for capital assets is a legal requirement of many Special Revenue Funds receiving monies from the federal government.

### 1.2.4.1 Capital Asset Recording

Two methods of recording capital assets for governmental entities are used. The method used depends on the fund type used to purchase the capital asset. Capital assets purchased by:

- *Governmental fund types and expendable trust funds* are recorded as expenditures of the fund and the asset is recorded in the locally defined fund code 9XX.
- *Proprietary fund types and similar fiduciary funds* are recorded in the purchasing fund.

Assets recorded in the general capital asset fund may not be used exclusively in the operations of any one fund, nor do they, under certain circumstances, belong to any one fund. When these assets are purchased from current appropriations, such acquisitions must

be anticipated in the preparation of or amendments to the budget. Purchase requisitions and requests for appropriations should be reviewed to assure that piecemeal acquisitions are not made to avoid the approval or review functions built into the system. (Additional guidance on purchasing is included in the Purchasing module of the *Resource Guide*)

The general capital asset fund is a self-balancing set of accounts. Accordingly a credit entry of one or more "Investment Accounts" is established to offset the debit entry established in any of the four asset categories. These equity accounts indicate the source of monies with which the assets were acquired and as such must be indicative of the fund. Investment in general capital asset accounts in the Account Codes section of this module are included in the 3100 series of accounts.

For capital assets acquired by the Capital Projects Fund, the necessary entry in the general capital asset fund is usually made at the end of a fiscal period or upon completion of a construction project. In the case of a construction project not finished at the end of a fiscal year, this entry would be a debit to Construction Work in Progress for the costs capitalized to date and a credit to Investment in Capital Assets. When the project is completed in a later fiscal period, the Construction Work in Progress account is credited and the specific asset account (Land, Buildings, etc.) debited. In addition, costs capitalized by the Capital Projects Fund in the terminal year of construction or acquisition would be recorded in this group of accounts by recording a debit to the proper asset account (Land, Buildings, etc.) and a credit to an appropriate Investment in Capital Assets account.

In the case of asset acquisition by General and Special Revenue Funds, recording of the asset in the Capital Asset Group of Accounts may be made at the time the expenditure is recorded in the fund or cumulatively at the end of an accounting period or fiscal year.

Thus, if a piece of equipment were purchased by the General Fund and recorded in that fund as a debit to Expenditures and a credit to Accounts Payable, an entry would also be made for an identical amount in the General Capital Asset Group by a debit to Equipment and a credit to Investment in Capital Assets - General Fund. Two or more funds might contribute to the total cost of a capital asset. The credit entry in this case would be broken down to reflect the portion of the cost contributed by each source. At year-end, to convert to the government-wide financial statements, a debit would be made to Investment in Capital Assets – General Fund and a credit would be made to Expenditures.

### 1.2.4.2 Basis of Capital Assets

Capital assets are included in the financial records at historical cost. The cost should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary costs include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. In some situations when the conversion was made for GASB 34, the purchase or acquisition documents may not have been available for general capital assets already on hand. If reliable historical records were not available, an estimate or appraisal of the original cost of such assets on the basis of such documentary evidence as may be available (such as price index levels at time of acquisition) may have been used. The goal of such valuation was to record a fair market value at the date of acquisition. The intent was not to expend an excessive amount of monies in ascertaining exact costs. If capital assets are acquired by gift, then the appraised value on the date received is the appropriate amount to include in the capital asset records of the district.

Capital assets may be acquired by several methods:

- Purchase
- Lease-Purchase
- Construction
- Tax Foreclosures
- Gifts

All capital assets acquired in some manner other than gift are recorded at the cost to the school district to place the asset in service. Capital assets arising from gifts or donations are recorded at their estimated fair market value at the time of receipt.

The determination as to whether an expenditure from governmental funds should be classified as an operating expense or recorded in the general capital asset account is often difficult. If the unit cost of equipment and/or furniture is \$5,000 or more and the useful life criteria is estimated at more than one year, the purchase is considered an expenditure for general capital assets, regardless of whether it is a replacement item or purchase of

additional equipment. Furthermore, if the nature and/or quantity of the item(s) allows economical control and if the one year useful life criteria are met, even though the unit cost may be less than \$5,000, the expenditure may be recorded under expenditure code 6649 or 6641. Purchase of items not meeting the controllability or useful life criteria are properly charged to current operating expense as supplies and materials.

The preceding guidelines are the maximum capitalization limits (\$5,000) prescribed by TEA. However, school districts may wish to establish accounting policies with a lower capitalization limit for items recorded as capital assets. In addition, a school district may wish to maintain accountability for certain capital assets even if they do not meet the school district's capitalization policy. For example, certain audiovisual or computer equipment may not be capitalized (i.e. not recorded as capital asset); however a listing of such assets and their location may be maintained for control and accountability purposes. This is common for items with a higher risk of theft (easily transportable or marketable or diverted to personal use).

Instead of charging certain transactions under supplies and materials, a school district may decide to group purchases of items costing less than \$5,000 per unit under a major replacement or equipping program using expenditure object code 6649 or 6641. This grouping may be preferable because these transactions would not be regularly recurring operating expenditures (a significantly increased expenditure level under supplies and materials of a non-recurring expenditure may indicate noncompliance under maintenance of effort requirements for federal programs). Additionally, use of this object code for grouping of equipment items will isolate this optional expenditure treatment for the purpose of comparing costs among school districts on a consistent basis. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, but might be considered material collectively. If these items are purchased with long-term debt, it would be preferable to have a corresponding asset for which the debt was issued.

For a diagram regarding coding for capital assets, refer to the [Capital Assets Decision Tree](#).

Note: The definition for equipment in the *Resource Guide* is consistent with the federal definition for equipment - \$5,000 or more per unit and useful life of more than one year. (2 CFR Part 225, OMB A-87)

### 1.2.4.3 Property Accounts for Capital Assets

Accounting for capital assets requires the proper classification of individual assets within recommended asset classes. Appropriate associated costs and charges are capitalized with



the assets within each class. The recommended classes for accounting and statement presentation purposes are:

- *Land* recorded asset cost should include, in addition to the purchase price, such ancillary costs as legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling, and leveling) and demolition of unwanted structures.
- *Land improvements* consist of betterments, other than buildings, that prepare land for its intended use. Examples include site improvements such as excavation, fill grading and utility installation; removal, relocation or reconstruction of property of others, such as railroads and telephone and power lines, retaining walls, parking lots, fencing and landscaping.
- *Costs of building and improvements* include purchase price, contract price, professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; cost of fixtures attached to a building or other structure; construction [insurance](#) premiums, interest, and related costs incurred during the period of construction; and any other expenditures necessary to put a building or structure into its intended state of operation.
- *Construction work in progress represents* a temporary capitalization of labor, materials, equipment, and overhead costs of a construction project. Upon completion such costs should be cleared or moved by transfer of the capitalized costs to one or more of the other classes of assets.
- *Furniture and equipment* should include the total purchase price, before any trade-in allowance, and minus any discounts. Other costs which should be capitalized as equipment include transportation charges, installation costs, taxes or any other expenditure required to place the asset in its intended state of operation. If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods may be appropriate.
- *Infrastructure assets* are defined as long lived capital assets that are normally stationary in nature and which can normally be maintained for a significantly greater number of years than most capital assets. Infrastructure assets include:

Roads  
Bridges  
Tunnels

Water and sewer systems  
Dams  
Lighting systems

### Drainage systems

Note: Parking lots and lighting systems may be defined by the district as part of the associated building, rather than as infrastructure. Wiring for networks in buildings is not defined as infrastructure. Additionally, activities involving the Telecommunications Infrastructure Fund also do not meet the definition of infrastructure.

- *Works of art, historical treasures, and similar assets* are capital assets according to GASB whether they are held singly or in collections if they meet all of the following conditions in accordance with paragraph 27 of GASB 34 as follows:

Held for public exhibition, education, or research in furtherance of public service, rather than financial gain

Protected, kept unencumbered, cared for and preserved

Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Monuments are capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements above.

Depreciation is not required for those capitalized collections or individual items that are considered to be inexhaustible. Inexhaustible collections of individual works of art or historical treasures are those with extraordinary long useful lives. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

#### **1.2.4.4 Accounting for Maintenance, Additions and Betterments**

Accounting for costs related to capital assets after their acquisition requires careful differentiation between maintenance expenditures, additions and betterments. Maintenance costs are those outlays which are necessary to keep an asset in its *intended operating condition* but which do not materially increase the value or physical properties of the asset. Maintenance costs should be charged to appropriate expenditure accounts and not capitalized as capital assets.

In contrast, all additions and betterments to capital assets should be capitalized at cost when acquired or when construction or installation is completed. An addition refers to a physical extension of some existing asset or the acquisition of an entirely new asset which does not merely replace one of similar function and value. A betterment exists when a part of an existing asset is replaced by another and the replacement provides a *significant increase* in the life or value of the property.

Where a betterment has been determined as such, the amount to be capitalized in the accounts is the difference between the cost of the new asset acquired and the cost of the asset which it replaced.

### 1.2.4.5 Accounting for Impairment of Capital Assets

GASB 42 defines asset impairment as a significant, unexpected decline in the service utility of a capital asset. Capital assets are acquired because of the services they provide, so impairments affect the asset's "service utility". When the asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the capital asset, so the event/circumstance is classified as not "normal and ordinary". There are phrases used in determining if an impairment has occurred that are necessary to define:

- ◆ service utility – usable capacity that was expected to be used to provide service when a capital asset was acquired
- ◆ level of utilization – portion of the usable capacity currently being used
- ◆ original usable capacity – capacity when asset was acquired
- ◆ current usable capacity – capacity after event/circumstance or as a result of normal or expected decline in useful life
- ◆ maximum service capacity – when surplus capacity is provided for safety, economic, or other reasons
- ◆ usable service capacity – capacity excluding the surplus capacity noted above

Determining whether a capital asset has been impaired is a 2-part test:

1) Identify possible impairments

- a) Physical damage – fire, flood, earthquake and the amount of damage requires work be done to restore the service utility of the asset
  - b) Laws or regulations or other environmental factors that affect the capital asset
  - c) Technological advancements or obsolescence
  - d) Change in manner or duration of use
  - e) Construction stoppage
- 2) Test for actual impairment
- a) The magnitude of the decline in service utility is significant
  - b) The decline in service utility is unexpected

#### Impairment measurement

- 1) If the district will no longer use the asset, or construction stoppage is involved, the district should report the capital asset at the lower of carrying value or fair value.
- 2) If the district will continue to use the asset, it should measure the amount of impairment (portion of historical cost that should be written off) by the method that best reflects the decline in the capital asset's service utility:
- a) Restoration cost approach
  - b) Service units approach
  - c) Deflated depreciated replacement cost approach

The following table indicates the measurement approach generally used in each of the possible impairment situations.

Physical damage	Restoration cost approach
Laws, regulations or environmental factors	Service units approach
Technological development or obsolescence	Service units approach

Change in manner or duration of use

Deflated depreciated replacement cost approach or service units approach

Construction stoppage

Damages to capital assets caused by tornadoes, wind and rainstorms (and other acts of God), fire, theft, and vandalism should be recorded so as to reflect the difference between the cost of replacement or restoration and the insurance or other contributions or subsidies received as reimbursement therefore. If there is a complete loss of the asset, the old asset should be written off by a debit to Investment in Capital Assets and a credit to the appropriate capital asset account.

Partial losses or damages that are replaced or repaired should be recorded at cost and treated as an expense. The original value of such assets should be retained, unless additions or betterments are made in conjunction with the repairs. If additions or betterments are made, the guidance contained in the earlier discussion of Accounting for Maintenance, Additions and Betterments should be followed.

Notes:

(1) See Appendix 7, "Accounting for Catastrophic Gains and Losses," for an example of entries associated with catastrophes.

(2) If repairs occur in two fiscal years, the associated repair expenditures, insurance proceeds and additions to capital assets should be recorded in the appropriate fiscal year. Deferred expenditure and revenue accounts should not be utilized.

### ***Disposals or Retirement of Capital Assets***

Retirement of capital assets, because of sale, scrapping or changes to capitalization policies, should require certain approvals to guard against the disposal of equipment which could be used by other departments and to guard against an illegal unauthorized disposition.

Disposal of capital assets purchased with Governmental Fund Types and Private-Purpose Trust Fund resources are handled differently than those purchased with proprietary funds.

*Governmental Fund Types and Private-Purpose Trust Funds capital assets* - When a capital asset is disposed of, regardless of reason, the entry recording the acquisition is reversed in the general capital asset fund. Entries to record insurance adjustments, trade-in allowances, and receipts from sales of capital assets are recorded in the fund which acquired the item. If individual identification of capital assets has been maintained the recorded cost of the item being disposed of is easy to obtain. If certain capital assets are without identification an inventory policy must be established to determine what costs are to be written off. As an example, if 200 desks have been purchased over a period of time and 100 were purchased at \$20 each while the second hundred were purchased at \$30 each, what amount will be written off the books for 10 desks being retired? Not knowing which 10 desks are being retired, the following methods are available in determining the amounts to be written off the general capital asset fund:

- *Averaging method* - In this method the total cost of the desks is divided by the total number of desks. A new average cost is calculated whenever another purchase of desks is made.
- *First-in, First-out method* - In this method it is assumed that the first items acquired will be the first to go. In the desk example the 10 desks would be retired at \$20 each. If 110 desks were to be retired, the first hundred would be retired at \$20 each while ten more would be retired at \$30 each.

The selection of one of the above group control methods should be a management decision and once selected, maintained consistently from year to year.

If no cash is involved in the disposal of a capital asset, the disposal is handled by elimination of the asset and reduction of the investment account which records its source. In the desk example above, the cost of the ten desks is credited to the furniture control account and debited to the investment account for furniture. The detail ledger is also reduced. This entry is opposite to the entry recorded when the purchase was made.

If the assets are sold, an additional entry is made in the fund which recorded the purchase. If the ten desks had been sold for \$5 each, a \$50 entry (debit cash, credit revenue) would be recorded in the fund which purchased the asset. If costs are associated with the disposal of capital assets, an entry is made in the fund which purchased the asset to debit expenditures and credit cash for the additional costs. The assets are then removed from the capital asset accounts in a manner similar to situations where no cash is involved.

If a capital asset is traded in for a new capital asset, the general capital asset fund is credited by the cost of the original asset; it is then debited by the cost of the new purchase. The actual difference paid in cash is recorded in the fund which recorded the original expenditure for the asset. These entries will: (1) remove old assets from the property records; (2) charge the expenditures to the correct fund; (3) record the acquisition of the new equipment.

*Proprietary Fund Types and similar trust funds* - The primary difference between accounting for disposals and retirements of capital assets for governmental fund types and proprietary fund types is that for proprietary fund types a school district will almost always recognize a gain or loss on the disposal or retirement. However, a school district will never recognize a gain or loss on disposal or retirement in a governmental fund type as the entire proceeds from disposition are recorded in the governmental fund type (and the asset is included in the General Capital Asset Fund).

The gain or loss to be recognized by the school district is calculated as illustrated in Exhibit 4 below:

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**Exhibit 4. Computation of Gain/Loss on Disposition**

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Proceeds received upon disposition		\$100,000
Less: Carrying value	\$200,000	
Accumulated depreciation	<u>(125,000)</u>	
		<u>(75,000)</u>
Gain on disposition		<u>\$ 25,000</u>
Proceeds received upon disposition		\$ 50,000
Less: Carrying value	\$200,000	
Accumulated depreciation	<u>(125,000)</u>	
		<u>(75,000)</u>
Loss on disposition		<u>(\$25,000)</u>

As illustrated in Exhibit 4, accounting for disposition of capital assets for proprietary and similar trust funds is handled in the same manner as private sector companies.

These valuation methods can also be used to determine the values associated with proprietary fund capital assets.

Note: See sample journal entries in Appendix 7, "Accounting for Capital Assets Subject to Depreciation," Illustration #1.

### 1.2.4.6 Depreciation

Accounting for General Capital Assets in the financial records of school districts differs from the commercial methods of recording and reporting capital assets. Depreciation is a method of spreading the loss in value of a capital asset over several periods and is applicable to the government-wide reporting to measure net income and capital maintenance. Capital assets yield their services gradually over a period of years rather than all at once, as in the case of current assets such as supplies. General capital assets are those not normally accounted for in a proprietary fund or fiduciary fund.

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net assets. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach should be reported separately if the school has a significant amount of these assets. Capital assets such as land and some types of improvements usually are not depreciated because they normally do not deteriorate due to use and the passage of time (inexhaustible). Capital assets are recorded at historical cost or, if donated, at their estimated fair market value. These basic principles must be observed in all phases of capital asset accounting.

Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach. Inexhaustible capital assets such as land and land improvements should not be depreciated. Depreciation expense should be reported in the government-wide statements of activities; the proprietary fund statement of revenues, expenses, and changes in fund net assets; and the statement of changes in fiduciary net assets.

GASB Codification Section 1400.113 states that "depreciation expense should be measured by allocating the expected net cost of using the asset (original cost less estimated salvage value) over its estimated useful life in a systematic and rational manner." Salvage value is the estimated fair value of a capital asset remaining at the conclusion of its estimated useful



life. It may be calculated for a class of assets or individual assets. The TEA's suggested depreciation method is the straight line depreciation method; however, any acceptable method determining depreciation may be used. The depreciation method can vary for different categories of assets. Some of the common categories of depreciation are:

straight-line method

decreasing-charge methods, which include declining balance, double-declining balance, and sum-of-the-years'-digits, among others

increasing-charge methods

unit of production/service methods, which allocate the depreciable cost of an asset over its expected output

The composite method may also be used to calculate depreciation expense. Under the composite method a group of similar assets or dissimilar assets in the same class are depreciated using the same depreciation rate. The estimated life for the group may be based upon the weighted average or simple average of the useful lives of the assets in the group or upon the weighted average or upon assessment of the life of the group as a whole. Composite depreciation should not be applied across classes of assets: for example, buildings, equipment, furniture, and vehicles (however, all buildings could be grouped and a single composite rate applied to all).

Annual depreciation using the straight-line method is determined by taking actual cost, subtracting estimated salvage value, and dividing by the number of years that the asset is expected to be used. Accumulated depreciation for an asset is the annual depreciation times the number of years that it has been actually used. For example, assume that a capital asset costing \$10,500 is expected to be used for ten years, and at the end of ten years the salvage value is estimated to be \$500. Annual depreciation is \$1,000, which is determined by taking the actual cost of \$10,500, subtracting the estimated salvage value of \$500, and then dividing by the estimated life of ten years. Accumulated depreciation at the end of five years, for example, is \$5,000, determined by multiplying annual depreciation of \$1,000 by five years. For simplicity in accounting, depreciation of capital assets is usually determined at the close of each fiscal year. Once a method of depreciation is placed into use by a school district, it should be consistently and systematically applied.

In determining estimated useful life a district should consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology standards. For estimated useful lives, districts can use (1) general guidelines obtained from professional or industry organizations, (2) information for comparable assets of other governments, or (3) internal information.

Capital assets should not be written off when they become fully depreciated. Capital assets should be written off when they are disposed of. As a result of differences between estimated useful lives used for depreciation computations and actual useful lives, governments may, in limited cases, have capital assets that are fully depreciated but have

not been disposed of. Such capital assets should continue to be reported by the government. Fully depreciated capital assets do not affect the net balance of capital assets reported in the statement of net assets. However, the balances of historical cost and accumulated depreciation that are disclosed in the financial statements or notes to the financial statements are affected by and should include fully depreciated capital assets that have not been disposed of.

Note: Appendix 7, "Accounting for Interfund Transactions" illustrates establishment of an internal service fund operation, including an entry to establish and to account for accumulated depreciation.

The journal entry examples in Appendix 7 are included to offer guidance in determining depreciation of capital assets. These guidelines should be useful to accounting personnel in school districts which maintain funds with capital assets.

#### **1.2.4.7 Control of Capital Assets**

In addition to entries involving the general ledger accounts, detailed subsidiary records should be maintained to maximize the control of capital assets. These records should include the following information as a minimum:

- The item purchased
- Date of purchase
- Purchase price
- Life expectancy
- Location number
- Inventory number

- Fund from which purchased
- Other information that may be useful for control

In the subsidiary ledger, all capital assets belonging to a given school might be grouped together (e.g., land, buildings, and equipment records for a particular school segregated from records of the other schools). Another method is to maintain subsidiary records for all capital assets as a group (e.g., all subsidiary records for buildings would be grouped together; however, there could be a breakdown within this grouping to identify buildings with program intent or function). The method selected depends upon the number and location of capital assets, the degree of accountability and responsibility for capital assets, and the data processing system requirements. The subsidiary record, regardless of its physical form, should at least provide for a complete description of the item to permit positive identification, cost and purchase data, and its location.

Adequate accounting procedures and records for capital assets are essential to the protective custody of school property. In addition to protective custody, an appropriate system:

- Designates responsibility for custody and proper use
- Provides data for management of capital assets
- Provides data for financial control, developing financial reports and adequate [insurance](#) coverage

Of paramount importance is the security of the system. Any material change in the customary recording of distribution or disposal of capital assets is a financial matter that should be decided by the school district's administration. Management must impose discipline throughout the organization so that an appropriate level of internal control will be maintained to assure that adequate custody of capital assets is maintained.

For items subject to inventory control (for example, certain low-cost items recorded under supplies and materials), for [insurance](#) purposes and because of the risk of theft, the school district should use one of the local optional expenditure codes under 639X to provide a reconciling amount to balance total additions (639X and 66XX) to the inventory listing. Items recorded on the inventory listing that were charged to 639X are not General Capital Assets and, accordingly, are not recorded in the general capital asset accounts.

In addition, capital assets need to be recorded either individually or as part of a group and need to be coded individually for identification.

*Unit or group control:* Capital assets will either be under unit or group control. Unit control means that a piece of equipment is accounted for as a single unit in itself and that it retains its separate identity throughout its life and at time of disposition. Group control means that equipment items which are the same with respect to function, material, shape and size are accounted for as a group rather than single units. That is, the individual piece of equipment loses its identity as such and is one of a group. As an illustration of group control, consider a school district with 100 teacher desks which are all the same. Instead of maintaining a record on each individual desk, one record is kept on the group of 100 desks.

*Numerical codes:* All movable capital assets should be marked numerically, or with some kind of code, to permit positive identification. There are a number of methods for permanently marking school district capital assets including:

- Tags
  
- Labels
  
- Indelible ink
  
- Bar code labels
  
- Engraving

School age children have a propensity for playing with identification markings until they are illegible. The method and locations of identification markings should be placed with that propensity in mind. Detailed records should be maintained on each piece or group of furniture and equipment.

A form should be devised for recording transfer of property from one department or location to another and furniture and equipment assigned to a particular department or location should not be transferred without the written approval of the person responsible for the physical control of the property. No item of furniture or equipment should be permitted to leave the assigned premises without a property pass signed by a proper authority (i.e., system property manager).

School district policies should address the use of school district capital assets in a location other than that assigned. The policy should also address the offsite use of school district assets by employees.

### **1.2.4.8 Inventories of Capital Assets**

Certain capital assets, such as furniture and equipment, should be inventoried on a periodic basis. Annual inventories taken usually at the end of the school term before the staff members leave are recommended. Discrepancies between the capital asset/inventory list and what is on hand should be settled. Missing items should be listed and written off in accordance with established policy.

### **1.2.4.9 Reporting of Capital Assets**

GASB Codification Section 1400 states that a clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds should be reported only in the statement of fiduciary net assets. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.

Depreciable capital assets should be reported in the Statement of Net Assets at historical cost net of accumulated depreciation.

Depreciable capital assets may be reported on the face of the statement as a single item or in major classes.

Non depreciable capital assets that are either inexhaustible, such as land, or infrastructure assets reported using the modified approach should be reported as separate line items on the Statement of Net Assets if they are significant. GASB has defined an inexhaustible capital asset as one whose economic benefit or service is used up so slowly that its estimated useful life is extraordinarily long. Construction in progress should be included with the non depreciable capital assets in the Statement of Net Assets.

Accumulated depreciation should be reported in the Statement of Net Assets on the face of the statement (parenthetically or as separate line item reducing capital assets). Regardless of the presentation in the Statement of Net Assets, the notes to the financial statements

should disclose accumulated depreciation separately in addition to changes in accumulated depreciation.

The following detailed disclosures should be presented for each major class of capital asset: governmental activities separate from business-type activities, capital assets being depreciated separate from those that are not being depreciated, and historical costs separate from accumulated depreciation. For each of the classes, the following information should also be presented, as applicable:

- Beginning- and end-of-year balances
- Capital acquisitions
- Sales or other dispositions
- Current depreciation expense.

Additionally, the amounts of depreciation expense charged to each of the functions in the statement of activities should be disclosed.

Examples of major classes of capital assets are land, infrastructure, buildings and improvements, vehicles, machinery and equipment, and construction in progress.

#### **1.2.4.10 Intangible Assets**

GASB 51, Accounting and Financial Reporting for Intangible Assets is effective for fiscal year 2009/2010. It is a clarification of financial reporting requirements for intangible assets established in GASB 34. Under GASB 51, an intangible asset does not have a physical substance, is nonfinancial in nature, and has an initial useful life greater than one reporting period. Some examples are trademarks, copyrights, royalty interests, right-of-way easements, and internally generated computer software, such as websites, or modified commercially available computer software. Intangible assets should be disclosed like other capital assets in the financial statements, and the capitalization rules are also the same as other capital assets. Amortization is taken over the periods for which service capacity is expected to exist. If there is an indefinite useful life, the asset is not amortized.

On a governmental funds accounting basis, the expenditures should be recognized as expenditures in the 6600 series of accounts. In the government-wide statement of net assets, the intangible assets would be reported as part of capital assets.

The most common type of intangible asset most school districts will encounter is internally generated computer software. This includes software developed by district employees or a third party, as well as commercially available software to which more than minimal incremental effort is applied to ready it for use in district operations. The district should follow the specified conditions approach to determine which of the three stages of activities are involved in order to determine which costs should be capitalized.

Commercially available software that is purchased or licensed by the district without modification (not internally generated) generally meets the description of an intangible asset. If a district enters into a licensing agreement with a vendor for multiple components, such as use of the software, modifications to meet the district's requirements prior to going into operation, user training, routine maintenance, and rights to upgrades, the portion for use of the software generally would be capitalized, while user training and routine maintenance would be expensed. Another example would be a five-year agreement with annual payments for the right to use the software, which would be reported as an intangible asset along with a long-term liability. Depending on the materiality, external modifications of computer software should be capitalized if they result in an increase in functionality or efficiency of the software or extend the estimated useful life.

## 1.2.5 Liabilities

Liabilities are debt or other legal obligations arising out of transactions in the past, which are payable but not necessarily due. Encumbrances are not liabilities; they become liabilities when services or materials for which the encumbrance was established have been rendered or received.

Liabilities can be divided into two major categories:

- Current
- Long-term

Current liabilities are those liabilities expected to be liquidated (i.e., paid) with expendable available resources. In many instances a liability must be payable within 60 days to be considered current. Several different accounts that can be considered as current liabilities if those liabilities are liquidated within 60 days or less are:

- Accounts payable
- Payroll liabilities
- Arbitrage rebate liabilities

- Accrued expenses
- Due to/from other funds
- Due to student groups

Each one of these items is discussed in more detail below.

### **1.2.5.1 Accounts Payable**

Accounts payable are those liabilities incurred in the normal course of business for which goods or services have been provided by a third party vendor and payment has not been made as of the balance sheet date. Generally, when a school district receives goods or services and does not immediately pay the vendor, an accounts payable has been incurred. If the vendor will not be paid for more than 60 days or the vendor will not be paid with expendable available resources, a long-term liability rather than an accounts payable has been created.

Note: See sample accounts payable entries in Appendix 7, "Accounting for Accounts Payable and Cash Disbursements."

### **1.2.5.2 Payroll Liabilities**

There are several issues that must be addressed in a discussion of payroll liabilities.

- Payroll Systems
- Payroll Clearing Account
- Salaries Payable
- Compensated Absences



- Deferred Compensation
- Pensions
- Post Employment Benefits Other Than Pensions
- Termination Benefits

Each of these items is important in properly tracking and accounting for compensation to employees. (See Other Tax Issues section in this module.)

### ***Payroll Systems***

A payroll system must be capable of adequate reporting for effective control and monitoring by management and of providing reports and records required by state and federal laws. Considering these requirements, a sound payroll system should provide for the following:

- Adequate records for each employee including time sheets, W-2 forms, W-4 forms, I-9 forms, optional voluntary and mandated deductions including annuities, health [insurance](#), etc., employment contracts when applicable and other pertinent information to process and document payroll accounting
- Timely preparation of payroll reports required by governmental agencies such as TRS reports, 941's, FIT deposits, etc.
- Individual payroll records are necessary to provide both budgetary control and the reports required by various governmental agencies and internal management. Regardless of the forms used in payroll accounting, it is very important to correctly calculate gross pay, payroll deductions, and net pay prior to recording these amounts. Reference must be made to tax guides, teacher retirement guides and other documents which provide the information necessary to calculate the deductions.

## ***Payroll Clearing Account***

For school districts with a large number of employees, or for school districts with employees paid from more than one source, a payroll clearing account may offer some advantages. Salaries and wages are debited as expenditures to the fund for which services are performed and liabilities are incurred. If a payroll clearing account is used, transfers are made from the expending fund and actual disbursements to payees for net salaries and withholdings are made from the clearing account.

Clearing accounts may be maintained in Agency Funds or in the General Fund. Agency Fund clearing accounts are accounted for on the modified accrual basis, are custodial in nature, and do not require a budget. Amounts of gross salaries, gross wages, and employer's contributions are a payroll clearing account's sources for receipts. Payments of net salaries, withholdings, and employer's contributions constitute disbursements.

Note: See Appendix 7, "Accounting for Payroll" for examples of payroll entries with and without the use of a clearing account.

## ***Salaries Payable***

Expenditures should be recorded and reported in the period in which they are incurred. Therefore, unpaid salaries and related benefits that have been earned but not yet paid should be recorded as accrued expenditures. The amount to accrue is calculated as follows:

$$[(\text{Employee's Daily Rate} \times \text{Number Days Worked for the Month}) - \text{Amount Paid for the Month}] = \text{Amount to Accrue for the Month}$$

If a school district's payroll system functions on a cash basis and cannot accrue salaries by employee, the district may calculate an estimated accrual amount for each expenditure code and manually record the accrual in the general ledger each month. School districts that use this method to record accruals may find a PC spreadsheet program useful in calculating the amounts to accrue.

Regardless of the method used, the difference between the amount earned and the amount paid is recorded in an account captioned Accrued Wages Payable.

The fiscal year for Texas school districts begins September 1 and ends August 31 (July 1 and ends June 30 for districts choosing early year end) Salaries are to be accrued in the month earned, even though a contract may overlap fiscal years. The expenditure codes(s) used for the accrued salary should agree with the accounts defined for each fiscal year.

For example, if a teacher employed for 187 days begins work on August 12, 19X1 and completes the contract on June 5, 19X2, the salary is to be accrued for the appropriate number of days worked in each of the months of August through June. In this example, the salary earned in August is expended in the fiscal year ending August 31, 19X1, using the appropriate expenditure codes(s) for that fiscal year. The amounts earned in September through June are expended in the new fiscal year, using the appropriate expenditure code(s) for the new fiscal year.

Employees may be employed for varying numbers of days for different positions. The employees' salary should begin accruing on the earliest day of employment. For example, an employee who is a teacher and a band director may have two contracts. The teacher contract might be for 187 days of employment beginning August 12. The band director contract might be for 193 days of employment, beginning on July 28. This employee's salary begins accruing in July (regardless of when the employee receives a paycheck for the new contracts).

Payroll benefit expenditures should be accrued in the same manner that salaries are accrued. Most payroll benefits are based on a percentage of salary. Therefore the earned benefit amount could be calculated by multiplying the earned salary times the appropriate percentage. Some benefits, however, cost a flat monthly amount per employee (e.g., health and life [insurance](#)). Each school district should establish a policy stating whether such benefits are to be accrued, or whether the benefits cease when an employee terminates employment with the school district.

Note: See sample entries recording the accrual of payroll for a ten-month contract period paid on a 12-month basis at Appendix 7, "Accounting for Payroll," Illustration #1.

The methods of accrual accounting as detailed in Appendix 7 are designed to enhance interim reporting. Since financial statements and reports must be presented in accordance with GAAP, earned but unpaid salaries must be recorded as accrued wages payable.

## ***Compensated Absences***

The GASB Codification Section C60 provides guidance for the accounting and financial reporting for compensated absences. Compensated absences include vacation, sick, sabbatical and other leave benefits.

The need for a school district to accrue a liability for vacation leave or other similar compensated absences is based on meeting all of the following criteria:

- The school district's obligation relating to employees' rights to receive compensations for future absences is attributable to employees' services already rendered
- It is probable that the school district will compensate employees for the benefits through paid time off or some other means (i.e., cash payments at termination or retirement)

The need for a school district to accrue a liability for sick leave and similar compensated absences should be based on *either* of the following termination criteria:

- It is probable that the school district will compensate the employees for the benefits through cash payments at the employees' termination or retirement (termination payment method). The possible calculation approach presented in GASB is described in Exhibit 5 below.

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**Exhibit 5. Termination Method Approach Presented in GASB Codification Section C60**

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1. Obtain the following information for all employees (or a representative sample) that has separated from service with the school district over a reasonable period of time, for example, three to five years:

a. Total number of sick leave days paid to those employees **OR** total dollar amount of sick leave termination payments made to those employees.

b. Total number of years those employees worked.

2. Determine the sick leave termination cost for each year worked, this can be done by dividing **a** by **b**.

- If the total number of sick days paid is used for the numerator, convert that number to the sick leave termination cost by multiplying it by a factor that considers both the current average daily pay rate for all employees on the payroll and the sick leave termination payment arrangements.

- If the total dollar amount of sick leave termination payments is used for the numerator, increase the amount of each termination payment included by the average increase in pay from the year of payment to the current year. After this calculation, adjust the result by a factor that converts the retiree pay rate to the average active employee pay rate.

3. Determine the year-end sick leave liability by multiplying the result in step 2 by the number of years all active employees have worked. The number of years all active employees have worked can be determined by means of statistical sampling. Also, increase the liability for salary-related payments.

- The school district can estimate the sick leave liability accumulated at the balance sheet date based on those employees who currently are eligible to receive termination benefits payments as well as other employees who are expected to become eligible in the future (vesting method). The vesting method is described in Exhibit 6 below.

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**Exhibit 6. Vesting Method Approach Presented in GASB Codification Section C60**

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To calculate the vesting method liability, the school district should determine whether it is probable that employees with less than the required service years to vest will in the future meet that condition to receive a cash payment at termination for their sick leave balances. Often, group averages or patterns of attaining the condition would be the basis for making the determination.

If in the school district's judgment, based on past employee behavior, it is probable that employees who attain a certain number of years of service also eventually attain the required vested years of service, then the school district must include those employees' sick leave in the liability calculation.

Note: The school district also should apply benefit maximums, (e.g., the thirty-day maximum) and reduced payment rates (e.g., one-half final pay rate) to leave balances to calculate the liability.

Since the primary emphasis for governmental funds and expendable trust funds is on the flow of financial resources and expenditures are recognized on the modified accrual basis, the school district should record as expenditures, in the current year, those compensated absences which normally would be paid with expendable available financial resources. Schools should report compensated absences expenses and liabilities in the government-wide financial statements using the recognition and measurement criteria. Compensated absences liabilities that are general long-term liabilities should be reported in the governmental activities column in the statement of net assets. Liabilities whose average maturities are greater than one year should be reported in two components—the amount due within one year and the amount due in more than one year.

In accordance with the GASB guidance, liabilities for compensated absences should be calculated at the end of each fiscal year and adjusted (recorded) to current salary rates, unless the school district pays employees for their compensated absences at rates other than the current salary rate. This liability also includes salary related payments associated with the payment of compensated absences in effect at year end. These costs include the employer's share of social security and Medicare taxes as well as others.

School districts that report compensated absences in governmental funds should recognize compensated absences expenditures each period using the modified accrual basis of accounting. That is, the amount of the compensated absences recognized as expenditures

in these funds should be the net amount accrued during the year that normally would be liquidated with expendable available financial resources.

Note: If the school district reports compensated absences in proprietary and fiduciary funds (and component units that are similar in nature) they should report the compensated absences liability calculated using the same recognition and measurement criteria as a fund liability.

## ***Deferred Compensation***

A deferred compensation plan provides employees with the ability to defer the receipt of a portion of their salary and payment of taxes on that salary. Authorization for deferred compensation plans is established by the Internal Revenue Service (IRS) and is listed in Internal Revenue Code Section 457.

Employees of Texas school districts participate in the Teacher Retirement System (TRS) if certain restrictions are met. However, school districts may establish other deferred compensation plans at their discretion. These are 403(b) annuities and 457 plans. The Other Tax Issues section includes additional information regarding these plans.

Another aspect of deferred compensation relates to arrangements where a school district pays ten-month teachers over a twelve-month period. The Internal Revenue Code refers to this type of arrangement as recurring part-year compensation if it crosses 2 calendar years. This is common since most school years start in August and end in May or June. Treasury Regulations require an election to be made before the services begin and limit the deferment to 13 months from the first day of the service period. The IRS has issued Interim Guidance with [Notice 2008-62](#). If the criteria in the Notice is met, it is expected that regulations under §§457(f) and 409A would not apply to arrangements of electing 12 months over 10 months of pay. There are some limits on the annual salary. Refer to [409A Regulations and Guidance](#) on the IRS website. In addition, school districts are not required to offer an annualization election. See more information at the [IRS Governmental Entities](#) website along with [frequently-asked questions](#).

## ***Pension***

School districts and education service centers (ESC) are participants in the Teacher Retirement System of Texas (TRS). TRS provides eligible employees a pension upon retiring. This plan is funded in four ways:

- A percentage of salary is deducted from eligible employees and remitted by the school district to TRS.
- The school district pays the entire amount for employees paid from federal funds.
- The school district pays the amount due according to the statutory minimum TRS calculation for all eligible professional salaries, regardless of funding source.
- The state of Texas comptroller of public accounts pays the balance of matching contributions for all eligible employees. Benefits are not necessarily matched on a dollar-for-dollar basis.

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, affects the accounting for pensions. Direct payments made by a paying entity (state of Texas) on behalf of an employer entity (school district) to a third-party recipient (TRS) which relate to fringe benefits or salaries (“on-behalf payments”) must be recognized as revenues and expenditures/expenses by the employer entity (school district). As a result, payments (contributions) made by the state to TRS on behalf of a school district must be recorded as revenues and expenditures/expenses of the school district.

School districts may also provide pension benefits to employees through locally funded pension plans. Such pension plans should be accounted for in a Pension Trust Fund.

At the end of each fiscal year, the school district or ESC should determine the amount of state contributions that were made to TRS on behalf of its employees. The following entry is to be made:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures/Expenses - Teacher Retirement/ TRS Care - On-Behalf Payments		
XXX-XX-6144-00-XXX-Y-XX-0-00	\$X,XXX	
Revenues - Teacher Retirement/ TRS Care - On-Behalf Payments		
XXX-XX-5831-00-XXX-Y-XX-0-00		\$X,XXX



See additional information in the On-Behalf Payment Calculation and Accounting Methodology section

### ***Post employment Benefits Other Than Pensions***

Post employment benefits other than pensions (OPEB) are benefits provided to plan participants (including beneficiaries and covered dependents) through an arrangement that is separate from a plan established to provide retirement income. GASB Statement No. 45 provides guidance to governmental entities regarding accounting and disclosure related to OPEB. OPEB can include health care benefits provided through a pension plan. In general OPEB include:

- Health care benefits
  
- Life insurance
  
- Disability income
  
- Tuition assistance
  
- Legal services

Benefits such as those described above which are provided by or through a pension plan are not considered OPEB except in the case of health care benefits.

GASB Statement No. 45 indicates that school districts may set aside assets on an actuarially determined basis to pay future benefits as they become due. However, accumulating assets to pay benefits is not required under the statement. The guidance included herein applies regardless of the form, means or timing of the financing of OPEB.

- Under GASB 45, all employers must describe each defined benefit OPEB plan in which they participate and their funding policy. There are additional disclosures which vary depending on whether the employer is a sole and agent defined benefit employer vs. a cost-sharing employer.

If a school district chooses to advance-fund post employment health care benefits, then different disclosure requirements apply. These requirements are contained in the Pension section above.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, superseded GASB Statement No. 12. Since most districts don't offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance to be provided by the Comptroller (see [Postemployment Benefit Reporting Under the Statutory Accounting Standard](#)). Please refer to the Comptroller's OPEB website for additional guidance.

### ***Medicare Part D Payments***

Payments that the Teacher Retirement System of Texas receives from the federal government pursuant to the retiree drug subsidy (RDS) provisions of Medicare Part D, as established in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 should be recorded as on-behalf payments in the same manner as pension payments discussed previously. The school district should use the same account numbers as the on-behalf payments for pensions.

### ***Termination Benefits***

[TEC 22.007](#), effective September 1, 2005, states that a district may not offer or provide a financial or other incentive to an employee of a district to encourage the employee to retire from the Teacher Retirement System of Texas.

There are two classifications of termination benefits:

- Voluntary termination benefits – paid to employees as an inducement to terminate employment.
- Involuntary termination benefits – paid to employees as a result of layoff, dismissal, or other action.

GASB Statement No. 47, *Accounting for Termination*, is applicable to school districts. There are also other considerations if the termination benefits are healthcare-related.

The primary emphasis of governmental fund types is on the flow of financial resources with expenditures recognized on the modified accrual basis. The amount of the expenditure for termination benefits is that amount accrued during the year that will be paid with expendable available financial resources. The school district should disclose in the financial statement notes: a description of the termination benefits in each year, and in the year the school district becomes obligated for termination benefits: the cost of the termination benefits if not on the face of the financial statements and (rare for school districts) the change in the actuarial accrued liability for defined benefit pension plans and OPEB plans related to the termination benefits.

### 1.2.5.3 Arbitrage Rebate Liabilities

The Arbitrage Rebate on Tax-Exempt Bonds section of the Resource Guide contains a discussion of the rules related to the arbitrage rebate on tax-exempt bonds. That section also contains a brief discussion of the method of calculating the arbitrage rebate.

Each year a school district should calculate the amount of its arbitrage rebate liability for the government-wide financial statements. This liability should be recorded in the fund receiving the proceeds of the debt issuance, the fund which will ultimately pay the rebate.

It is possible that some bond issuances may have an arbitrage rebate receivable. This receivable *cannot* be netted against liabilities associated with other issuances. However, the receivable in one year for a particular issuance may be netted against liabilities from prior years for a particular issuance.

Exhibit 7 below includes an illustration of recording arbitrage rebate liabilities.

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#### Exhibit 7. Recording Arbitrage Rebate Liabilities

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	<b>1993 Receivable (Liability)</b>	<b>1994 (Increase) Decrease in Liability</b>	<b>1994 Receivable (Liability)</b>
<b><u>Bond Issuance</u></b>			
School Building			

Unlimited Tax Bonds, Series 1989	\$(250,000)	\$(45,000)	\$(295,000)
School Building Unlimited Tax Bonds, Series 1991	50,000	10,000	60,000
Unlimited Tax Refunding Bonds, Series 1993	(100,000)	15,000	(85,000)
Amount Recorded in Financial Statements as Arbitrage Liability	\$(300,000)		\$(320,000)

Record \$20,000 of potential arbitrage rebate liabilities (government-wide statements only).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense		
599-71-6529-00-000-Y-00-0-00	\$20,000	
Other Long-Term Debt Liabilities		
599-00-2590-00-000-Y-00-0-00		\$20,000

### 1.2.5.4 Accrued Expenses

In certain instances, a school district may incur an expenditure/expense that is not related to goods or services received from a third party vendor but not pay for it until the next fiscal year. If the liability will be liquidated with expendable available resources, it is considered an accrued expense. Some examples are:

- Interest payable
- Salaries payable
- Accrued expenses

Accrued expenses are liabilities that the school district has incurred that do not readily fit into another category.

### 1.2.5.5 Due to/from Other Funds

As each fund is a separate self balancing set of accounts, transactions between funds should be recorded properly in each fund affected. Due to/from balances generally arise from interfund loans or interfund service provided and used transactions between funds. For instance, one fund may make an advance to another fund, or one fund may provide services to another and those services are not paid for at the time they are provided. Depending on when the fund that purchased the services will pay for them, due to other funds balances may be either current or long-term liabilities. If they are treated as long-term, the advancing fund should reserve fund balance for the noncurrent portion.

In those situations where two funds have both due to and due from transactions with each other, a separate account for each should be maintained. However they may be netted for financial reporting purposes. Current and noncurrent due to/from balances may be combined for financial reporting purposes. An example of this reporting is illustrated below:

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#### Exhibit 8. Accounting Record Balances

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<b><u>General Fund</u></b>		
Due from Capital Projects Fund	\$200,000	<b>A</b>
Due to Capital Projects	300,000	<b>B</b>
<b><u>Capital Projects Fund</u></b>		
Due from General Fund	\$300,000	<b>C</b>
Due to General Fund	200,000	<b>D</b>

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**Exhibit 9. Financial Statement Balances**


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<b><u>General Fund</u></b>		
Due to Capital Projects	\$100,000	<b>B – A</b>
<b><u>Capital Projects Fund</u></b>		
Due from General Fund	100,000	<b>C – D</b>

### 1.2.5.6 Due to Student Groups

Due to student groups balances are recorded in an agency fund as the school district is the custodian of monies that belong to various student groups within the school district.

### 1.2.5.7 Contractor Withholding

The Tax Increase Prevention and Reconciliation Act of 2005 required that payments by governmental entities for goods or services after December 31, 2010 are subject to 3% income tax withholding, with some exceptions. The American Recovery and Reinvestment Act of 2009 (ARRA) delays the new withholding requirement for one year, to payments made after December 31, 2011.

For more information, refer to the IRS website under [Tax Information for Federal, State, and Local Governments](#). See also [Implementation of Contractor Withholding Delayed One Year](#).

## 1.2.6 Debt

Governments borrow money on a short-term basis either to meet seasonal cash needs or in anticipation of long-term borrowing at later dates. School districts usually borrow money

on a long-term basis to finance capital asset construction or infrastructure improvements. Borrowings may also occur for other needs such as the initial funding of a risk-retention program, the payment of a claim or judgment or the financing of an accumulated operating deficit.

Short-term debt obligations and long-term debt obligations are defined as follows:

- Short-term obligations are any loan, negotiable note, time-bearing warrant or lease whose duration is 12 months or less, regardless of whether or not it extends across more than one fiscal year. The measurement focus for governmental funds is the flow of current financial resources. When a school district issues short-term debt that is to be repaid from governmental funds, the liability is recorded in the balance sheet of the fund responsible for the repayment of the debt. This liability is not recorded as current or long-term since the balance sheet of a governmental fund is unclassified. However, the mere presentation of the liability on the balance sheet of a governmental fund implies that the debt is current and will require the use of current expendable financial resources.
- Long-term obligations are any loan, negotiable note, time-bearing warrant, bond or lease whose duration is more than 12 months. Noncurrent obligations of a school district that will be repaid from revenues generated by proprietary funds should be recorded in the related proprietary fund while noncurrent obligations issued to be repaid from governmental funds should not be reported as liabilities in governmental funds but should be reported only in the governmental activities column in the government-wide statement of net assets.

This section concentrates on long term debt presentation in different types of funds and the accounting requirements and disclosures. It is organized as follows:

- Recording of long term liabilities in different types of funds
- Types of debt instruments
- Extinguishment of debt
- Other disclosure requirements

### **1.2.6.1 Recording of Long Term Debt in Different Types of Funds**

The accounting for debt related transactions differs when the debt is related to a proprietary type and trust fund or a governmental type fund or a private-purpose trust fund.

#### ***Long-Term Liabilities in Proprietary Funds and Trust Funds***

GASB Codification Section 1500.102 states:

Bond, notes and other long-term liabilities directly related to and expected to be repaid from proprietary funds and fiduciary funds should be included in the accounts of such funds. These are specific fund liabilities, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid. Such liabilities may constitute a mortgage or lien on specific fund properties or receivables.

The proceeds of the debt will thus be recorded as an increase in cash and long-term debt accounts and there is no effect on the income statement. If the debt was issued at a discount, the discount amount will be recorded as a reduction from the face value of the debt and will be amortized using the straight line method or the interest method over the term of the debt. All debt issue cost will be recorded as an intangible asset and amortized using the straight line method or interest method over the term of the debt. Currently, there are no specific accounting pronouncements issued by GASB that address the accounting and reporting of debt transactions in a proprietary fund other than GASB Statement No. 23, “Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,” discussed later in this section. Therefore, generally accepted accounting principles for commercial enterprises should be followed when accounting for debt transactions in proprietary and similar trust funds.

#### ***Long Term Liabilities in Governmental Funds***

A clear distinction should be made between fund long-term liabilities and general long-term debt. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net assets and in the government-wide statement of net assets. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets. All other unmatured general long-term liabilities of the school district should not be reported as liabilities in governmental funds but should be reported in the



governmental activities column of the government-wide statement of net assets. The following guidance is included in GASB Codification Section 1500.104:

The general long-term debt of a state or local government is secured by the general credit and revenue-raising powers of the government rather than by the assets acquired or specific fund resources. Further, just as general capital assets do not represent financial resources available for appropriation and expenditure, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources. To include it as a governmental fund liability would be misleading and dysfunctional to the current period management control (for example, budgeting) and accountability functions.

When debt is issued, the proceeds from the issuance are recorded in the fund that is authorized to receive the funds, and the debt balance will be recorded in the General Long-Term Debt Fund (GLTDF) with an offset to Amounts to be Provided for Payment of Long-Term Debt. The face amount of long-term debt should be reported as other financing sources. Issuance premium or discount should be reported as other financing sources or uses along with certain payment to escrow agents for bond refundings. Underwriter fees, attorney fees, rating agency fees, bond insurance, and other issue costs should be reported as expenditures. If legally mandated and/or if financial resources are being accumulated for principal and interest payments maturing in future years, the resources that will be used to service the long-term debt are accumulated in a Debt Service Fund. When interest payments and principal repayments are required to be made from a Debt Service Fund, these expenditures are recorded in that fund. Otherwise, the payments are recorded as expenditures of the General Fund (e.g., lease/purchase payments).

### ***Approvals Required for Debt Issuances***

A school district should consult with qualified legal counsel before entering into any contract that obligates the school district's tax revenues. Taxes levied for debt service pursuant to a bond and tax election held under the authority of [Section 45.003](#) of the Texas Education Code (TEC) may not be used or dedicated to retire contractual obligations incurred under the Texas Public Property Finance (TPPF) Act (Chapter 271, [Local Government Code](#)). The Provisions of the TPPF Act and Chapter 271.004 allow for the acquisition of personal property and the lease purchase of real property. Government Code §1204.006 establishes the interest rate for all legislation related to loans identified in the Texas Education Code.

See Exhibit 10 for a matrix of the applicable TEC section, required board of trustees and voter approval.

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**Exhibit 10. Matrix of Debt Transactions**


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	<b>Code Section</b>	<b>Board Approval</b>	<b>Voter Approval</b>
General Obligation Bonds	TEC 45.003	X	X
Revenue Bonds	TEC 45.032	X	
Refunding/Advance Refunding Bonds	TEC 45.004	X	
Tax Anticipation Notes	TEC 45.108	X	
Loans Secured by Delinquent Taxes	TEC 45.104	X	
Loans	TEC 45.103	X	
School Bus Purchases	TEC 34.005	X	
School Bus Lease-Purchase	TEC 34.009	X	
Asbestos/Environmental	TEC 45.108	X	
Personal Property Contractual Obligations	Texas Local Government Code Sec. 271	X	

Note: X = Required

### 1.2.6.2 Types of Debt Instruments

Debt transactions have different characteristics, terms, legal authority, etc. A summary description of the types of debt follows.

## **Bonds**

The types of bonds that school districts may issue as outlined in the TEC are:

- *General obligation bonds* which are negotiable coupon bonds for the construction, acquisition and equipping of school buildings; the acquisition of land; energy conservation measures; refinancing of property financed under a contract entered under Subchapter A, Chapter 271, [Local Government Code](#) that pledge the full faith and credit of the school district; and the purchase of new school buses. Such bonds may be issued in various series or issues with a maturity not to exceed 40 years (TEC 45.003). General obligation bonds are usually either term bonds or serial bonds.
  - Term bonds mature, in total, on one date
  - Serial bonds principal is repaid in periodic installments over the life of the issue
- *Revenue bonds* are generally issued to acquire, purchase, construct and improve or equip athletic or recreational facilities. Bonds may be issued serially not to exceed 50 years. Such bonds are to be paid with revenues generated by the facilities or the activities supporting the facilities. (TEC 45.032)
- *Advance refunding bonds* provide funds to make interest payments on outstanding bonds and to retire the principal of outstanding bonds as it becomes due or at an earlier call date. An advance refunding occurs before the maturity or call date of the outstanding debt. Proceeds are deposited in escrow with a trustee and are used to pay the principal of any bond at maturity or call date, pay interest on bonds being refunded, or to pay interest on the advance refunding bonds. (TEC 45.004)

When debt is defeased, the original debtor is released from being the primary obligor of the debt. Certain disclosures are required upon defeasance of debt. GASB Codification Section D20.111 requires that a general description of the transaction should be provided in the notes to the financial statements in the year of refunding and the disclosure should include at a minimum the following:

- The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding

- The economic gain or loss resulting from the transaction
  
- *Refunding bonds* are issued to retire outstanding bonds. Proceeds may be used to redeem outstanding bonds or the refunding bond may be exchanged for the outstanding bonds. (TEC 45.004)
  
- *Credit Agreements* are issued to retire outstanding bonds. The district may issue debt authorized under Chapter 1371, Government Code. (TEC 45.0011)
  
- *Capital appreciation bonds* are deep-discount or zero coupon bonds with no cash interest payments. The maturity amount is usually \$5,000; while the original principal amount is substantially lower. The interest normally compounds semi-annually, and discounts/premiums can occur on issuance. The compounded interest is accreted annually for the government-wide financial statements and reported separately as part of the GASB Data Feed for School First purposes. According to Q&A 7.22.9 of the GASB Comprehensive Implementation Guide for June 30, 2009, the accreted interest would be included in *unrestricted net assets* rather than *invested in capital assets net of related debt* unless it's accumulated in a sinking fund. The amount of proceeds or face amount is what was borrowed, for purposes of reporting Other Financing Sources.

### ***Other Types of Debt***

The other forms of school district debt discussed below should be recorded in the GLTDF if they meet the requirements outlined earlier in the discussion of the GLTDF, or in the related proprietary or similar fiduciary fund if they relate to proprietary or similar fiduciary fund activities:

- *Tax anticipation notes and other notes* which are issued for the purpose of paying current maintenance expenses, and for certain types of real property financing. At no time will the note balance exceed 75% of the previous year's income. Such notes shall be payable from any legally available funds of the school district. Many times these notes are used to pay current expenses before tax revenues are received. (TEC 45.108)

Note: See sample entries used to account for tax anticipation notes at Appendix 7, "Accounting for Debt Transactions," Illustration #1.

- *Loans secured by delinquent tax collections levied in or for past, current and future years* may be used for any legal maintenance expenditure or purpose, and for certain

types of real property financing. Negotiable notes issued under subsection 45.104 must mature not more than 20 years from the date of issuance. (TEC 45.104)

- Interest-bearing time warrants used to fund loans may be used for any legitimate school purpose, and for certain types of real property financing. Such loans are not to exceed 5 years or \$500,000. (TEC 45.103)
- *School bus loans* shall not exceed five years and can be used to purchase any approved school bus or motor vehicle. (TEC 34.005)

Note: See sample entries for long-term notes, warrants and loans in Appendix 7, "Accounting for Debt Transactions."

- *Lease or lease-purchase buses.* School districts may lease or lease-purchase school buses. A lease contract may not be for fewer than 2 years or more than 10 years (TEC 34.009). A school district should ensure that it distinguishes between capital and operating leases.
- *Environmental/asbestos cleanup (abatement) and building system notes.* [Section 45.108](#) of the Texas Education Code allows school districts to borrow money for the purpose of building systems, and asbestos and environmental cleanup and to evidence the loans with negotiable notes. All notes issued pursuant to environmental/asbestos cleanup and removal programs may be issued to mature in not more than 20 years from the date of issuance.
- *Personal property contractual obligations.* Section 271 of the [Local Government Code](#) allows school districts to issue contractual obligations for the acquisition of personal property. Section 271 also allows real property or improvements to real property to be financed with personal property contractual obligations and through lease-purchase agreements. Real property is generally defined as land and permanent attachments thereto. The contract may be in the form of a lease, a lease-purchase or purchase of personal property. Contractual obligations greater than \$100,000 *may* be submitted to the attorney general of the state of Texas and *must* be submitted to the board of trustees. The terms of the contract may not exceed 25 years. The attorney general *must* approve the contracts under certain circumstances (see applicable provisions in the Texas constitution and other laws).
- *Leases.* A lease is an agreement between two parties that conveys the use of property for a specified period of time. An important issue in the accounting for leases is the

identification whether the lease should be treated as a purchase by the lessee and sales by the lessor. Leases that are identified as a purchase-sale transaction are referred to as *capital leases*, and those that are not are referred to as *operating leases*.

- *Operating Lease* - In an operating lease there is no equity accumulation by the lessee (the school district) and no ownership transfer. This type of lease is not considered to be debt. Thus, neither an asset nor a liability is recorded at the inception of the lease. Payments are treated as expenditures or expenses in the same manner as rent. FASB ASC 840-20, Operating Leases, should be used as a guideline for accounting and financial reporting of operating lease agreements except for operating leases with scheduled rent increases which should be accounted for using the guidelines of GASB Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases". Scheduled rent increases are those increases that are fixed by contract, take place with passage of time and are not contingent on future events.
  - School districts that account for operating leases with scheduled rent increases in governmental type funds should recognize the rental revenue or expenditure each period using the modified accrual basis of accounting (i.e. using the measurable and available criteria).
  - School districts that account for operating leases with scheduled rent increases in government-wide, proprietary and similar fiduciary type funds should recognize the rental revenue or expense either by measuring the transaction on a straight line basis over the life of the lease or by measuring the transaction based on the estimated fair value of the rental payment (i.e., interest should be calculated for each period so that it results in a constant interest rate over the lease term).
- *Capital Leases* - Some lease agreements are worded in such a way that an asset and a liability need to be recorded. The determination whether a lease is capital or operating is in GAAP literature and usually one of the following conditions is satisfied:
  - The ownership of the property transfers to the lessee at the end of the lease term
  - The lease contains a bargain purchase option
  - The lease term is equal to 75% or more of the estimated useful life of the leased property
  - At the inception of the lease, the present value of the minimum lease payments is equal to 90% or more of the fair value of the leased property

When a lease satisfies one of the above criteria, an asset and a liability is recorded. If the lease relates to a governmental type fund, the asset will be recorded in the GCAF and the liability will be recorded in the GLTDF. The initial recorded value of the asset should be determined as the lesser of fair market value of the leased property or the present value of the minimum leased payments.

Note: See Appendix 7, "Accounting for Debt Transactions," Illustration #3 for sample entries relating to capital lease transactions. Also, see Appendix 7, "Accounting for Capital Leases Repaid with Federal Funds."

- *Lease Disclosure Requirements* - For non-cancelable operating leases, the following information should be disclosed in the annual financial and compliance report:
  - Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the next five succeeding fiscal years
  - The total of minimum rentals to be received in the future under non-cancelable subleases as of the date of the latest balance sheet presented
  - Amount of rental expenditure for each operating statement presented
  - Separate identification of minimum rentals, contingent rentals, and sublease rentals
  - Capital lease transactions will be included in the long term debt disclosure discussed later in this section

For *capital leases*, GASB Codification Section L20 requires state and local governments to observe the standards established by FASB ASC 840-30, Capital Leases. This statement requires the following disclosures:

- The gross amount of assets purchased under capital leases presented by major classes according to nature or function
- Future minimum lease payments for each of the five succeeding fiscal years and in five-year increments thereafter
- The total of minimum sublease rentals to be received in the future under noncancelable subleases
- Total contingent rentals actually incurred for each period for which an operating statement is presented

Assets recorded under capital leases and the related depreciation should be separately identified in the GCAF.

Because general capital assets do not represent current financial resources available for appropriation and expenditure, the property rights capitalized should not be reported in a government fund but should be reported in the entity's government-wide financial statements.

GASB 38 (Certain Financial Statement Note Disclosures) requires that a governmental entity disclose the future minimum payments for each of the five years following the date of the balance sheet and in five-year increments thereafter through the end of the lease payments for capital and noncancelable operating leases. The disclosure must identify the principal and interest components of the lease payments.

### **1.2.6.3 Debt Refundings**

Refundings occur when new debt is issued and the proceeds are used to pay existing ("old") debt. The most common method of debt refunding in school districts is to advance refund the debt.

#### ***Current Refunding***

In a current refunding, the new debt proceeds are used to repay the old debt immediately.

#### ***Advance Refunding***

In an advance refunding transaction, new debt is issued to provide monies to pay principal and interest on old, outstanding debt as it becomes due, or at an earlier call date. An advance refunding occurs before the maturity or call date of the old debt, and the proceeds of the new debt are invested until the maturity or call date of the old debt. Debt may be advance refunded for a variety of reasons, including to:

- Take advantage of lower interest rates
- Extend maturity dates



- Revise payment schedules
- Remove or modify restrictions contained in the old debt agreements

Some advance refundings are intended to achieve short-term budgetary savings by extending debt service requirements further into the future. In these cases, depending on interest rates and the length of the extension, total debt service requirements over the life of the new debt may be more or less than total service requirements over the life of the existing debt. Advance refundings undertaken for other reasons, such as to remove undesirable covenants of the old debt, may also result in higher or lower total debt service requirements. It may be necessary in an advance refunding to issue new debt in an amount greater than the old debt. In these cases, savings may still result if the total new debt service requirements (interest and principal payment) are less than the old debt service requirements. Most advance refundings result in defeasance of debt.

### ***Debt Defeasance***

Defeasance of debt can be either legal or in-substance. A legal defeasance occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. An in-substance defeasance occurs when debt is considered defeased for accounting and financial reporting purposes, as discussed below, even though a *legal* defeasance has not occurred. When debt is defeased, it is no longer reported as a liability on the face of the balance sheet; only the new debt, if any, is reported as a liability.

### ***In-Substance Defeasance***

Debt is considered defeased in-substance for accounting and financial reporting purposes if the school district irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. The trust that is created should be restricted to owning monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal. For debt denominated in US dollars, essentially risk-free monetary assets are limited to:

- Direct obligations of the US government (including state and local government securities that the US Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue

Service arbitrage limits). See Arbitrage Rebate on Tax-Exempt Debt section in this module for discussions of federal regulations

- Obligations guaranteed by the US government
- Securities backed by US government obligations as collateral, and for which interest and principal payments on the collateral generally flow immediately through to the security holder

These securities should generate cash flows that approximate the debt service requirements of the original debt. Therefore, cash must be available from the trust to pay interest and make principal repayments of the defeased debt as they become due. The cash flows must also be sufficient to meet trustee fees and similar administrative expenditures to be paid directly by the school district.

- *Disclosures* – The following information should be disclosed in the notes to the financial statements of the annual financial and compliance report as long as the debt is legally outstanding:
  - The amount of the debt considered to be retired based on an in-substance defeasance transaction, and
  - A general description of the in-substance defeasance transaction.

### ***Accounting for and Reporting of Debt Refundings***

The accounting and reporting of debt refundings depends on whether the transaction relates to a *governmental fund* or a *proprietary fund*. Specific terms are used in the accounting and reporting of debt refundings and these are defined.

- *Governmental Funds* - GASB Codification Section D20 establishes both accounting standards and disclosure standards for the advance and current refundings of debt that results in defeasance of debt reported as general long-term debt. The accounting standards apply to governmental funds whose measurement focus is the flow of current financial resources. Funds included in this category are the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds. An advance refunding of debt would be recorded in one of these funds and the related debt (both the new debt and the old debt) would be accounted for in the GLTDF.

When debt reported in a school district's GLTDF is defeased through an advance refunding (including an in-substance defeasance):

- The face amount of the new debt should be recorded as “other financing source - proceeds of issuance of debt” in the governmental fund that receives the proceeds from the issuance of the new debt
- The newly issued debt should also be recorded as a liability in the GLTDF
- The payments made to the escrow agent to defease the old debt from the proceeds of the newly issued debt should be recorded as “Other Financing Use - Payment To Refunded Debt Escrow Agent”
- The defeased debt should be removed from the GLTDF

Regardless of whether the defeased debt is presented in the GLTDF or as a liability of a proprietary fund, the following disclosures for advance refundings resulting in defeasance of debt should be presented in the annual financial and compliance report:

- A note to the financial statements should provide a general description of an advance refunding that results in debt defeasance
- The note should also include the difference between the cash flow requirements necessary to service the old debt over its life and the cash flow requirements necessary to service the new debt and other payments necessary to complete the advance refunding
- The economic gain or loss that resulted because of the advance refunding
- The amount outstanding at period end of any debt defeased in-substance

In addition to the above disclosures, the school district may elect to disclose the amounts of the old and new debt, additional amounts paid to the escrow agent, and management’s explanation for an advance refunding that results in an economic loss.

- *Proprietary and similar trust funds - GASB Statement No. 23 Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* establishes both accounting standards and disclosure standards for current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities.

This statement requires that the difference between the reacquisition price (new debt) and the net book value of the old debt be deferred. The deferred amount is presented on the proprietary fund's balance sheet as a decrease (contra-liability) or increase (valuation account) to the book value of the debt and the amount should be amortized over the original remaining life of the old debt or the life of the new debt, whichever is less.

All the advance refunding disclosures required by GASB Codification Section D20 (including cash flow differential and economic gain or loss) also should be made for current refundings as well as advance refundings reported by proprietary activities (disclosures listed in previous section)

When new debt is issued in an amount that exceeds the amount needed to defease the old debt, only the portion of the new debt needed to defease the old debt should be included as cash flow requirements related to the new debt.

- *Definitions* - Terms used in accounting and reporting of debt are:
  - *Cash flow requirements of old debt* represent the sum of all future interest and principal payments that would have to be paid by the school district if the debt remained outstanding until its maturity date.
  - *Cash flow requirements of the new debt* are the sum of all future interest and principal payments that will have to be made to service the new debt in the future, and other payments that are made from the school district's current resources rather than from proceeds from the issuance of the new debt. Any proceeds from the issuance of the new debt that represent accrued interest (when the bonds are sold between payment dates) should not be included as cash flow requirements related to the new debt.
  - *Economic gain or loss* represents the difference between the present value of cash flow requirements of the old debt and the present value of cash flow requirements of the new debt.
  - *Debt issuance costs* represent all costs incurred to issue the bonds, such as insurance costs, financing costs (rating agency fees, etc.) and other related costs such as printing, legal, administrative, and trustee expenses. When issuance costs are considered allowable costs by the US Treasury Department and they are recovered through the escrow fund, the result is that such costs are not an actual cost to the school district. These are referred to as recoverable costs and are not used to compute the interest or discount rate used to determine the present value of the cash flow requirements related to the old debt and new debt. Under current

generally accepted accounting principles, issuance costs should be recorded as a separate expenditure.

#### 1.2.6.4 Other Disclosure Requirements

In addition to the specific disclosures required for operating and capital lease transactions, and debt refundings and defeasances discussed in details in other sections of this module, other disclosure requirements (in summary) are:

- A schedule of details of bonds payable should be prepared that discloses a description of **each** outstanding debt issued, the type of debt, the interest rate, the outstanding principal amount beginning of fiscal year, new issues or retirements, and the outstanding principal amount at the end of the fiscal year. For variable rate debt, the terms of interest rate changes should be disclosed.
- Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.
- For financial reporting purposes only, principal, interest and bond issuance costs and fees are broken down further by Data Control Codes. Refer to the Sample Annual Financial and Compliance Report in Appendix 10 as well as the GASB Audit Data Feed instructions located in the Electronic Report Submission section of the [Financial Audits website](#).

### 1.2.7 Risk Financing and Related Insurance Issues

School districts encounter essentially the same accounting and reporting issues as commercial entities that *provide* [insurance](#) coverage (insurer) and that *purchase* [insurance](#) coverage (insured). GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, was issued to provide guidance for governmental entities that assume the role of the insurer and the role of the insured. GASB Statement No. 10 establishes accounting and financial reporting standards for risk financing and insurance related activities including public entity risk pools. However, please refer to GASB Statement No. 30, *Risk Financing Omnibus* -- for public entity risk pools, the statement modifies the method for calculating a premium deficiency, requires recognition

of a premium deficiency liability, and requires note disclosures. For entities other than pools, it affects calculation of the liability for unpaid claims. The types of risks addressed in GASB Statement No. 10 are:

- Torts (a wrongful act, injury, or damage, not involving a breach of contract, for which a civil action can be brought)
- Theft of, damage to, or destruction of assets
- Business interruption
- Errors and omissions (such as the publication of incorrect data or the failure to disclose required information)
- Job-related illnesses or injuries to employees
- Acts of God (an event beyond human origin or control - natural disasters such as lightning, windstorms, and earthquakes)
- Losses resulting from providing accident, health, dental, and other medical benefits to employees and retirees and their dependents and beneficiaries (but excluding all post employment benefits and termination benefits)

GASB Statement No. 10 defines risk management and financing as the process of managing an organization's activities to minimize the adverse effects of certain types of losses. The main elements of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses). Risk financing techniques include:

- *Risk retention* or self-[insurance](#)
- *Risk transfer to and from an insurer* (either a commercial insurance company or a public entity risk pool)
- *Risk transfer to a non insurer*

The accounting and financial reporting of accounting for events of risks of loss are contingent on the method the school district utilizes to finance its risk.

### 1.2.7.1 Accounting for Self-Insurance, Contingencies, Claims and Judgments

The accounting and reporting treatment of self-insurance programs by school districts also applies to the accounting and financial reporting for contingencies including litigation. Specifically, these applications are for:

- Self-insurance programs
- Litigation
- Claims and judgments

A self [insurance](#) situation occurs when a school district does not transfer the risk of loss to a third party. In such situations, the accounting for liabilities resulting from self insurance is the same as the accounting for claims and judgments. An accrual for a claim (insurance or other type) should be recognized if the following two conditions exist:

- It is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements (probable means the future event is likely to occur)
- The loss can be reasonably estimated

If a future loss does not satisfy the above criteria, the loss should be evaluated to determine whether it should be disclosed in the school district's notes to the financial statements. A loss that satisfies *one* of the following criteria should be disclosed:

- The loss is probable but an estimate of the amount or range of the loss cannot be made
- The loss is reasonably possible (reasonably possible means that the chance of the loss occurring is more than remote but less than likely, remote means slight)

If a disclosure is required, the *nature* and the *estimated amount* or range of the loss should be disclosed. If the school district is not able to estimate the amount or range of the loss, the footnote disclosure should state this fact.

In most instances, school districts will have some form of comprehensive or catastrophic coverage associated with health, dental, fire, general liability or [worker's compensation insurance](#). In such instances, these accounting and reporting requirements apply to the uninsured portion of the liability.

### ***Incurred But Not Reported***

In addition to situations discussed above, a school district should evaluate situations where incurred but not reported (IBNR) losses occur. Common types of IBNR losses are worker's compensation and medical claims. IBNR is related to an event that could lead to the occurrence of a loss before the date of the financial statements, but no claim has been asserted at the date of the financial statements.

If the school district concludes that an IBNR will be asserted by another party, the loss should be accrued if a reasonable estimate of the loss can be made. The amount of the accrual should be based on past experience of settling claims and total cost for settling a claim including provisions for inflation. This accrual can be based on a case-by-case review or on overall historical experience. In some instances if the computation is complicated, an actuary may be needed to determine the calculation.

### **1.2.7.2 Accounting of Self-Insurance and Loss Contingencies in Different Types of Funds**

Risk management may be accounted for in one of two funds: General Fund or Internal Service Fund. The considerations for accounting in each of them are:

- *General Fund* - If the school district accounts for its risk management in governmental funds (i.e., General Fund), expenditures are recognized on the modified accrual basis. Accordingly the amount of claims recorded as expenditures in governmental funds will be the amount accrued during the year that would normally be liquidated with expendable available financial resources. Therefore, if a school district expects to pay the liability or a portion of the liability within 60 days from financial statement date, the liability will be recorded in the General Fund. The remainder of the liability should be



reported in the GLTDF. The determination whether a claim or a loss should be recorded should be based on the criteria discussed above.

- *Internal Service Fund* - If the school district uses an Internal Service Fund to account for its risk financing, it may create a separate self [insurance](#) Internal Service Fund to pay claims and judgments of all funds. Because the full faith and credit remains with the school district, risk is not transferred to the separate insurer fund. The Internal Service Fund may use any basis it considers appropriate to charge other funds of the school district, as long as these conditions are met:
  - The total charge by the Internal Service Fund to the other funds for the period is calculated using the criterion above that an asset has been impaired or a liability has been incurred and that the amount can be reasonably estimated.
  - The total charge by the Internal Service Fund to the other funds is based on an actuarial method or historical cost information and adjusted over a reasonable period of time so that Internal Service Fund revenues and expenses are approximately equal.
  - In addition to the above, the total charge by the Internal Service Fund to other funds may also include a reasonable provision for expected future catastrophic losses.

Charges made in accordance with the foregoing provisions should be recognized as revenue by the Internal Service Fund and as expenditures/expenses by the other funds of the school district. Deficits, if any, in the Internal Service Fund resulting from these charges need not be charged back to the other funds in any one year, as long as adjustments are made over a reasonable period of time. However, a deficit fund balance of the Internal Service Fund should be disclosed in the notes to financial statements. Net assets should be reported as equity designated for future catastrophic losses for any charges made to provide for future losses.

### 1.2.7.3 Participation in Public Entity Risk Pools

A public entity risk pool is defined by GASB Statement No. 10 as a cooperative of governmental entities joining together to finance an exposure, liability or risk. Risk may include property and liability, workers' compensation or employee health care. A pool could be a stand-alone entity or could be included as part of a larger governmental entity that acts as pool's sponsor.

Some pool risk arrangements entail a transfer of risk and others do not. GASB Statement No. 10 defines four types of public entity risk pools:

- A *risk sharing pool* is an arrangement by which governments pool risk and share in the cost of losses
- An *insurance purchasing pool* is an arrangement by which governments pool funds or resources to purchase commercial insurance products
- A *banking pool* is an arrangement by which monies are made available for pool members in the event of loss on a loan basis
- A *claim servicing or account pool* is an arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid

#### **1.2.7.4 Participating in a Public Entity Risk Pool without Transfer of Risk**

A school district may participate in a banking pool or a claim servicing or account pool with no transfer of risk. In this situation, the school district should recognize losses as if it were not participating in a public entity risk pool and account for losses using the same criteria discussed above for accounting and financial reporting for self [insurance](#).

When payments are made to a public entity risk pool without transfer of risk, such payments should be accounted for as a reduction of the liability account set up in the Internal Service Fund. If these liabilities were set up in a GLTDF, the liability will be reduced and an expenditure will be recorded in the General Fund. If the payment that was made is intended to be a *deposit* rather than for claims settlement, a deposit (another asset account) should be recorded by the school district.

#### **1.2.7.5 Participating in a Public Entity Risk Pool with Transfer of Risk**

School districts may face two types of situations when participating in a public entity risk pool:

- Premiums paid represent total payments expected
- Supplemental premium assessments are made by the public entity risk pool

The premiums paid by the school district that result in a transfer of risk should be accounted for as expenditures or expenses depending on the fund type. Additional accruals for supplemental premiums will be necessary if the payment of this premium is *probable* and a *reasonable estimate* of the premium assessment could be made. When the assessment does not satisfy these criteria, the school district should disclose a description of the possible supplemental premium assessment and the estimate of the assessment, if available, in the following instances:

- The occurrence of the assessment is probable but a reasonable estimate of the amount could not be made, or
- The likelihood of the assessment is reasonably possible

## 1.2.8 Subsequent Events

To ensure that the financial statements are not misleading, a school district should consider the need to disclose subsequent events, which are events or transactions related to risk management that occur after the date of the balance sheet. Recognized events require adjustments to the financial statements, while nonrecognized events may require disclosure in the notes to the financial statements. Recognized events provide additional information regarding situations that existed at the date of the statement of net assets. Nonrecognized events relate to situations that did not exist at the date of the statement of net assets. Disclosure should be made for material items that have one of the following characteristics:

- The subsequent event resulted in the impairment of an asset or the incurrence of a liability (actual loss, such as damage from a tornado)
- There is a reasonable possibility that a subsequent event resulted in the impairment of an asset or the incurrence of a liability (contingent loss, such as the personal injuries to parties in which it has been alleged that the school district's negligence contributed to the injuries)

If a school district concludes that a subsequent event should be disclosed, the following information should be presented in the disclosure:

- The nature of the actual loss or loss contingency
- An estimate (or range of estimates) of the actual loss or contingent loss (if no estimate can be made, disclose appropriately)

## 1.2.9 Fund Equity

Governmental funds and fiduciary funds equity is reported as *fund balance*; whereas, proprietary fund equity is divided between invested in capital assets, net of related debt; restricted; and unrestricted. Fund balance is the gross difference between governmental fund assets and liabilities reflected on the balance sheet. The fund balance of the General Fund is of primary significance because the General Fund is the primary fund through which most functions are financed and which includes state aid and local maintenance taxes.

Due to differences in interpretation of the fund balance reporting standards, GASB has issued Statement No. 54 to clarify definitions of governmental fund types and the relationship to Statement 34's reporting of restricted net assets for government-wide reporting. Statement 54 is effective for periods beginning after June 15, 2010 which translates to the fiscal year ending in 2011 for Texas school districts. The resource guide has been updated to reflect fund equity reporting for the fiscal years before and after required implementation of GASB 54.

Pre-GASB 54 (Fiscal years ending in 2010 and earlier)

One primary criterion of rating agencies for school bonds is the relative amount of undesignated unreserved fund balance. Bond rating agencies view undesignated unreserved fund balances as a reflection of the financial strength of school districts and show concern when district fund balances decrease.

Governmental funds balances do not always represent cash in the bank available for any expenditures. Accordingly, it is necessary to determine what portions of the gross fund balance pertain to:

- Reserved fund balances

- Designated unreserved fund balances
- Undesignated unreserved fund balances

Proprietary fund net assets (retained earnings) is comprised of (a) invested in capital assets, net of related debt, (b) restricted and (c) unrestricted.

Post-GASB 54 (Fiscal years ending in 2011 and later)

It is assumed that unassigned fund balance will be of interest to rating agencies for school bonds after the implementation of GASB 54. The categories of fund balance under GASB 54 are:

Nonspendable fund balance

Restricted fund balance

Committed fund balance

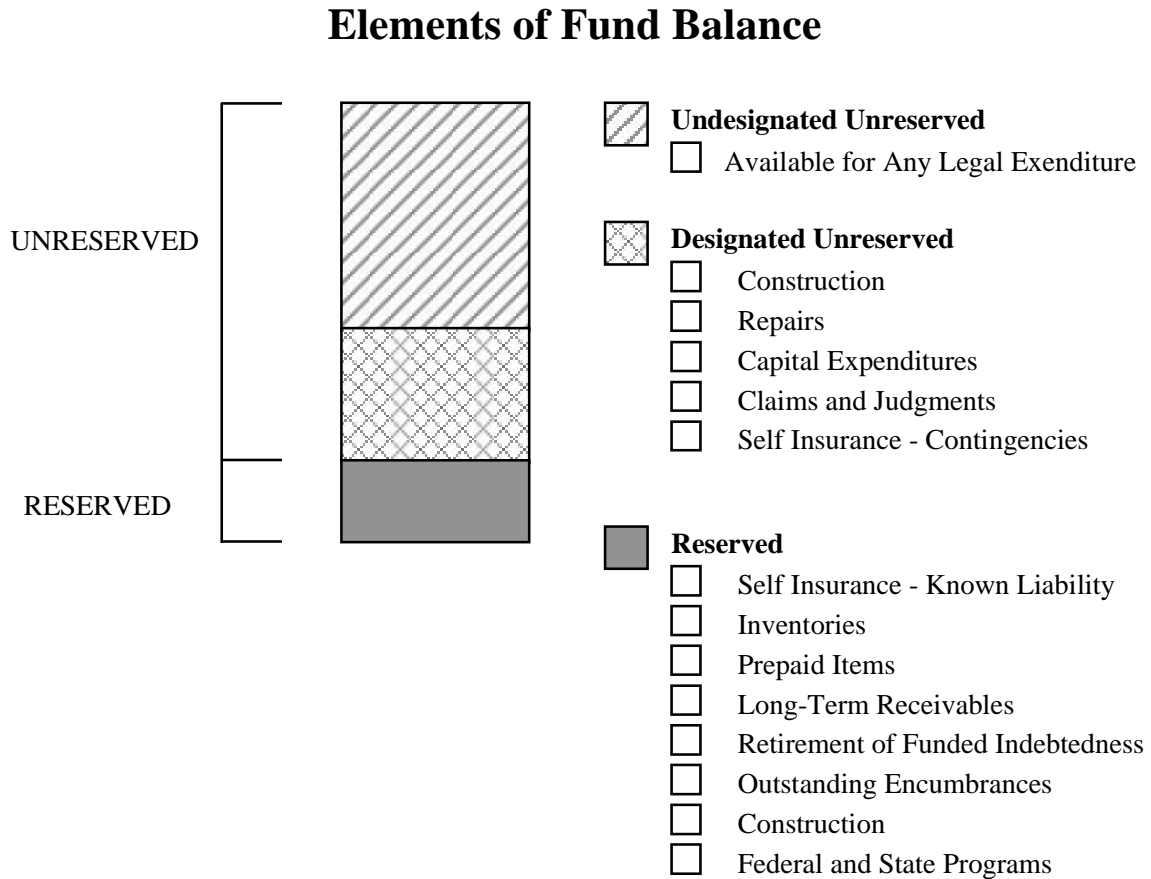
Assigned fund balance

Unassigned fund balance

Proprietary fund net assets (retained earnings) is comprised of (a) invested in capital assets, net of related debt, (b) restricted and (c) unrestricted.

### **1.2.9.1 Fund Equity Pre-GASB 54 (Fiscal years ending in 2010 and earlier)**

The elements of fund balance are shown in Exhibit 11:

**Exhibit 11. Elements of Fund Balance**

Note: The specific categories of designations and reservations indicated above are not all-inclusive.

### ***Reserved Fund Balances***

The term *reserve* should be used in governmental fund financial reporting only to identify the portion of the fund balance that is:

- Not available for appropriation or expenditure (for example, reserve for inventories) and/or
- Legally earmarked for a specific future use - i.e., legal restriction on the use of assets (for example, reserve for encumbrances).

For proprietary funds, reserves relate only to the latter item above. Generally, reserves should represent restrictions imposed by external parties of the school district.

The amount and nature of the reservation of fund balance should be disclosed on the face of the financial statements. The description may need to be supplemented by disclosure in the notes to the financial statements.

Examples of reservations of fund balance are as follows:

- Inventories
- Retirement of bonded indebtedness
- Endowments
- Prepaid items
- Outstanding encumbrances
- Construction
- Federal and state programs

The aggregate fund balance in the debt service fund is legally reserved for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated. The fund balance of the capital projects fund reflects an amount designated for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building and revenue bonds, which primarily have restricted uses.

Valuation accounts, such as the allowance for uncollectible property taxes, should not be referred to in the financial statements as a reserve. Likewise, estimated liabilities or deferred revenues should not be classified as reserves. Amounts that are properly classified as fund balance reserves should be reported as part of the fund balance section of the balance sheet and not placed somewhere between the liability section and the fund balance section.

## ***Unreserved Fund Balances***

The unreserved fund balance is the difference between the total fund balance and the reserved fund balance. The unreserved fund balance is not legally restricted and has two components, designated and undesignated. Generally, the fund balance that has the flexibility for legal appropriation and expenditure for general operating expenditures is that found in the General Fund.

## ***Designated Unreserved Fund Balances***

Portions of the fund balance may be identified, i.e., designated, by management to reflect tentative plans or commitments of governmental resources. *Designations* require board action to earmark fund balance for bona fide purposes that will be fulfilled within a reasonable period of time. These tentative amounts are not the same as fund balance reserves since they represent planned actions, not actual commitments. Such plans may change and never be budgeted or result in expenditures in future periods of time. A fund balance reserve arises from statutory requirements or actions already taken by the LEA. For this reason, designated amounts should not be classified with fund balance reserves but rather should be reported as part of the unreserved fund balance.

The amount and nature of the designated amount should be explained in

- A separate line in the balance sheet,
- A parenthetical comment, or
- A note to the financial statements.

Note: Designations should be reported on the face of the balance sheet only in connection with governmental funds. The term designation is used in risk-financing internal service funds when premiums are collected which include estimates of anticipated future catastrophic losses. However, this designation is included in the notes to the financial statements rather than on the face of the balance sheet.



Designations may be related to items such as:

- Construction
- Claims and judgments
- Capital expenditures
- Self-insurance contingencies

### ***Undesignated Unreserved Fund Balances***

Undesignated unreserved fund balances are the difference between the unreserved fund balance and the designated unreserved fund balance. This portion of the fund balance is usually available to finance monthly operating expenditures. The fund balance having the flexibility for legal appropriation and expenditure for general operating expenditures is that found in the General Fund.

Prudent financial management requires accumulating undesignated unreserved fund balance in the General Fund in an amount that is adequate to cover net cash outflows that occur in virtually all schools during most of the fiscal year. Additionally, users of the financial statements should be careful to distinguish between cash, cash flows and fund equity. Cash is only one of the asset accounts that affect the amount of undesignated unreserved fund balances.

For recommendations regarding fund balance levels, the Government Finance Officers Association (GFOA) has produced 2 papers in 2009:

Appropriate Level of Unrestricted Fund Balance in the General Fund

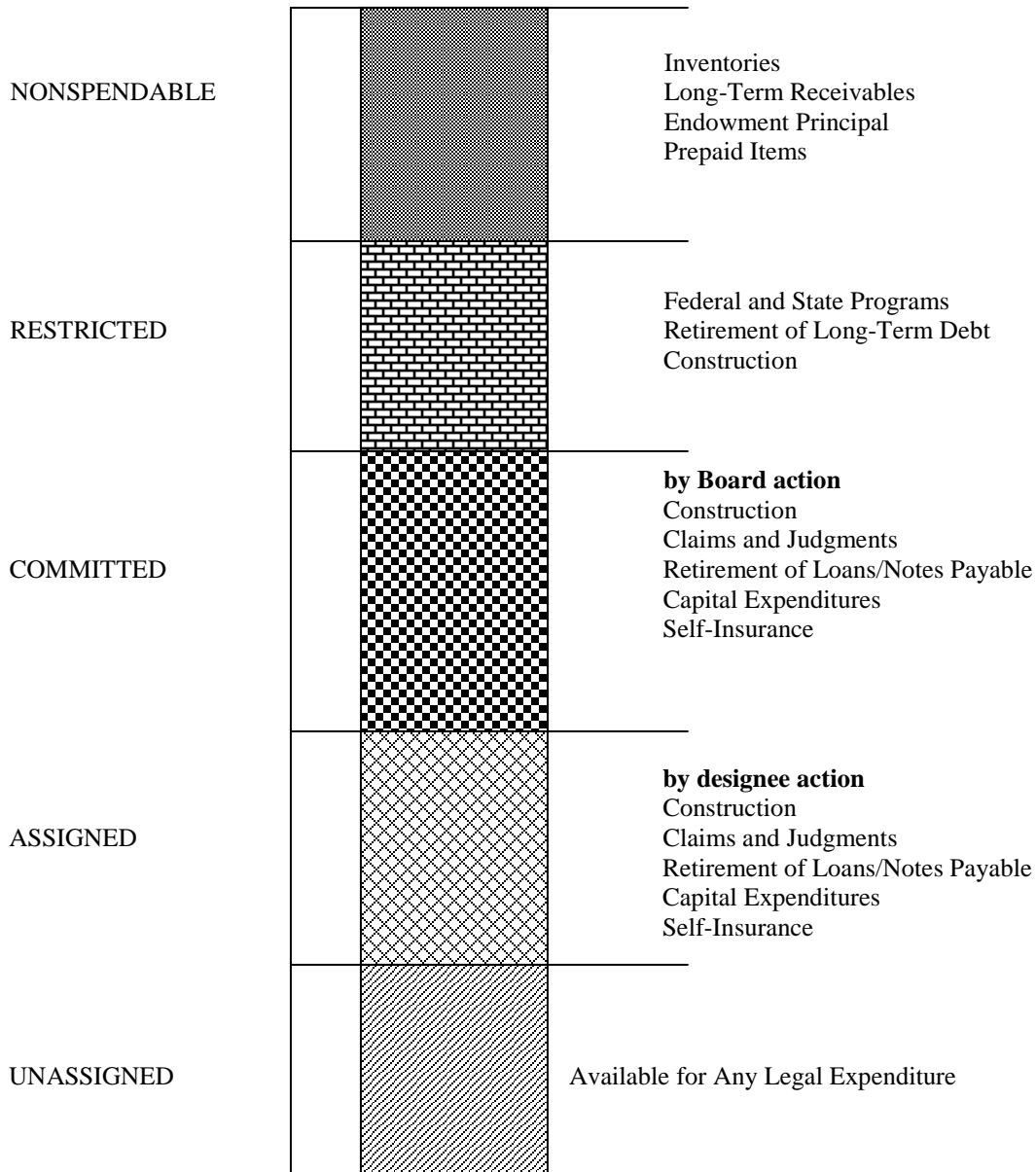
Building a Financially Resilient Government through Long-Term Financial Planning

TEA has set a rule of thumb to compute the optimum fund balance in the General Fund. The rule of thumb calls for the computation of the optimum unreserved undesignated fund balance to equal the estimated amount to cover cash flow deficits in the General Fund for the fall period in the following fiscal year plus estimated average monthly cash disbursements of General Fund for the following fiscal year. (Refer to FAR Appendix 3

for the “Fund Balance and Cash Flow Worksheet” and the “Instructions For Completion of Fund Balance and Cash Flow Worksheet for the General Fund.”)

### 1.2.9.2 Post-GASB 54 (Fiscal years ending in 2011 and later)

**Elements of Fund Balance Post-GASB 54**



Note: The specific categories of designations and reservations indicated above are not all-inclusive.

## ***Nonspendable Fund Balance***

The term *nonspendable* should be used in governmental fund financial reporting only to identify the portion of the fund balance that is:

- Not in spendable form (for example, inventories) or

Legally or required by contract for a specific future use - i.e., legal restriction on the use of assets (for example, permanent fund principal).

The two types of nonspendable fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the two types should be disclosed in the notes to the financial statements.

Examples of nonspendable fund balance are as follows:

- Inventories
- Endowments
- Prepaid items

## ***Restricted Fund Balance***

Restricted fund balance is a result of 2 types of restrictions imposed:

1. Imposed by law
2. Imposed by creditors, grantors, contributors, or other governments' laws or regulations

Restrictions imposed by law through enabling legislation have a legally enforceable requirement for the funds to be spent only as specified by the legislation. There should never be a negative restricted amount in any fund type.

Examples of restricted fund balance are as follows:

- Construction
- Federal and state programs

- Retirement of long-term debt
- Fund balance of consolidated school districts

The aggregate fund balance in the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated. The fund balance of the capital projects fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building bonds, which primarily have restricted uses.

Valuation accounts, such as the allowance for uncollectible property taxes, should not be referred to in the financial statements as a restriction. Likewise, estimated liabilities or deferred revenues should not be classified as restrictions. Amounts that are properly classified as fund balance restrictions should be reported as part of the fund balance section of the balance sheet and not placed somewhere between the liability section and the fund balance section.

The detail of restricted purposes for restricted fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of restricted purposes should be disclosed in the notes to the financial statements.

### ***Committed Fund Balance***

Committed fund balance is a result of school board approval in the minutes (formal action) requiring funds to be used only for specific purposes decided by the school board. Committed amounts cannot be used for another purpose unless the school board formally reverses or changes the specific purpose for the funds by approving in the minutes (the same action taken to commit). These commitments are not considered legally enforceable since they can be reversed by the school board.

Examples of committed fund balance are as follows:

- Construction
- Self-insurance
- Capital expenditures
- Retirements of notes/loans payable
- Claims/judgments

The school board must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year. There should never be a negative committed amount in any fund type. The detail of committed fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of committed purposes should be disclosed in the notes to the financial statements.

### ***Assigned Fund Balance***

If the school district intends to use funds for specific purposes, but doesn't restrict or commit them, the funds should be reported as assigned. An assignment doesn't have to be formally approved by the board. Assignment can be made by the school board or a budget/finance committee or official to which the school board has delegated authority. If a school board hasn't delegated authority to assign amounts, a school district would not have assigned fund balance.

Examples of assigned fund balance are as follows:

- Construction
- Self-insurance
- Capital expenditures
- Retirements of notes/loans payable
- Claims/judgments

A school district should not assign funds if the assignment would create a negative unassigned fund balance. There should never be a negative assigned amount in any fund type. Funds other than the general fund will have residual amounts reported as assigned fund balance. By accounting for amounts in other funds, the school district has implicitly assigned the funds to the purposes of those particular funds. Funds other than the general fund would be required to report a negative overall fund balance as unassigned.

The detail of assigned fund balance may be presented separately or in the aggregate on the face of the balance sheet. If displayed in the aggregate on the face of the balance sheet, amounts for the detail of assigned purposes should be disclosed in the notes to the financial statements. An appropriation of fund balance to cover a budgetary deficit would be considered an assignment of fund balance.

### ***Unassigned Fund Balance***

Unassigned fund balance is what is left over after the previous four classifications in the general fund have been made.

Only the general fund will have unassigned amounts. By accounting for amounts in other funds, the school district has implicitly assigned the funds to the purposes of those particular funds.

For recommendations regarding fund balance levels, the Government Finance Officers Association (GFOA) has produced 2 papers in 2009:

#### Appropriate Level of Unrestricted Fund Balance in the General Fund

**Building a Financially Resilient Government through Long-Term Financial Planning**  
TEA will use the same rule of thumb to compute the optimum fund balance in the General Fund once GASB 54 is implemented; however, the terminology would change. The rule of thumb calls for the computation of the optimum unassigned fund balance to equal the estimated amount to cover cash flow deficits in the General Fund for the fall period in the following fiscal year plus estimated average monthly cash disbursements of General Fund for the following fiscal year. (Refer to FAR Appendix 3 for the “Fund Balance and Cash Flow Worksheet” and the “Instructions For Completion of Fund Balance and Cash Flow Worksheet for the General Fund.”)

### **1.2.9.3 Financial Statement Presentation and Disclosure**

School districts should be cognizant of the following accounting and disclosure requirements for fund balances.

#### ***Note Disclosures Pre-GASB 54***

The amount of deficit fund balance or net assets of individual funds must be disclosed in the footnotes to the financial statements for those funds that are not evident in the basic financial statements. In addition, for those funds used to account for a school district’s self insurance activities, a corrective action plan must be included in the notes to the financial statements. Designated or reserved fund balances not evident on the face of the financial statements should be disclosed in the notes.

#### ***Note Disclosures Post-GASB 54***

All the requirements in GASB 54 only apply to general purpose GAAP external financial reports. School districts should disclose the following information in the notes to the financial statements:

1. Committed fund balance
  - a. the district's highest level of decision-making authority
  - b. the formal action required to establish a fund balance commitment
2. Assigned fund balance
  - a. the body (such as budget or finance committee) or official authorized to assign amounts
  - b. the policy established by the school board regarding that authorization
3. Accounting policies regarding order of expenditure of funds (restricted, committed, assigned, or unassigned) when various categories are available. If a school district doesn't establish a policy, the order is to reduce restricted, committed, assigned, and then unassigned funds. This is similar to the disclosure regarding restricted and unrestricted net assets. Negative amounts are not reported for restricted, committed, or assigned funds in any fund.
4. Purpose for each major special revenue fund, identifying which revenues and other resources are reported in each of the funds (Example: for a federal grant, the type of grant providing the funds)
5. Minimum fund balance policy if a school district has a formal policy. The optimum fund balance schedule utilized by TEA does not constitute the school district's minimum fund balance policy.
6. Rainy day funds (also known as stabilization arrangements)
  - a. authority establishing the arrangement
  - b. conditions requiring additions to the amounts
  - c. circumstances allowing use of the amounts
  - d. balance, if not revealed on the face of the financial statements

### ***Rainy Day Funds***

Rainy day funds (also known as stabilization arrangements) can be reported in the general fund as restricted or committed, depending on meeting the conditions of either. Rainy day fund contingencies must be identified in detail and cannot be expected to occur routinely. A generic 'emergency' or 'revenue shortfall' description isn't sufficient. If the amounts don't meet specified conditions, they should be left in unassigned fund balance. Amounts may only be reported in a special revenue fund if there are specific revenues derived only for stabilization.

### ***Encumbrances***

Encumbrances should not be reported separately on the face of the balance sheet. If the requirements for commitment or assignment of funds are met, then those encumbrances would be reported accordingly regarding the purpose of the expenditure. If there are significant encumbrances, there is already a requirement under NCGAS 1 to report significant encumbrances in the notes by major funds and nonmajor funds in the aggregate.

## ***Changes in Fund Equity***

The basic financial statements should provide information on the nature and purpose of each major component of reserved fund balance and designated unreserved fund balance. If changes in total fund balance are presented, material changes in reserved or designated fund balance should be disclosed in the notes to the financial statements.

## ***Interfund Transfers***

Interfund activity within and among the three fund categories (governmental, proprietary and fiduciary) should be classified and reported as follows (GASB 34, par. 112):

- Reciprocal interfund activity
  - Interfund loans
  - Interfund services provided and used
- Nonreciprocal interfund activity
  - Interfund transfers
  - Interfund reimbursements

Reciprocal interfund activities are internal fund activities that have many of the same characteristics of exchange and exchange-like transactions that occur with external parties. Nonreciprocal interfund activities are internal fund activities that have many of the same characteristics of nonexchange transactions that occur with external parties.

Most balances between funds that are initially recorded as interfund receivables and payables at the individual fund level should be eliminated in the preparation of the statement of net assets within each of the two major groups of the primary government (the government activities and business-type activities). The purpose of the elimination is to avoid the grossing-up effect on assets and liabilities presented on the statement of net assets.

The net residual interfund receivable/payable between governmental and business-type activities should not be eliminated but should be presented in each column (government activities and business-type activities) as internal balances. These amounts will be the same and will therefore cancel out when they are combined (horizontally) in the statement of net assets in order to form the column for total primary government activities. (GASB 34, par.58)



## ***Contributed Capital-Proprietary Funds***

Contributed capital represents equity of a proprietary fund type that is created by:

- Initial cash contributions to capitalize a new fund
- Nonroutine contributions to increase fund capitalization
- Capital grants
- Nonroutine transfers from other funds for capital acquisitions

### ***Contributions of Assets to Proprietary Fund from General Capital Asset Fund***

Based on the standards established by GASB-34 the statement of revenues, expenses, and changes in fund net assets must reflect the “all-inclusive” concept. That is, except for prior period adjustments and the effects of certain changes in accounting principles, all resources inflows (except for liabilities) must be reported on a proprietary fund’s operating statement. Thus, capital contributions can no longer be shown as direct additions to fund capital. Revenue recognition for these and all other nonexchange revenues should be based on the requirements of Statement 33.

The depreciation expense of assets acquired through grants is recorded in the Statement of Revenues, Expenses and Changes in Fund Net Assets. However, school districts may elect to close the depreciation expense related to those assets to contributed capital rather than to net assets.

## **1.2.10 Revenues**

Revenues are defined as an increase in a school district’s current financial resources. The school district’s accounting records are to reflect revenues at the most detailed level.

Governmental Accounting Standards Board (GASB) Codification Section 1600.106 states that revenues and other governmental fund financial resource increments are recognized when they are susceptible to accrual, which means they must be both measurable and available. Revenues are measurable when the amount of the revenue is subject to reasonable estimation. To be available, revenues must be subject to collection within the current period, or after the end of the period but in time to pay liabilities outstanding at the end of the current period.

Revenues recorded in the Proprietary Fund Type and similar trust funds are recognized when earned in essentially the same manner as in commercial accounting. In addition, revenues in proprietary fund types may be classified as operating and nonoperating. Operating revenues are those revenues that are directly related to the primary activity of the fund. Accordingly, nonoperating revenues are those revenues that are not directly related to the primary activity of the fund.

School districts must account for a variety of revenues, including property taxes, foundation fund entitlements, user charges and grants.

Revenues are presented in the financial statements of a school district in three broad categories.

- *Local and Intermediate* sources are those revenues that are collected from the citizens of the school district, nongovernmental entities both within the school district and outside it, and also states other than the state of Texas. Such revenues include property taxes (see Property Taxes section of this module), interest income (see Interest Income and Accrued Interest Receivable section), proceeds from the sale of WADA (see Accounting for Foundation School Program Revenues below).
- *State* revenues are those revenues received from the state of Texas, excluding monies passed through the state from the federal government. Such revenues include state grants and Foundation School Program Revenues (see Accounting for Foundation School Program Revenues below).
- *Federal* revenues are those revenues received from the federal government or its agencies either directly or through the state of Texas. Such revenues would primarily be from federal programs.

Operating transfers are not considered revenue and are discussed in Interfund Transactions section of this module.

### 1.2.10.1 Accounting for Foundation School Program Revenues

The Foundation School Program (FSP) entitles Texas public school districts to provide a basic education for each student. Funding is comprised of local property taxes and state revenues. The local share of FSP is based on a school district's property values. FSP state revenue entitlements are based primarily on property wealth and current fiscal year factors such as:

- Student attendance
- The number of students in special populations and their attendance
- Each school district's tax effort

#### ***Tier I***

The foundation program is two tiered. In its simplest form, Tier I consists of:

- A basic grant or allotment per student, plus
- Categorical aid for special population students

The basic allotment amount is established by the legislature each biennium. Tier I is calculated by multiplying the basic allotment amount by the average daily attendance (ADA), with adjustments for special population students.

The basic student count for the Tier I formula is measured in ADA. Generally, for certain special population students, such as for the special education allotment, the student count is in terms of full time equivalents. Full time equivalents are calculated based on contact hours. Extra weight is given to groups of students with special needs or those whose program costs are greater than the cost needed to provide the standard curriculum.

Exhibit 12 shows the Tier I formula.

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**Exhibit 12. FSP Tier I Formula**

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(Basic Allotment x ADA) + (Basic Allotment x Special Population Student FTEs x Funding Weight) + Transportation Allotment + High School Allotment + Virtual School Network Allotment + New Instructional Facilities Allotment = Tier I

A few adjustments to this basic formula for districts in special circumstances are available. They are:

- *A small district adjustment* for school districts with an ADA less than 1,601 students.
- *A mid-sized district adjustment* for school districts (that offers a K-12 program) with an ADA less than 5,000 students.
- *A sparsity adjustment* for school districts with an ADA less than 130 students.
- *A cost of education index (CEI) adjustment.* Each school district's allotment is adjusted for economic conditions, which vary from school district to school district around the state, by multiplying the basic allotment by a percentage of the *cost of education index* (CEI).

The school district's cost (i.e., the local share) of Tier I is based on its wealth in property value. The State Comptrollers Property Tax Assistance Division (PTAD) establishes each school district's wealth in property value. The local share of Tier I is calculated by multiplying the district's PTAD value by a rate set by the legislature (Tier I rate). Local districts contribute revenue from their tax collections generated by the tax effort attributable to their compressed tax rate. The district compressed tax rate (DCR) is equal to the district's 2005 M&O adopted rate multiplied by 0.6667.

Exhibit 13 shows the formula for the local share of Tier I.

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**Exhibit 13. Formula for the Local Share of Tier I**

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$$\text{Local Share of Tier I} = \text{PTAD Value} / 100 \times \text{DCR}$$

The state's share is the balance of Tier I.

Exhibit 14 shows the formula for the state's share of Tier I.

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**Exhibit 14. Formula for the State's Share of Tier I**

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$$\text{State Share of Tier I} = \text{Cost of Tier I} - \text{Local Share}$$

As a school district's property value per student increases, its local share of Tier I increases. "Budget Balanced" is a term used to describe a school district whose local share amount exceeds the cost of Tier I. The state funding model is designed to recapture wealth in excess of a specified amount per weighted student to help fund the Foundation School Program. See the current State Funding Worksheet under the Foundation School Program heading on the [School Finance website](#) for current amounts.

## ***Tier II***

The purpose of Tier II is to enrich the basic educational program funded through Tier I. This tier is based on the concept of "guaranteed yield." The FSP model guarantees that a school district's maintenance and operations tax effort, measured as an effective enrichment tax rate, will yield a certain amount of revenue per student.

Tier II is a guaranteed yield program that provides enrichment for each cent of tax effort that exceeds the district compressed tax rate (DCR). Tier II currently provides two levels of enrichment. The first level of Tier II provides a guaranteed yield based a yield equivalent to the wealth per WADA for the Austin Independent School District (AISD)

rate) on the next six pennies of tax effort above the compressed tax rate. In 2009-10, this yield is \$59.02. The second level of Tier II is generated by tax effort that exceeds the compressed tax rate plus six cents. In 2009-10, the yield is \$31.95.

In 2006, the Texas Legislature passed a major property tax bill that was designed to drive down local property tax rates. In 2006-07, school districts underwent the first round of tax rate compression, designed to reduce local property taxes. State aid is provided to make up for the loss of local tax revenue. In 2006-07, local tax rates were reduced by 11% from the 2005-06 school year. In 2007-08, local tax rates will be further reduced, to produce a one-third reduction from the 2005-06 property tax rates.

Provisions in the property tax code limit the ability of districts to increase property tax rates. These provisions have become more restrictive with the passage of property tax relief in 2006. In 2009-10, school districts will be allowed to adopt tax rates to maintain their 2008-09 revenue per student in weighted average daily attendance (WADA) or \$1.00, whichever is less. They may add \$0.04 to this base rate without triggering an election. Districts that wish to add more than \$0.04 to their base rate may conduct a rollback election in which voters are given the opportunity to accept or reject the higher tax rate. The maximum maintenance and operations tax rate for districts in 2007-08 and beyond is \$1.17.

As in Tier I, Tier II revenue is a product of both state and local effort. A school district is entitled to the difference between the guaranteed yield revenue per WADA established by the state legislature and the revenue per WADA its enrichment rate actually yields. A school district whose enrichment rate generates more than the guaranteed yield level is not eligible for state aid in Tier II.

### ***High School Allotment***

The High School Allotment provides \$275 per high school student to districts to prepare students to go on to higher education, encourage students to take advanced academic course work, increase the rigor of academic course work, align secondary and postsecondary curriculum and support promising high school completion and success initiatives in grades 6 through 12. See the web page on [High School Allotment](#) for additional information. This allotment was moved to Tier I beginning with fiscal year 2009-10.

### ***FSP Accounting Issues***

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available.

Availability can be as late as midway into the next fiscal year, when property tax collections for the prior fiscal year are audited.

The only constant in the foundation fund formula at the time a budget is adopted is the school district's local share. Therefore, a school district's budget must be based on estimates of variables that affect total FSP. To ensure proper allocation of resources for each educational service, a local district must develop good initial estimates of each of these variables and monitor the situation throughout the year.

Elements that drive FSP calculations such as average daily attendance (ADA) and contact hours for special populations do not remain static throughout the year. For example, a twenty percent increase in Career and Technical students over the school district's original projections should not be an unexpected discovery made when summer [PEIMS](#) attendance data is collected after the end of the academic year. Shifts in those factors that require changes in the level of spending for an educational service should be reflected in timely amendments to the budget.

Included in the earned foundation funds are allocations for categorical aid to be used for programs such as Career and Technical education, special education, bilingual education and gifted and talented. Usually, up to forty-five percent (effective fiscal year 2009-10) of these allotments can be used as indirect cost to defray some of the cost of administering these programs. The remainder of these funds must be spent to provide the specified service.

### ***FSP Allocation Basis***

The legislature appropriates revenues to fund the Foundation School Program using projections of property values and student counts. A funding model is created using projections of the various elements for each school district. This model is used to calculate allocations to school districts for the biennium. When a school district actually earns less than the model in a given year, TEA recovers the excess amount the following year by reducing the allocations for the new year. If a school district actually earns more FSP revenue than the allocations received based on the model, the difference will be adjusted during September of the next fiscal year.

See the [School Finance website](#) for the following items under the Foundation School Program heading:

Monthly Payment Information

Schedule of Monthly Foundation School Fund Payments

## District Payment Class

### ***Under-Funded Districts***

By the end of a school district's fiscal year, there is usually enough information available to determine when TEA will be able to make up differences for under-funded school districts using recoveries from over-funded districts and other appropriations. According to GAAP, revenues can be recorded when they are measurable and available. Revenues are usually deemed available if they are likely to be received within 60 days of the end of the fiscal year. School districts that have been under-funded are to book the FSP revenue as of August 31 if TEA plans to reimburse under-funded school districts within 60 days of the end of the fiscal year.

If the underfunded amount is not available within 60 days, a receivable cannot be recorded on Exhibit A-1 and Exhibit C-2 on a school district's annual audit report according to GAAP.

Exhibit 15 shows the journal entry to record the FSP receivable on Exhibits A-1 and C-2 if collected within 60 days.

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#### **Exhibit 15. Sample Journal Entry to Record Receivable for State Funds**

---

<u>ACCOUNT</u>	<u>DEBIT</u>	<u>CREDIT</u>
Accounts Receivable - Due from State		
199-00-1241-00-000-Y-00-0-00	\$X,XXX	
Revenues - Foundation School Program Act Entitlements		
199-00-5812-00-000-Y-00-0-00		\$X,XXX

### ***Over-Funded Districts***

According to GAAP, school districts that have received more FSP funds than they have earned must record the excess as deferred revenue. Exhibits A-1 and C-2 in school districts' annual audit reports should conform to GAAP.



The budgetary basis should also be used consistently for budgeting and reporting FSP revenues for [PEIMS](#) and for use in rollback tax rate calculations.

Exhibit 16 shows the entry to defer FSP revenue at the end of the fiscal year.

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**Exhibit 16. Sample Journal Entry to Defer FSP Revenues**

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<b><u>ACCOUNT</u></b>	<b><u>DEBIT</u></b>	<b><u>CREDIT</u></b>
Revenues - Foundation School Program Act Entitlements		
199-00-5812-00-000-Y-00-0-00	\$X,XXX	
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$X,XXX

Exhibit 17 shows the journal entry to reverse deferred FSP revenue the following fiscal year.

---

**Exhibit 17. Sample Journal Entry to Record Reversal of FSP Revenue Deferral**

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<b><u>ACCOUNT</u></b>	<b><u>DEBIT</u></b>	<b><u>CREDIT</u></b>
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$X,XXX	
Revenues - Foundation School Program Act Entitlements		
199-00-5812-00-000-Y-00-0-00		\$X,XXX

## ***FSP Equalized Wealth Provisions***

Senate Bill 7 was enacted by the 73rd Legislature and signed into law on May 29, 1993. This law placed a limit on the amount of wealth a school district may have per student for foundation fund purposes. These property wealthy districts must take action to reduce their wealth to the equalized level. The recaptured revenues are used to help fund the Foundation School Program across the state.

Like Tier II, there are different equalized wealth levels (EWLs) that apply to different levels of tax effort. The first EWL is based on the basic allotment, allowing school districts to retain revenue on a tax base equivalent to \$476,500 per WADA. This EWL applies to the compressed tax rate. The second level of EWL exempts the next six pennies of tax effort above the compressed tax rate from any recapture provisions. Tax effort that exceeds the compressed rate plus six cents would be subject to recapture based on an EWL of \$319,500.

For more information on Chapter 41 districts refer to the [Chapter 41 Wealth Equalization](#) section on the [School Finance website](#).

Exhibit 18 shows the journal entry to record the purchase of WADA from the state.

---

### **Exhibit 18. Sample Journal Entry to Record Purchase of WADA from the State**

---

<b><u>ACCOUNT</u></b>	<b><u>DEBIT</u></b>	<b><u>CREDIT</u></b>
Expenditures - Student Attendance Credits		
199-91-6224-00-999-Y-00-0-00	\$X,XXX	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$X,XXX

## ***Education of Nonresident Students***

Exhibit 19 shows the entry to record revenue realized for the sale of WADA.

---

**Exhibit 19. Sample Journal Entry to Record Revenue from the Sale of WADA**


---

<u>ACCOUNT</u>	<u>DEBIT</u>	<u>CREDIT</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$X,XXX	
Revenues - Foundation School Program Act Entitlements		
199-00-5812-00-000-Y-00-0-00		\$X,XXX
Local Revenues Resulting from Sale of WADA		
199-00-5721-00-000-Y-00-0-00		\$X,XXX

Exhibit 20 shows the journal entry to record a check a school district purchasing Chapter 41 WADA would write to the partner district.

---

**Exhibit 20. Sample Journal Entry for District Purchasing WADA from Partner District**


---

<u>ACCOUNT</u>	<u>DEBIT</u>	<u>CREDIT</u>
Expenditures - Student Attendance Credits		
199-91-6224-00-999-Y-00-0-00	\$X,XXX	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$X,XXX

### 1.2.10.2 Gifts and Bequests

A school district, as a governmental entity, may receive private donations from individuals, firms, philanthropic social or service groups, associations, societies, etc. These gifts or bequests may be in the form of cash, securities, stocks, land or other types of tangible

assets. The use of a donation may be unconditional or conditional, depending on the terms of acceptance between the donor and the school district.

A gift or bequest is defined as a monetary or other type of voluntary donation from a nongovernmental entity or a student group for which districts have not applied. Grants from governmental or nongovernmental entities are generally not considered gifts or bequests. These grants are generally recorded in a governmental or enterprise fund because they are subject to contractual restrictions and require districts to make application in order to receive the monies.

Private unconditional gifts and bequests are usually recorded in the General Fund and the General Capital Asset Fund for nonmonetary gifts and in the General Fund alone for monetary gifts. Private conditional gifts and bequests that become an ongoing fiduciary responsibility are recorded as either a private-purpose or permanent fund depending on whether or not the gift itself may be expended. For example, if an individual made a donation to the school district of \$20,000 to be used for scholarships and specified that only the interest earned on the \$20,000 could be used to make the scholarship payments, it would be recorded in a Permanent Trust Fund. On the other hand if the individual did not specify that only the interest earned or specified that the interest earned and the original donation of \$20,000 could be used to make the scholarship payments, it would be recorded as a Private-Purpose Trust Fund. Gifts or bequests of non-monetary types of property are recorded at appraised or estimated fair market value at the time of receipt.

### ***Unconditional Donations***

An unconditional donation is a gift or bequest to a school district or student group with no restrictions on its use. Such a donation may be in the form of cash or property, e.g., raw land.

Note: See sample entries in Appendix 7, "Accounting for Gifts and Bequests," Illustration #1.

### ***Conditional Donations***

A conditional donation exists if the donor has placed restrictions on the use of a gift or bequest. This type of donation creates a fiduciary responsibility, and is recorded in a trust fund. As illustrated in the chart below, the ability of the school district to spend the

principal determines whether the donation should be recorded in a permanent or private-purpose trust fund.

	PRIVATE-PURPOSE TRUST FUND	PERMANENT TRUST FUND
School district may spend the interest earned	YES	YES
School district may spend the principal	YES	NO

Note: See Appendix 7, "Accounting for Gifts and Bequests," Illustration #2 for sample entries on recording conditional donations.

### ***District Policy Considerations***

A school district should have a comprehensive policy adopted by the board of trustees which addresses the following aspects of donations:

- Acceptance
- Recognition by the board of trustees
- Valuation
- Accounting policy
- Monitoring responsibility for on-going trusts
- Authorization for expenditures

## 1.2.11 Expenditures/expenses

Expenditures are defined by GASB Codification Section 1600.116 as decreases in net financial resources. In governmental type funds, the measurement focus is on expenditures rather than expenses while in proprietary type funds, the measurement focus is on expenses. Expenses incurred in proprietary funds are accounted for the most part in the same manner as in commercial accounting. There are significant differences, however, between the recognition of expenditures in governmental funds and the recognition of expenses by commercial enterprises.

The measurement of expenditures during an accounting period is significantly influenced by two interrelated characteristics of the governmental accounting model: the measurement focus and the basis of accounting.

In governmental type funds, expenditures are accounted for using the modified accrual basis of accounting. An expenditure is usually recognized in the accounting period when the school district has received and became liable for the payment of goods or services.

However, in instances when current financial resources are not reduced as a result of the receipt of good or service or incurrence of a liability, an expenditure is not recorded. The most common example is compensated absences (e.g. employee sick and vacation pay). Such liabilities result from current services received from employees; however, the payment of these liabilities usually does not occur soon after year end to meet the definition of payment from current resources. As a result, compensated absences relating to employees whose salaries are accounted for in governmental type funds are not recorded as expenditures and liabilities of the fund, except if the school district expects the payment to be made soon after year end (within 60 days). Instead the liability should be reported in the governmental activities column in the government-wide statement of net assets.

### 1.2.11.1 Types of Expenditures and the Accounting Treatment

The major types of expenditures are operating, capital, debt service, and intergovernmental charges

*Operating expenditures* for a school district include a wide range of expenditures. The largest portion of operating expenditures relates to payroll and related employee benefits. Such expenditures are discussed in detail under the Salaries and Fringe Benefit Allocation section of this module. Expenditures relating to salaries are accounted for using the

modified accrual basis of accounting. Proper accruals should be made at fiscal year end for the amount of salaries and related benefits earned by employees at year end and not paid.

The other types of operating expenditures should be accounted for using the same basis of accounting and measurement focus. A liability is usually incurred when the goods or services are received, and necessary accruals should be made at year end. If purchases relate to inventory or supplies items, refer to the Inventory section of this module.

*Capital* relates to acquisition of general capital assets. Such expenditures are recorded in the General Fund, Special Revenue Funds or Capital Projects Funds depending on the source of funds. Purchases of personal property, such as furniture and equipment are usually recorded as expenditures in the General Fund if they are financed from operating budgets or special revenue funds if they are financed from grants. Major projects such as the building of a school building financed by the proceeds of bond issues are often accounted for in a Capital Projects Fund. Cost associated with acquisition of capital assets in governmental funds are recorded as current expenditures when the liability is incurred, usually upon receipt of the related asset. The same amount is usually recorded as an addition to the GENERAL CAPITAL ASSET FUND if it meets the school district's capitalization policy. Capital assets could be acquired through capital leases. Refer to the Debt section of this module for a discussion of accounting for assets acquired through capital leases.

*Debt service expenditures* represent the payment of principal and interest needed to service debt recorded in the GLTDF. Such payments are usually recorded as expenditures in the Debt Service Fund when the amount becomes due and payable and not when they accrue. No accruals for interest need to be made for interest accrued at fiscal year end. When funds have been transferred to the Debt Service Fund during the fiscal year in anticipation of making debt service payments shortly after the end of the period, it is acceptable to accrue interest and maturing debt in the Debt Service fund in the year the transfer is made. Also if the transfer includes an amount for a principal payment, that amount should be removed from the GLTDF.

*Intergovernmental* relate to transfer of resources from one school district to another. Examples of such charges are contracted instructional services between public schools and incremental costs associated with Chapter 36 purchase of Weighted Average Daily Attendance (WADA). Such expenditures are accounted for in the General Fund using the modified accrual basis of accounting. In addition, payments between member districts and fiscal agents of shared services arrangements are considered intergovernmental charges. See the Shared Services Arrangements section for additional accounting guidance.

In addition, operating transfers result in the reduction of a fund's expendable resources, but they are not classified as expenditures. An operating transfer is a legally authorized

transfer between funds in which one fund is responsible for the receipt of funds, and another fund is responsible for the actual disbursement. In an operating transfer, the disbursing fund records the transaction as “Other Financing Uses” of resources and not as an operating expenditure while the fund receiving the transfer does not record the receipts as revenue but rather as “Other Financing Sources” of funds.

### 1.2.11.2 Expenses and Expenditures

Expenses are defined as outflows or other using up of assets or incurrence of liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity’s ongoing major or central operations. The term expenses are only used in proprietary funds.

Expenses are accounted for in these funds using the accrual basis of accounting. Enterprise Funds, Internal Service Funds, Permanent Funds and Pension Trust Funds should recognize and classify their expenses in a manner similar to that of commercial enterprises. Governmental funds recognize an expenditure when the related liability is incurred, and it is expected that the liability will be discharged by expending available financial resources of the fund. On the other hand, a proprietary fund recognizes an expense when the related liability is incurred regardless of when the related liability is expected to be paid. The recognition of an expense by a proprietary fund should be consistent with the following guidelines as discussed in FASB Concept Statement No. 5 (now classified as prevalent practice, but non-authoritative guidance with the introduction of the FASB Accounting Standards Codification):

- Associating cause and effect - Some expenses (such as cost of goods sold) are recognized upon recognition of revenues that result directly and jointly from the same transactions or other events as the expenses
- Systematic and rational allocation - Some expenses (such as depreciation and insurance) are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits
- Immediate recognition - Many expenses (such as selling and administrative salaries) are recognized during the period in which cash is spent or liabilities are incurred for goods or services that are used up either simultaneously with acquisition or soon after



The major types of governmental type fund expenditures are accounted for differently in proprietary type funds:

*Capital expenditures* - Capital asset acquisition in proprietary funds are accounted for using the flow of economic resources method. Amounts disbursed for the acquisition of capital assets are not recorded as an expense in a proprietary type fund. Instead, the property, facilities and equipment account which represents an asset on the balance sheet is debited upon the purchase of assets. Depreciation expense is recorded to reflect the usage of the assets during the year.

*Debt service* - Principal payments do not represent expenses for proprietary funds. Such payments are recorded as reduction to debt principal. On the other hand, interest payments represent expenses. Interest is recorded as an expense using the accrual basis of accounting and as such accruals need to be recorded at the end of each period in order to reflect the proper amount of interest expense for the period.

*Operating transfers* - Operating transfers do not represent expenses. The accounting for operating transfer in proprietary funds is similar to the accounting in governmental funds discussed above.

### **1.2.11.3 Cocurricular/Extracurricular Expenditure Reimbursement Issues**

Function 34, Pupil Transportation, should be used only to account for the cost of transporting students to and from school for the regular instructional day. However, many school districts use school district buses to transport students for reasons other than regular instructional purposes. For example, a school district may use the school district buses to:

- Transport students for class field trips
- Transport students for cocurricular/extracurricular events

As a practical matter, a school district may record all bus-related expenditures in Function 34 during the fiscal year. However, prior to closing the books for the fiscal year, a school district should determine the cost of transportation for other than regular purposes (i.e., to and from school) and reclassify the appropriate transportation expenditures to other functions. For example, the cost of transporting students for class field trips should be

recorded in Function 11, Instruction. The cost of transporting students for cocurricular athletic events should be recorded in Function 36, Cocurricular/Extracurricular Activities.

A school district may use any reasonable method for allocating transportation costs to other functions. For example, a school district may use mileage records to calculate amounts to transfer to other functions. During the year, the school district should maintain records of mileage for class field trips, for extracurricular athletic events and for any other similar activities. The school district's Transportation Operation Cost Report can provide a cost per mile for the operation of the school district's school buses. By multiplying the mileage for class field trips times the cost per mile, the school district can determine the amount that should be reclassified from Function 34 to Function 11. This method is the most commonly used by school districts.

When a school district reallocates transportation expenses, the miscellaneous operating costs object code 6494, Reclassified Transportation Expenditures/Expenses, should be used. This Expenditure Object Code has been established to isolate the costs of transportation for purposes other than transporting students to and from school. The identification of these costs is required under Subsection 34.010, TEC.

A school district should determine the level of detail at which transportation costs should be reclassified based upon the informational needs of the district. When reclassifying expenditures from Function 34, a school district may simply prepare an entry which credits 6494 (in Function 34) for the total amount of reclassified expenditures, and debits 6494 in the appropriate functions. Alternatively, a school district may credit the individual expenditure object codes for salaries, supplies, etc. in Function 34, and debit 6494 in the appropriate functions.

A school district should not reclassify capital outlay expenditures from Function 34 to other function codes, nor should capital outlay expenditures be used in calculating the percentage that is attributable to other functions. All capital outlays should remain in Function 34.

#### **1.2.11.4 Real Property Expenditure Issues**

Senate Bill 4, 76th Legislature, 1999, amended Texas Education Code, [§42.301](#), in relation to use of the guaranteed yield component for capital outlay and debt service. The bill made no change to existing statutes related to the legitimate uses of the basic allotment.

A school district may use state aid received pursuant to TEC Chapter 42, Subchapter B for any lawful purpose, including:

- using, purchasing, or acquiring real property or land
- improving real property
- constructing or equipping buildings
- renovating real property
- repairing real property
- maintaining real property
- reduction of bond tax by deposit into the district debt service fund
- lease purchase agreement payments
- public property finance contracts authorized under [Local Government Code](#), §271.004 and §271.005
- time warrants issued pursuant to TEC §45.103
- maintenance notes issued pursuant to TEC §45.108
- contract issued pursuant to TEC §44.901

Rules related to the lawful used of Foundation School Program state aid can be found in [Texas Administrative Code Title 19, Chapter 105](#).

## 1.3 Special Accounting Treatments

Three areas are discussed as special accounting treatments. The first is shared services arrangements that many school districts find beneficial; the second is food service operations that is applicable to almost all school districts; and the third is teacher retirement on-behalf payments which affect all school districts.

### 1.3.1 Shared Services Arrangements

School districts and/or education service centers find it advantageous to share personnel or services, particularly when a school district cannot justify the cost of employing a specialized staff member on a full time basis, but a group of school districts can justify a portion of the salary or service. This arrangement is considered to be a shared services arrangement. Another form of an alliance for sharing salaries or services is a joint authority agreement. In contrast, there are other instances when school districts may contract with each other and/or an education service center. This arrangement is called a purchase of service contract. The following table contrasts shared services arrangements and contracted services.

**Exhibit 21. Comparison of Shared Services Arrangements to Contracted Services\***

Function	Shared Services Arrangements	Purchase of Service Contract
Management	A board of managers (formal or informal) comprised of representatives appointed by members of alliance has responsibility for financial and operational management	Sole managerial responsibility by entity providing services
Decision-making	Joint administrative decision-making	Sole responsibility for administration by entity providing services
Ownership of assets	Fiscal agent holds assets for members of alliance	Entity providing services has sole ownership of assets used to provide services
Ownership of assets	Member districts may have ownership of assets purchased from fees or funding	No assets are relinquished at end of contract by entity providing services
Cost allocation	Cost sharing arrangement involving members of alliance	A fixed fee is usually charged by the entity providing services and any

Function	Shared Services Arrangements	Purchase of Service Contract
		financial loss by the contractor is covered by other resources

\* This list is not all-inclusive, but is merely to be used as a guide

### 1.3.1.1 General Description of Shared Services Arrangements

A shared services arrangement is an agreement between two or more school districts and/or education service centers that provides services for entities involved. Arrangements with other entities (such as community-based organizations and council of governments or state or association purchasing cooperatives) to provide services are not considered shared services arrangements. In Texas, the most common types of shared services arrangements relate to special education services, adult education services, and activities funded by the Elementary and Secondary Education Act (ESEA). However, shared services arrangements are not limited to educational matters. For example, the purpose of a shared services arrangement may relate to the provision of data processing, purchasing or accounting services.

Note: School districts may enter into written contracts to operate jointly special education programs. Such contracts must be approved by the Commissioner of Education (Section 29.007, TEC). Procedures for the operation of special education SSAs have been adopted under 19 TAC §89.1075(e) and are available for review at <http://www.tea.state.tx.us/opge/formfund/specialed/index.html>

**Note: Based on procedures implemented by the Division of Special Education under 19 TAC 89.1075(e), a deadline of February 1 has been established for LEA notification to the Agency of shared services arrangement (SSA) configuration changes effective the subsequent fiscal year (July 1 for federal funds). Written notification should be directed to the Division of Special Education, and it must contain, at a minimum:**

- Configuration information for any continuing SSA;**
- Information regarding the single member, fiscal agent, or shared services arrangement member status of each LEA impacted by the SSA change; and**
- Signatures from the official representative(s) of each LEA directly impacted by the change.**

Each shared services arrangement must have a fiscal agent which is responsible for conducting various administrative duties. The fiscal agent may be a recipient of services under the arrangement, or the fiscal agent can be the administrator of the arrangement and not receive services. The fiscal agent usually performs the budgeting, accounting and personnel responsibilities related to the arrangement. For shared services arrangements which involve the receipt of federal and state funds that flow through a grant application process, the fiscal agent generally is responsible for ensuring that funds are used in accordance with grant provisions. If the monies are not used in accordance with the grant provisions, the fiscal agent may be financially responsible for the consequences of instances of noncompliance. The fiscal agent may also be financially responsible if a member school district is unable to pay back its respective portion of questioned costs.

Shared services arrangements are to be accounted for in the Special Revenue Funds of the fiscal agent. Special sections of funds have been reserved for that purpose. The transactions that are recorded in member districts' accounting records are also recorded in the special revenue funds. However, member districts do not use the same fund number as fiscal agents. For each defined fund for shared services arrangement, there is a corresponding fund for use by member districts or districts that are not participating in shared services arrangements. For example, Fund 211 is defined as ESEA, Title I, Part A - Improving Basic Programs and is to be used by school districts that are *not* acting as a fiscal agent. Fund 300 is defined as Shared Services Arrangements - ESEA, Title I, Part A - Improving Basic Programs and is to be used *only* by the fiscal agent for recording transactions related to the shared services arrangement.

Special codes for both revenues and expenditures have also been established. Revenue codes are as follows:

**℞ 5722      Shared Services Arrangements -Local Revenues from Member Districts**

This code is used to classify local revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements. Examples of revenues classified in this account are:

- All or a portion of allotments from the foundation school program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel

such as a program director, counselors, diagnosticians and speech therapists

- Local funds for sharing of personnel, such as librarians, counselors and nurses

### **℞ 5723 Shared Services Arrangements - Local Revenues from Fiscal Agent**

This code is used to classify local revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent's expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements. Examples of revenues classified in this account are:

- All or a portion of allotments from the foundation school program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel such as a program director, counselors, diagnosticians and speech therapists
- Local funds for sharing of personnel, such as librarians, counselors and nurses

### **℞ 5841 Shared Services Arrangements - State Revenues from Member Districts**

This code is used to classify state revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements. Examples of these arrangements are:

- Regional Day School for the Deaf
- Adult Basic Education (State Funds)

- State Supplemental Visually Impaired

**℞ 5842 Shared Services Arrangements - State Revenues from Fiscal Agent**

This code is used to classify state revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent's expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements.

- Regional Day School for the Deaf
- Adult Basic Education (State Funds)
- State Supplemental Visually Impaired

**℞ 5951 Shared Services Arrangements - Federal Revenues from Member Districts**

This code is used to classify federal revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements. Examples of federal shared services arrangements are:

- Federally-funded Adult Basic Education programs
- ESEA, Title I, Part A - Improving Basic Programs
- ESEA, Title I, Part C - Education of Migratory Children

**℞ 5952 Shared Services Arrangements - Federal Revenues from Fiscal Agent**



This code is used to classify federal revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent's expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements. Examples of federally funded shared services arrangements include:

**℞ 5952      Shared Services Arrangements - Federal Revenues from Fiscal Agent**

This code is used to classify revenues realized for federal programs received through a shared services arrangement not otherwise listed above. Any locally defined codes that are used at the local option are to be converted to account 5959 for [PEIMS](#) reporting.

Revenues must be distinguishable among the various funding sources. Because of audit schedules (including the Schedule for Federal Financial Assistance), the fiscal agent and member districts should be certain to use the appropriate revenue object code(s).

Expenditure codes are defined for payments between fiscal agents and member districts. The appropriate expenditure object code (61XX-66XX) is to be used when either a member district or fiscal agent is paying a vendor or staff member. They are as follows:

**℞ 6492      Payments to Fiscal Agents of Shared Services Arrangements**

This code is used to classify expenditures/expenses for amounts paid to a fiscal agent of a shared services arrangement in which the school district is a participant. The expenditure is to be classified in Function 93, Payments to Fiscal Agent/Member Districts of Shared Services Arrangements.

**℞ 6493      Payments to Member Districts of Shared Services Arrangements**

This code is used to classify expenditures/expenses for amounts paid to a member district of a shared services arrangement in which the school district is a participant. The expenditure is to be classified in Function 93, Payments to Fiscal Agent/Member Districts of Shared Services Arrangements.

In most instances the fiscal agent is also a participating member district. The fiscal agent district must use one fund code when recording transactions in the capacity of fiscal agent

and a different fund code for recording transactions as a member district. As shown in Model #1, Accounting and Reporting Treatment Guidance section, a fiscal agent should use the shared services fund code for all expenditures made on behalf of the SSA as a whole and for any function 93 expenditures representing a pass-through to member districts. When the fiscal agent receives its portion of the pass-through money, it receives the money as a member district. At this point the member district who is the fiscal agent of the arrangement must use the same accounting treatments as any other member district would receipt of these funds. Therefore, the revenue and expenditures should be recorded in a regular special revenue fund rather than a shared service arrangement special revenue fund. The expenditures within this regular special revenue fund should be accounted for in the same manner as any other member district.

### 1.3.1.2 Separate School District

Members of a shared services arrangement may decide to form a separate school district to provide services. TEA prescribes the procedures necessary to form a new school district. If TEA approves the proposed new school district, the school district is required to follow the accounting and reporting guidelines in the *Resource Guide*.

### 1.3.1.3 Definitions

A shared services arrangement is the most common agreement among school districts. There are, however, alternative arrangements. The following definitions will assist in the determination of the type of arrangement to be used by a school district.

#### ***Shared Services Arrangements***

A shared services arrangement is formed when two or more school districts and/or education service centers agree to join together and perform specific services for the member school districts. An arrangement governed by a shared service agreement is *not a separate legal entity*, but a shared services arrangement may be governed by a legal document. The legal document may describe the services to be furnished and address the provision of various administrative functions. The services provided can be funded by local, state or federal funds.

Other methods of sharing services include:

## ***Joint Authority Agreement***

A joint authority agreement is formed when two or more school districts and/or education service centers agree to form a separate legal entity to provide services for the participating districts. The legal entity can be a joint venture, not-for-profit corporation or any other appropriate legal form. If the participating entities decide to form a separate school district, the new school district is not considered a joint authority agreement. The services provided under a joint authority agreement may be funded by local, state or federal funds. The accounting treatment for a joint authority agreement is identical to that of a shared services arrangement.

## ***Purchase of Service Contracts***

A purchase of service contract exists when school districts or education service centers agree to compensate another entity for performing services. The school district that is compensating the other school district or education service center maintains very limited control over the personnel rendering the services or the manner in which the services are accomplished. A written agreement specifying the fees to be paid and the services to be provided is preferable, but it is not required. In some cases, the agreement may be governed by a legal document. Purchase of service contracts are not considered to be shared services arrangements. See the accounting treatment described later in this section.

### **1.3.1.4 Administrative Guidelines and Considerations**

When one or more school districts and/or education service centers enter into a shared services arrangement, a *written agreement* should be developed to address the responsibilities of each member and the fiscal agent. The written agreement should address certain legal requirements. The topics discussed in this section should be included.

## ***Organization of the Shared Services Arrangement***

Upon establishment of a shared services arrangement, a discussion should be held among the participants to address policies and procedures relating to:

- Forming a supervisory entity, such as a board of managers

- Determining composition and responsibilities of the board of managers
- Appointing the fiscal agent for the arrangement
- Electing a chairman of the board of managers
- Deciding the frequency of meetings
- Appointing either a board member (secretary) or another person who would be responsible for recording the minutes of each meeting and retaining relevant records in a safe place

### ***Ownership of Assets***

The written agreement should include a prearranged determination of the ownership of assets, and policies and procedures addressing the disposition of such assets if the shared services arrangement is terminated by one or all of the members. For example, liquid assets (cash and investments) might be redistributed to withdrawing members on the same basis as members initially funded the arrangement. The distribution of capital assets among member school districts should also be predetermined by consent of the board of managers or other governing entity.

### ***Liabilities***

Consideration should be given to responsibility for legal fees incurred due to complaints, grievances or litigation. A shared services arrangement is not a legal entity. Therefore, any litigation would be against either the fiscal agent or a member district. The written agreement should include an understanding of how costs would be shared relating to any liabilities incurred against the fiscal agent of a shared services arrangement. Grievances, lawsuits or any other legal action is taken against the fiscal agent of a shared service arrangement by an employee, student or parent may be for cause against the school district. If so, the expenditures incurred might be the responsibility of the member district. If the cause is against the fiscal agent of a shared services arrangement, costs incurred might be paid by each member district on a pro rata basis determined by the board of managers.

### ***Basis for Allocation of Costs of the Fiscal Agent***

Based on the assumption that all expenditures are on the behalf of a school district, the expenditures of the fiscal agent should be prorated among those school districts on a basis determined by the board of managers or other governing entity. Examples of bases include but are not limited to:

- Percentages of expenditures by each member district as a ratio to the whole
- Percentage of full-time equivalent staff members as a ratio to the whole
- Percentage of personnel unit (PU) values as a ratio to the whole (where teachers = 1.00 PU, aides = .50 or .75 PU and support staff = 1.20 PU)
- Number of students participating in the shared services arrangement as a ratio to the whole
- Amount of an entitlement retained by the fiscal agent to expend on behalf of each member district

### ***Uncontrollable Costs that Impact the Fiscal Agent***

The board of managers or other governing entity should include in the written agreement a method to reimburse the fiscal agent in the event that the entity acting as fiscal agent incurs uncontrollable costs due to actions taken against the shared services arrangement. For example, if employees of the shared services arrangement cause an increase in worker's compensation or unemployment compensation premiums, the board of managers or other governing entity might consider assessing a prorated portion of the excess costs from each member school district.

### ***Responsibilities of Fiscal Agent***

Presented below is a summary of responsibilities that are generally performed by the fiscal agent of a shared services arrangement. A shared services arrangement may specify these or other responsibilities as appropriate.

- *Employment of Personnel*
  - The fiscal agent usually employs all employees who are shared among two or more school districts. These employees normally include the director of the shared services arrangement and itinerant personnel who serve two or more school districts.
  - However, in some shared services arrangements, teachers might also be employed by the shared services arrangement. Generally, the board of managers approves personnel contracts for shared personnel and the board of trustees of the fiscal agent formally approves their employment. These personnel are the employees of the member district or education service center that is acting as fiscal agent.
  
- *Budgeting and Accounting*
  - In some instances, the fiscal agent may be responsible for preparing the budget, both for the fiscal agent and member school districts. An example of this budgeting is a grant that is requested from a granting agency through the Standard Application System (SAS). After funding is approved, the fiscal agent should assist member school districts in developing their portions of the budget.
  - The fiscal agent is responsible for all of the accounting records of the shared services arrangement. That portion of the arrangement which the fiscal agent expends funds on behalf of member school districts is recorded in the appropriate shared services arrangement fund within the Special Revenue Fund.
  - The amount that is distributed to member school districts is debited to Function code 93 and Expenditure Object Code 6493. As member districts receive funds from the fiscal agent, the revenue is recorded in the appropriate revenue code (5723, 5842 or 5952) and expenditures are charged to the appropriate account.
  
- *Reporting*
  - The fiscal agent reports primarily to the board of managers or other governing entity. The board should be apprised of the financial condition of the shared services arrangement at least on a monthly basis.
  - The fiscal agent is responsible for allocating funds in the shared services arrangement fund among participating members. The prorated basis is determined by the board of managers or other governing entity. The fiscal agent reports these expenditures, by member district, fund, and shared services arrangement type through Public Education Information Management System ([PEIMS](#)).

Note: Adult Basic Education and Regional Day School for the Deaf Shared Services (RDSD) Arrangements are exempt from the requirement of submitting the [PEIMS](#) record reporting expenditures by member districts. There are scheduled changes in PEIMS reporting for RDSD arrangements; refer to PEIMS Data Standards for updates.

- The fiscal agent is also responsible for required state and federal reporting related to a grant, and for ensuring that accounts are not overspent by more than the variation allowed, if any. Refer to the Federal/State Compliance Reporting section of this module for a further discussion of allowable grant expenditures. If any of the funds have been distributed to member school districts, the fiscal agent must collect the expenditures from each member district and compile the expenditures for the entire arrangement for review by the member districts prior to submitting a report.

### ***Responsibilities of Member School Districts***

Member school district responsibilities in a shared services arrangement usually concern employment of personnel, budgeting, accounting and reporting. A shared services arrangement may specify these or other responsibilities as appropriate.

- *Employment of Personnel* - Each member district usually employs personnel who solely serve that school district. Normally each member district employs instructional personnel, but may also employ others. For instance, a school district might employ its own special education diagnostician and counselor, but share a psychologist. The staff of the member district is employed by its board of trustees.
- *Budgeting and Accounting*
  - Each member district is responsible for budgeting its portion of the funds that will be received through the fiscal agent.
  - Each member district is responsible for the accounting records for that portion of the funds that are received from the fiscal agent, if any. These expenditures, with offsetting revenue, are to be recorded in the appropriate fund (normally a Special Revenue Fund). When the member district sends funds to the fiscal agent, expenditures are to be recorded in the appropriate fund (normally Local Maintenance in a special education shared services arrangement), in Function 93 and in Expenditure Object Code 6492.

- Periodically, the member district should request that expenditures be reconciled with transfers from the fiscal agent.
- *Reporting*
  - The primary reporting responsibility of the member district is to the board of trustees. The board should be apprised of the financial condition of the school district at a minimum, on a monthly basis.
  - The member district is responsible for reporting funds expended by *that district only* through Public Education Information Management System (PEIMS).
  - The member district is responsible for submitting detailed expenditures to the fiscal agent for required state or federal reporting. In the event that the member district has overexpended in an account by an unallowable amount, the member district should reduce the expenditures in that fund and record an offsetting expenditure in the Local Maintenance Fund. The fiscal agent will accumulate the expenditures from all member school districts and compile a summary of the expenditures for the entire arrangement prior to submitting a report.
  - A district that enters into a purchasing contract valued at \$25,000 or more under certain cooperative purchasing contracts must document any contract-related fees, including management fees, and the purpose of each fee. The amount, purpose, and disposition of any fee must be presented in a written report annually as an agenda item in an open meeting of the board of trustees. This written report may be audited by the commissioner. This requirement applies only to a contract entered into on or after the effective date of June 16, 2007. ([HB 273](#), 80<sup>th</sup> Legislature)

### 1.3.1.5 Determination of Accounting and Reporting Treatment

The accounting and reporting treatment for purchase of service contracts is standard; however, the treatment may vary in shared services arrangements based on several factors.

#### ***Purchase of Service Contracts***

When purchase of service contracts occur, the school district that is receiving the service records the expenditure in the *appropriate* expenditure object code in the *major* expenditure object class 6200, Purchased and Contracted Services. The school district or



education service center that is rendering the service records revenue in Revenue Object Code 5729, Local Revenues Resulting from Services Rendered to Other School Districts.

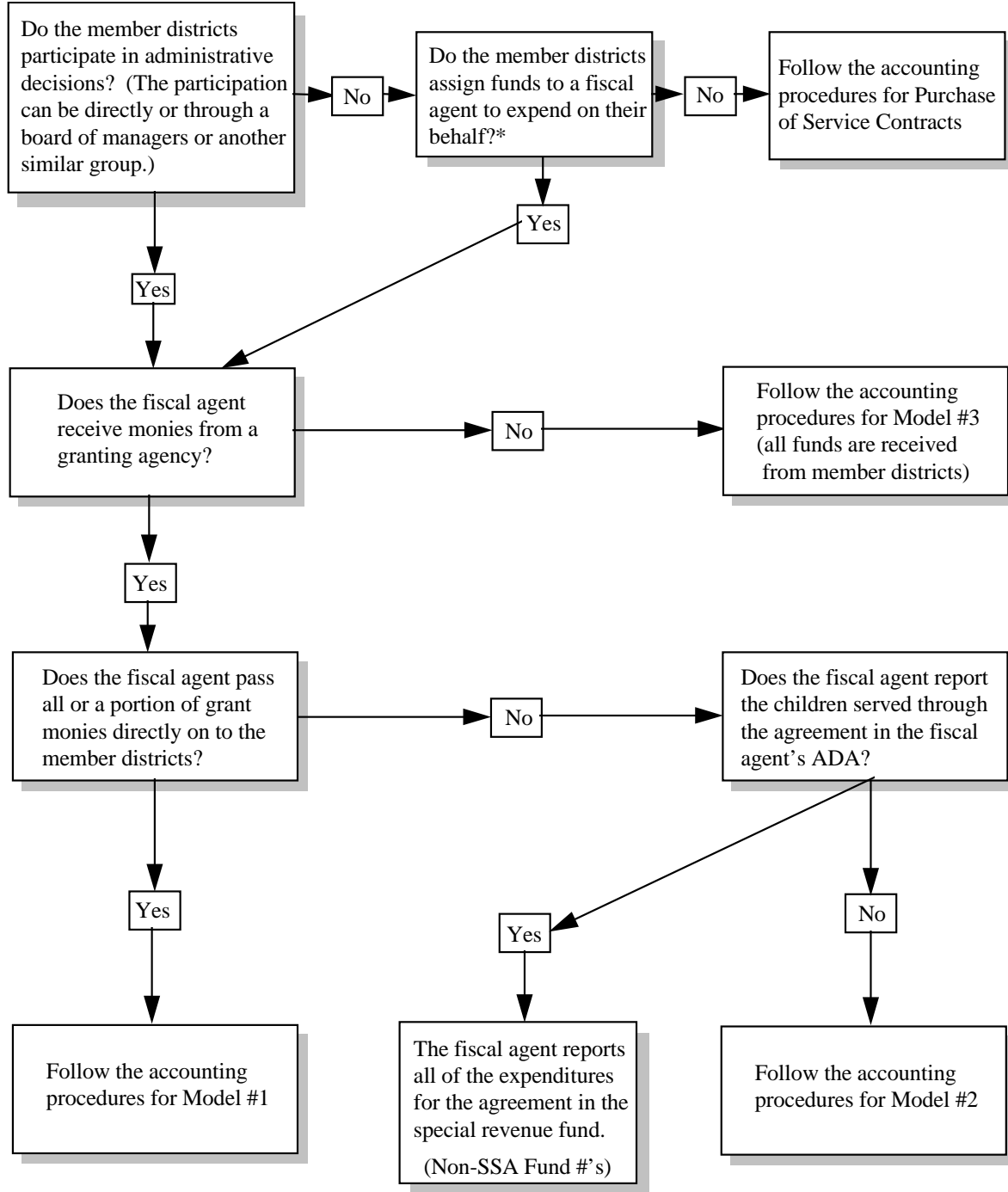
### ***Shared Services Arrangements and Joint Authority Agreements***

The accounting and reporting treatment for shared services arrangements, as well as joint authority agreements, varies between agreements. The determining factors for the accounting and reporting treatment are the *source* of the arrangements financing, the fiscal agent's *involvement* and the member school district's *involvement*. For example, if two arrangements receive financing from similar sources and the fiscal agent's duties are comparable, they will be accounted for by the same method even if one is a joint authority agreement and one is a shared service agreement.

The accounting and reporting treatment for shared services arrangements and joint authority agreements is determined by using the chart on the following page. It is possible for a shared service arrangement to have elements of more than one model for the various types of funding. It is critical that the fiscal agent and member districts agree on the model(s) to be followed in the shared service arrangement so that each district makes the accounting entries appropriate to the model(s) being followed.

There are three methods of participating in shared services arrangements. The chart provides the information to determine which of the three models of shared services arrangements is to be used based on the determining factors.

**Exhibit 22. Determining Accounting and Reporting Treatment**



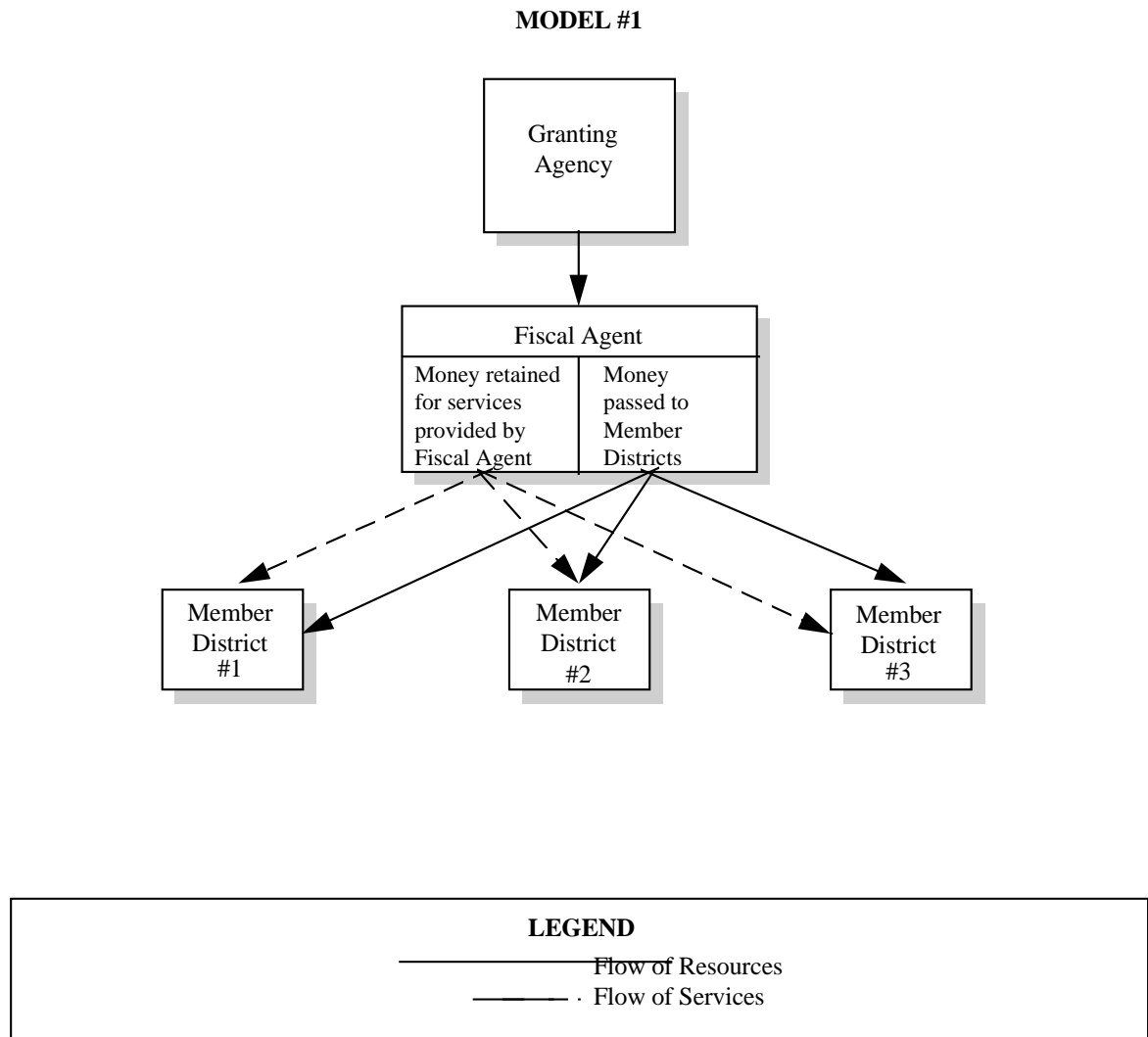
\* Examples: A Regional Day School for the Deaf or ESEA Title VI Innovative Education Program Strategies

### 1.3.1.6 Accounting and Reporting Treatment Guidance

The models each have unique characteristics. Each model is presented graphically and followed by general information and guidance for the fiscal agent and member school districts. State reporting requirements are also included for each model.

#### Model #1

Exhibit 23. Model #1



## **General Description of Model #1**

The fiscal agent receives the program funds from the granting agency. The fiscal agent retains a portion of the monies for the administrative services provided by the fiscal agent for the shared arrangement and flows the rest of the monies to participating member school districts. The fiscal agent records the receipt of the federal monies and the related disbursement activity in the appropriate shared services arrangement special revenue and/or general funds. The member school districts record all of the activity in the appropriate special revenue fund. The fiscal agent files the necessary federal reports. In such an arrangement, the fiscal agent may be a program participant or may be only an entity used to flow monies to participants.

### **Model #1: Fiscal Agent - Shared Services Arrangement Special Revenue Fund Entries**

Salary benefits and extra pay should be coded from the same fund, function, organization, fiscal year and program intent code as the salary. For illustrative purposes, the following entries do not reflect benefits and extra pay.

A shared services arrangement is formed for an ESEA, Title I, Part A - Improving Basic Programs project. The funds are received from TEA. The combined entitlements for the two participating members are \$100,000. One member district (Member District #1) that acts as fiscal agent will pay \$20,000 for a remedial reading teacher at campus 101. The other member district (Member District #2) will pay \$25,000 for a remedial reading teacher at campus 041. The fiscal agent will retain \$25,000 to employ a remedial math teacher that will work 50% of the time at both schools, at the same campus as the reading programs. The remaining \$30,000 will be retained by the fiscal agent to employ a program director to serve both school districts.

- The fiscal agent receives \$100,000 from the granting agency (TEA in this case).

<b><u>Account</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
Cash and Temporary Investments		
300-00-1110-00-000-Y-00-0-00	\$100,000	
Federal Revenues Distributed by TEA (ESEA, Title I, Part A - Improving Basic Programs)		
300-00-5929-00-000-Y-00-0-00		\$100,000

- The fiscal agent pays each member district its portion of the funds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payment to Member District #1 of Shared Services Arrangement		
300-93-6493-00-751-Y-99-0-00	\$20,000	
Payment to Member District #2 of Shared Services Arrangement		
300-93-6493-00-751-Y-99-0-00	\$25,000	
Cash and Temporary Investments		
300-00-1110-00-000-Y-00-0-00		\$45,000

- The fiscal agent incurs expenditures for a remedial math teacher and program director.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Professional Salaries (Teachers) On Behalf of Member District #1		
300-11-6119-00-751-Y-24-0-00	\$12,500	
Expenditures - Professional Salaries (Teachers) On Behalf of Member District #2		
300-11-6119-00-751-Y-24-0-00	\$12,500	
Expenditures - Professional Salaries (Program Director)		
300-21-6119-00-751-Y-24-0-00	\$30,000	
Cash and Temporary Investments		
300-00-1110-00-000-Y-00-0-00		\$55,000

The fiscal agent provides [PEIMS](#) a special record that states each member school district's total expenditures from the shared services arrangement fund. The member school districts' share of the revenue and expenditures are allocated by the predetermined criteria. It should be noted that the fiscal agent is not required to use an organization code for Function 11 Payroll Costs. Instead, either organization code 751 or 999 should be used.

### ***Model #1: Member School District - Special Revenue Fund Entries***

- Member District #1 receives funds from fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$20,000	
Shared Services Arrangement - Federal		
Revenues from Fiscal Agent		
211-00-5952-00-000-Y-00-0-00		\$20,000

- Member District #1 records salary expenditures.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Professional Salaries (Teachers)		
211-11-6119-00-101-Y-24-0-00	\$20,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$20,000

- Member District #2 receives funds from fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$25,000	
Shared Services Arrangement - Federal		
Revenues from Fiscal Agent		
211-00-5952-00-000-Y-00-0-00		\$25,000

- Member District #2 records salary expenditures.

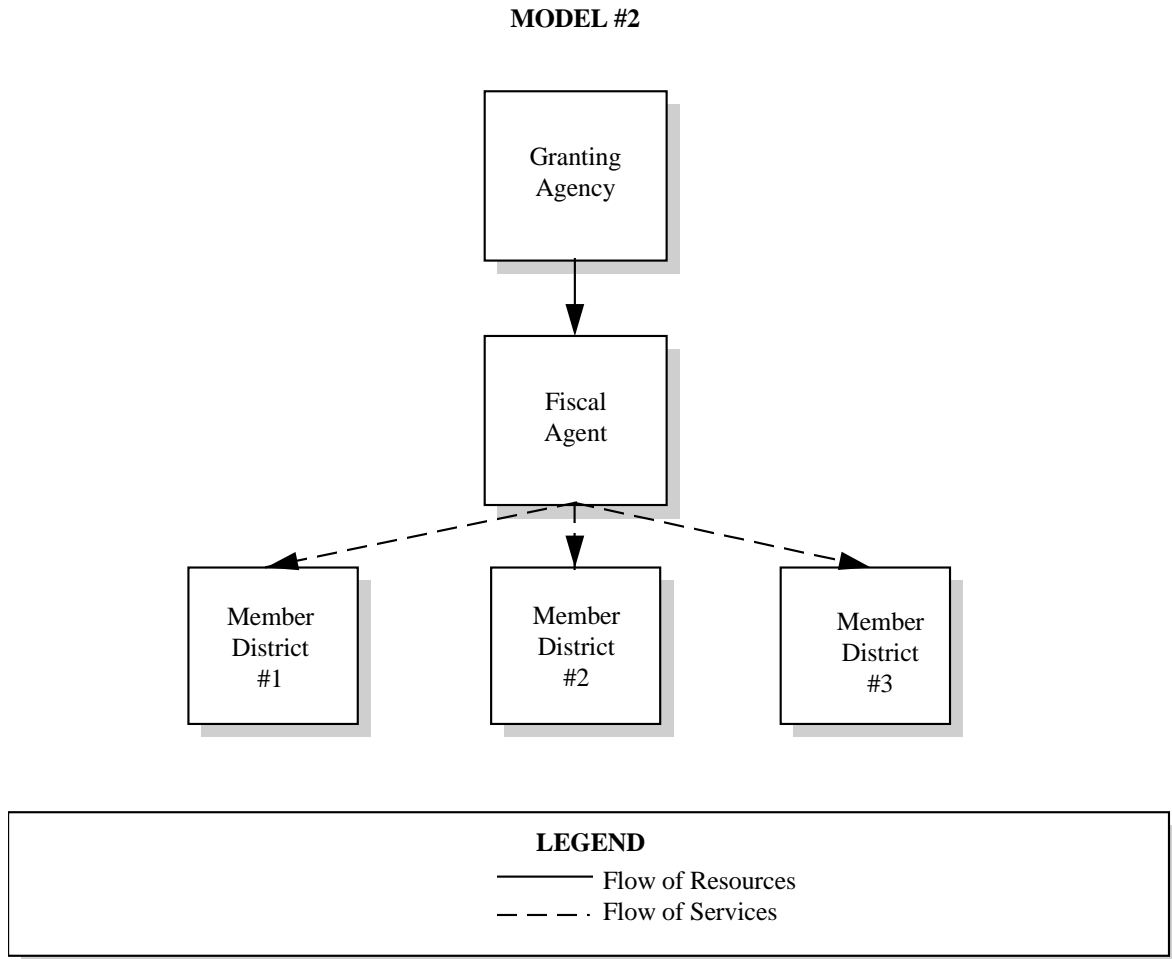
<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Professional Salaries (Teachers)		
211-11-6119-00-041-Y-24-0-00	\$25,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$25,000

Note: If the fiscal agent is also a member of the shared services arrangement, the member-related entries apply to the fiscal agent's member activities.

### ***Model #1: State Reporting Requirements***

For the shared services arrangements special revenue fund, the fiscal agent reports the total expenditures made on behalf of member districts by each member district in a special [PEIMS](#) record.

- The fiscal agent completes and submits expenditure reports for the entire shared services arrangement.
- The fiscal agent's audit report includes a footnote which describes the nature and composition (i.e. number of member school districts) of the shared services arrangement. The footnote also denotes the total expenditures for the fiscal agent and the total expenditures for all other members of the shared services arrangement.
- The member school districts report the revenues and expenditures associated with the monies transferred to them from the fiscal agent in the appropriate special revenue and/or general fund.

**Model #2****Exhibit 24. Model #2****General Description of Model #2**

The fiscal agent receives the monies from the granting agency and administers the program. The fiscal agent manages the shared services arrangement's financial matters, including budgeting, accounting, auditing and reporting. For example, the fiscal agent



maintains all supporting files, does all the purchasing, prepares the payroll, pays all the bills, files the proper reports, and prepares the budget. Certain management decisions may be made by an executive board or committee of participating members.

The fiscal agent records the receipt of monies and the related disbursement activity in the shared services arrangement special revenue fund. At year end, the fiscal agent informs the member school districts of the shared services arrangement's activity and the member school district's share of the expenditures. The fiscal agent allocates expenditure of the arrangement based on predetermined allocation rates. The fiscal agent files a special [PEIMS](#) record to identify each member school district's share of the shared services arrangements expenditures.

### ***Model #2: Fiscal Agent - Shared Services Arrangement Special Revenue Fund Entries***

Salary benefits and extra pay should be coded from the same fund, function, organization, fiscal year and program intent code as the salary. For illustrative purposes, the following entries do not show benefits and extra pay.

The education service center acts as fiscal agent for an ESEA Title I, Part C - Education of Migratory Children project funded through TEA. All services are provided by the fiscal agent and no funds are passed through to the three member districts. The combined entitlement is \$75,000. The education service center provides each school district teacher stipends of \$25,000 per year for the 5th grade. These teachers provide services which result in the extension of the school day to 5:00 p.m. While the curriculum is basic, the extended day assists the students in completing courses in a shorter school year.

- Record the receipt of revenue from TEA.

<b><u>Account</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
Cash and Temporary Investments		
301-00-1110-00-000-Y-00-0-00	\$75,000	
Federal Revenues Distributed by TEA (ESEA Title I, Part C - Education of Migratory Children)		
301-00-5929-00-000-Y-00-0-00		\$75,000

- Record payments of expenditures made on behalf of school districts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Professional Salaries (Teachers)		
301-11-6119-00-999-Y-25-0-00	\$75,000	
Cash and Temporary Investments		
301-00-1110-00-000-Y-00-0-00		\$75,000

### ***Model #2: Treatment of Excess/Deficit Revenues by Fiscal Agent***

In the event that revenues received do not equal expenditures, the fiscal agent is to (1) defer excess revenue; or (2) record an accounts receivable from either member districts or the granting agency for deficit revenue.

- In the preceding example, if revenues (assume \$75,000 received) exceed expenditures (assume \$70,000 expended), reduce revenue to an amount that equals expenditures plus indirect costs, if applicable:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Federal Revenues Distributed by TEA		
(ESEA Title I, Part C - Education of Migratory Children)		
301-00-5929-00-000-Y-00-0-00	\$5,000	
Deferred Revenue		
301-00-2310-00-000-Y-00-0-00		\$5,000

- Reciprocally, if expenditures and indirect costs, if applicable, (assume \$74,000), exceed revenues (assume \$70,000), record an accounts receivable:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from State		
301-00-1241-00-000-Y-00-0-00	\$4,000	
Federal Revenues Distributed by TEA (ESEA Title I, Part C - Education of Migratory Children)		
301-00-5929-00-000-Y-00-0-00		\$4,000

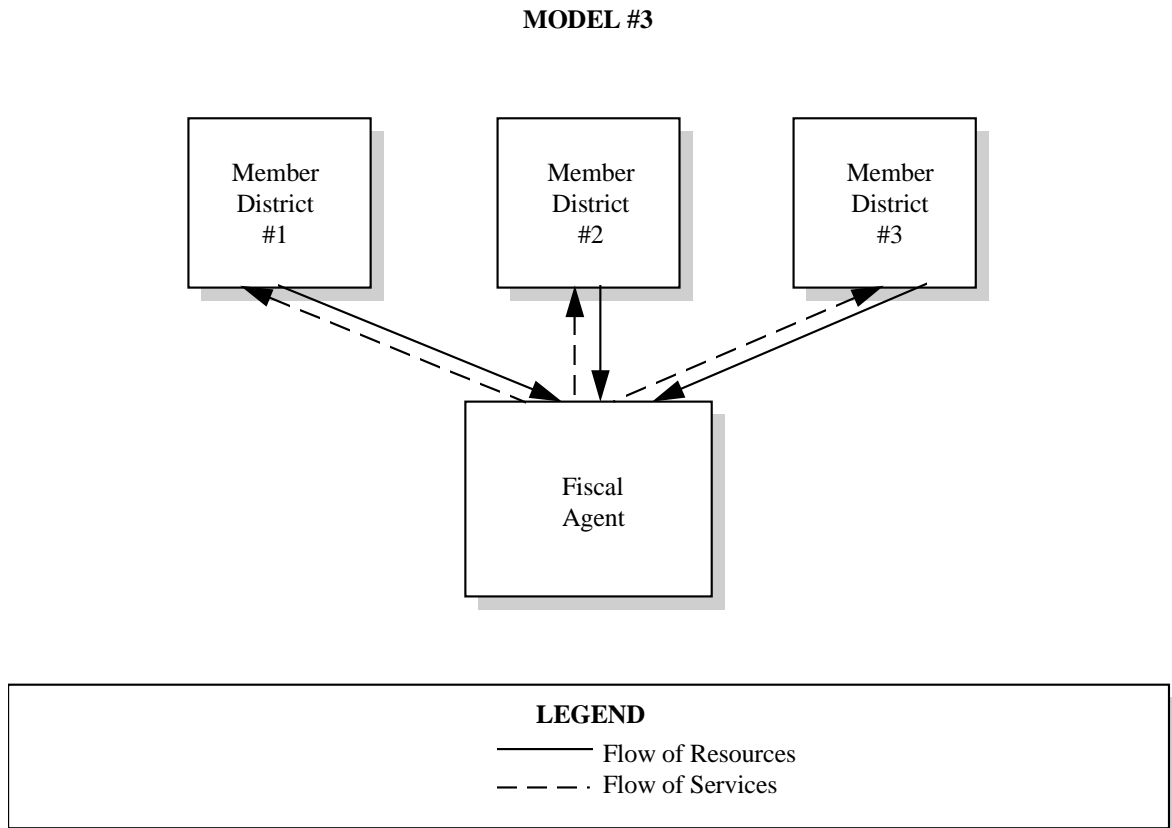
The fiscal agent provides member school districts and [PEIMS](#) each district's total revenue and expenditure information. The allocation is based on the predetermined criteria.

Member school districts receive a report from the fiscal agent detailing their portion of the shared services arrangement's expenditures. This amount is reported by the fiscal agent for the member district.

### ***Model #2: State Reporting Requirements***

For the shared services arrangements special revenue fund, the fiscal agent reports the total expenditures for each member school district in a special [PEIMS](#) record.

- The fiscal agent's audit report includes a footnote which describes the nature and composition (i.e. number of member school districts) of the shared services arrangement. The footnote also denotes the total expenditures for the fiscal agent and the total expenditures for all other members of the shared services arrangement.

**Model #3****Exhibit 25. Model #3****General Description of Model #3**

Member school districts agree to combine resources to provide a certain service. The fiscal agent manages the shared arrangement's financial matters, including the budgeting, accounting, auditing and reporting. For example, the fiscal agent maintains all supporting files, does all the purchasing, prepares the payroll, pays all the bills, and prepares the budget. Certain management decisions may be made by an executive board or committee of participating members.

The fiscal agent records the receipt of the member school district's monies and the related disbursement activity in the appropriate special revenue fund. At year end, the fiscal agent informs the member school districts of the shared arrangement's activity and the member school district's share of the expenditures. The fiscal agent allocates the arrangement costs based on predetermined allocation rates. The fiscal agent files a special [PEIMS](#) record to identify each member school district's share of the expenditures of the arrangement.

### **Model #3: Fiscal Agent - Shared Services Arrangement Special Revenue Fund Entries**

Salary benefits and extra pay should be coded from the same fund, function, organization, fiscal year and program intent code as the salary. For illustrative purposes, the following entries do not show benefits and extra pay.

Member district #1 acts as fiscal agent for a state/locally funded special education shared services arrangement that includes 1 other school district. The following expenditures are anticipated, with the costs allocated by the percentages shown:

Quantity/Item	Total Cost	Member District #1 Cost	%	Member District #2 Cost	%
2 Counselors	\$70,000	\$40,000	57.15%	\$30,000	42.85%
1 Diagnostician	\$36,000	\$18,000	50.00%	\$18,000	50.00%
Audit	\$2,500	\$1,250	50.00%	\$1,250	50.00%
Total	\$108,500	\$59,250	54.61%	\$49,250	45.39%

- Record the receipt of revenue from the member districts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
438-00-1110-00-000-Y-00-0-00	\$108,500	
Shared Services Arrangement - Revenues from Member Districts (Member District #1)		

438-00-5722-00-000-Y-00-0-00		\$59,250
Shared Services Arrangement - Revenues from Member Districts (Member District #2)		
438-00-5722-00-000-Y-00-0-00		\$49,250

- Record payments of expenditures.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Counselors and Diagnosticians		
438-31-6119-00-751-Y-23-0-00	\$106,000	
Expenditures - Audit		
438-41-6212-00-751-Y-23-0-00	\$2,500	
Cash and Temporary Investments		
438-00-1110-00-000-Y-00-0-00		\$108,500

### ***Model #3: Treatment of Excess/Deficit Revenues by Fiscal Agent***

In the event that revenues received do not correspond to expenditures the fiscal agent is to (1) defer excess revenue; or (2) record an accounts receivable for deficit revenue.

- In the preceding example if revenues (assume \$108,500 received) exceed expenditures (assume \$108,000 expended), reduce revenue to an amount to equal expenditures.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Shared Services Arrangement - Local Revenues from Member Districts (Member District #1)		
438-00-5722-00-000-Y-00-0-00	\$250	
Shared Services Arrangement - Local Revenues from Member Districts (Member District #2)		

438-00-5722-00-000-Y-00-0-00	\$250	
Deferred Revenue		
438-00-2310-00-000-Y-00-0-00		\$500

- Reciprocally, if expenditures (assume \$108,500) exceed revenues (assume \$106,000), record an accounts receivable:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from Member District #1		
438-00-1243-00-000-Y-00-0-00	\$1,250	
Due from Member District #2		
438-00-1243-00-000-Y-00-0-00	\$1,250	
Shared Services Arrangement - Local		
Revenues from Member Districts (Member District #2)		
438-00-5722-00-000-Y-00-0-00		\$2,500

The fiscal agent provides member school districts each district's total revenue and expenditure information.

### ***Model #3: Member School Districts***

Member school districts receive revenue from various sources (foundation fund revenue, tax revenue, etc.). These revenues are recorded in the General Fund and are to be used as the district deems appropriate with written established guidelines for operating purposes. The monies paid to the fiscal agent may not be identifiable as being from a *specific* revenue source.

Periodically during the year, member school districts pay monies to the fiscal agent. Member school districts determine the payment amount based on predetermined criteria established in the shared services arrangement agreement.

- Record the payment of expenditures from Member District #1 to the fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payments to Fiscal Agents of		
Shared Services Arrangements		
199-93-6492-00-999-Y-23-0-00	\$58,000	
Payments to Fiscal Agents of		
Shared Services Arrangements		
199-93-6492-00-999-Y-23-0-00	\$1,250	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$59,250

- Record the payment of expenditures from Member District #2 to the fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payments to Fiscal Agents of		
Shared Services Arrangements		
199-93-6492-00-999-Y-23-0-00	\$48,000	
Payments to Fiscal Agents of		
Shared Services Arrangements		
199-93-6492-00-999-Y-23-0-00	\$1,250	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$49,250

### ***Model #3: State Reporting Requirements***

For the shared services arrangement special revenue fund, the fiscal agent reports the total expenditures for each member district in a special [PEIMS](#) record.



The fiscal agent's audit report includes a footnote which describes the nature and composition (i.e., number of member school districts) of the shared arrangement. The footnote also denotes the total expenditures for the fiscal agent and the total expenditures for all other members of the shared arrangement.

After the member school districts receive their final report of the share services arrangement's expenditures from the fiscal agent, the member school districts adjust the expenditure accounts to reflect actual expenditures.

If amount paid to fiscal agent is less than the member's share of expenditures (assume, in the preceding example that Member District #1 paid \$4,000 less to fiscal agent than was expended on their behalf):

- Record the payment of additional expenditures from Member District #2 to the fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payments to Fiscal Agent of		
Shared Services Arrangements		
199-93-6492-00-999-Y-23-0-00	\$4,000	
Due to Other Governments - Fiscal Agent		
199-00-2183-00-000-Y-00-0-00		\$4,000

If amount paid to fiscal agent is greater than the member's share of expenditures (assume, in the preceding example that Member District #1 paid \$4,000 more to fiscal agent than was expended on their behalf):

- Record an accounts receivable from the fiscal agent. Reduce expenditures accordingly.

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Due from Other Governments - Fiscal Agent		
199-00-1243-00-000-Y-00-0-00	\$4,000	
Payments to Fiscal Agent of Shared		
Services Arrangements		
199-93-6492-00-999-Y-23-0-00		\$4,000

### ***Multiple Source Funding***

In many instances, a shared services arrangement will be funded from multiple sources. For example, a special education shared services arrangement might include state and local funds from member districts to pay for the director, counselors, diagnosticians and shared teachers. The accounting treatment in Model #3 would be applied to this portion of the shared services arrangement. Additionally, IDEA funds might flow from the granting agency to the fiscal agent for other services provided to the students. Depending on how the grant is written, the accounting treatment in either Model #1 or Model #2 would apply to that portion of the funds.

Normally, when funds are received from multiple sources, (1) each source will be recorded in a separate fund; and (2) the accounting treatment should be determined independently for each fund to avoid confusion.

### ***Sample Notes to the Financial Statements***

Fiscal agents are required to disclose SSA's in notes to the financial statements. The following is an example of a note with the required disclosures. Multiple SSA's may be listed with multiple columns in a table-type listing. Districts and ESC's may expand on the information included and are not required to follow this example, but should ensure all relevant information is included. Details of the disclosure should be based on each SSA agreement, whether written or not, as the terms and methods of operation vary among SSA's.

#### **Shared Services Arrangement – Fiscal Agent**

The District is the fiscal agent for a Shared Services Arrangement (“SSA”) which provides an Alternative Education Program for at risk students to the member districts below. All services are provided by the fiscal agent. The District has accounted for the activities of the SSA using Model 3 according to the Resource Guide. Expenditures of the SSA are summarized below:

Member districts	Expenditures
District A	\$xxx,xxx
District B	<u>xxx,xxx</u>
Total	<u>\$xxx.xxx</u>

Some districts also choose to disclose participation as a member of a SSA, although not required by the Resource Guide. The following is an example of a note regarding membership in a SSA.

#### Shared Services Arrangement – Membership

The district participates in a shared services arrangement (“SSA”) for Special Education with the following school districts:

##### Member Districts

District A	District C	District E
District B	District D	District F

The district does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent manager is responsible for all financial activities of the SSA.

### 1.3.1.7 Required Components of Special Education Shared Services Arrangements

The or contract for shared services arrangement for special education services is to be approved by the Texas Education Agency, in accordance with provisions in State law. The contract is to contain the following provisions:

#### 1. Administrative

- Determination of the composition and responsibility of the management board
- Appointment of the fiscal agent and procedures for the withdrawal and/or addition of member LEAs
- Selection of the chairperson or the management board

- Schedule of meetings
- Appointment of personnel to maintain official meeting minutes

## 2. Financial

- Ownership of assets
- Disposition of capital, liquid assets and/or personal property subsequent to shared services arrangement dissolution or reconfiguration
- An acceptable cost allocation method to be used by the fiscal agent such as:
  - Percentage of expenditures by each member district as a ratio to the whole
  - Percentage of full-time equivalent staff members as a ratio to the whole
  - Percentage of personnel unit (PU) values as a ratio to the whole (where teachers = 1.00 PU, aides = .50 or .75 PU, and support staff = 1.20 PU)
  - Number of students participating in the shared services arrangement as a ratio to the whole
  - Amount of the entitlement retained by the fiscal agent to expenditures on behalf of each member district
- Uncontrollable costs which impact the fiscal agent (the method to reimburse the fiscal agent in the event that the fiscal agent incurs uncontrollable costs due to actions taken against the shared services arrangement)
- Sharing costs for liabilities incurred against the fiscal agent of the shared services arrangement
- Method of allocating residential placement costs should a residential placement occur
- Method of calculating and distributing funds, if any, due to a withdrawing member LEA

### 3. Legal

- Responsibility for legal fees incurred due to complaints, grievances, or litigation
- Responsibility for expenditures incurred related to grievances, lawsuits, or any other legal action taken against the fiscal agent pertaining to the shared services arrangement including actions taken by employees, students, or parents

### 4. Designation of Responsibilities for the Fiscal Agent and Member Districts

- Employment of personnel
- Budgeting and accounting
- Responsibility for reporting to internal and external entities
- Schedule for reporting member district expenditures to the fiscal agent as applicable
- Responsibility for state and federal reporting requirements, including fiscal reporting through the PEIMS 032 and 033 records
- General summary of the services to be shared

The SSA agreement/contract must include documentation that the board of trustees of each member district has approved the contract.

## 1.3.2 Food Service Operations

Food service operations accounting and reporting information is discussed in four categories: the appropriate use of *funds*, the *accounting issues*, *revenue recognition (commodities)* and *fund balance*.

### 1.3.2.1 Funds

The food service operations of a school district must be accounted for in one of three different funds:

- General Fund

- Special Revenue Fund
- Enterprise Fund

The fund in which a school district records the food service operations depends primarily upon:

- The source of the operation's funding
- Whether General Fund revenues subsidize the food service operations
- If the school district's intent is for the food service operation to be self-sustaining

A school district must record food service operations in the *General Fund* if the following conditions exist:

- Students are not charged for meals and all expenditures are paid from General Fund revenues and a National School Lunch Program (NSLP) reimbursement.
- Students are not charged for meals and all expenditures are paid from General Fund revenues.
- The school district does not participate in the NSLP.

A school district must record food service operations in the *Special Revenue Fund* if:

- The students are charged for meals.
- The school district receives an NSLP reimbursement.
- The school district's General Fund revenues subsidize the food service operations.

A school district may record food service operations in the *Enterprise Fund* if:

- The students are charged for meals.
- The school district's intent is for the food service program to be self-sustaining (General Fund revenues do not subsidize the program).

In all instances, school districts should account for the *Summer Feeding Program* in a Special Revenue Fund.

Exhibit 26 represents a Food Service Operation Fund Decision Chart which should assist in clarifying the appropriate accounting for food service operations.

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**Exhibit 26. Food Service Operation Fund Decision Chart**

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	General Fund	Special Revenue Fund	Enterprise Fund
User fees are charged to supplement the NSLP reimbursement; i.e., students are charged for meals	No	Yes	Yes
Are NSLP monies received	Yes/No	Yes/No	Yes/No
General Fund subsidizes the Food Service Fund for all expenditures in excess of the NSLP reimbursement	Yes	Yes	No
Intent on the part of the school district is for the Food Service Fund to be self-sustaining	No	Yes/No	Yes

### 1.3.2.2 Accounting Issues

After the school district's management determines which fund most appropriately reflects the activity of the food service operations, several accounting issues must be addressed.

Exhibit 27 illustrates the unique accounting and reporting issues presented by use of each of the three funds.

**Exhibit 27. Accounting Issues**

<b>Requirement</b>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Enterprise Fund</b>
Fund Codes	199	240	701
Basis of Accounting	Modified Accrual	Modified Accrual	Accrual
Measurement Focus	Flow of Current Financial Resources	Flow of Current Financial Resources	Flow of Economic Resources
Budgeted Fund	Yes	Yes	Yes
Capital Asset Accounting	In general capital asset accounts	In general capital asset accounts	Within the Enterprise Fund
Depreciation of Capital Assets Recorded	No	No	Yes
Long-Term Debt Recorded	In General Long-Term Debt Fund	In General Long-Term Debt Fund	Within the Enterprise Fund
Profit and Loss Measurement	No	No	Yes
Recognition of Federal Assistance	Recorded as Operating Revenue	Recorded as Operating Revenue	Recorded as Non-Operating Revenue
Recognition of Commodities Received from USDA	Recorded as Operating Revenue	Recorded as Operating Revenue	Recorded as Non-Operating Revenue
Recognition of Interest Revenue	Recorded as Operating Revenue	Recorded as Operating Revenue	Recorded as Non-Operating Revenue
Recognition of Interest Expense	Unmatured Interest on General Long-Term Debt Is Recorded When Due	Unmatured Interest on General Long-Term Debt Is Recorded When Due	Recorded in Accounting Period in Which It Is Incurred



## **Fund Codes**

In the Enterprise Fund, fund code 701 is used for food service operations other than the US Department of Human Services (DHS) Summer Feeding Program. The Summer Feeding Program should be accounted for in Special Revenue Fund code 242.

## **Basis of Accounting (When a Transaction is Recognized)**

The General Fund and the Special Revenue Fund require the modified accrual basis of accounting. The Enterprise Fund requires the accrual basis of accounting.

- *Modified accrual accounting* (General Fund and Special Revenue Fund) requires:
  - *Revenues* to be recognized in the accounting period when they are measurable and available
  - *Expenditures* to be recognized when an event or transaction is expected to draw upon current expendable resources
- *Accrual accounting* (Enterprise Fund) requires:
  - *Income* to be recognized when earned
  - *Expenses* to be recognized when incurred

## **Measurement Focus**

The General Fund and the Special Revenue Fund use a flow-of-current-financial-resources measurement focus. The Enterprise Fund uses a flow-of-economic-resources measurement focus.

- In the flow-of-current-financial-resources measurement focus, emphasis is on available expendable resources rather than profits

- In a flow-of-economic-resources model, the measurement focus is a capital maintenance determination of net profit from operations. This model includes an accounting for all cost allocations, including depreciation.

### ***Budget Requirements***

All three funds must be included in the annual budget approved by the school district's board of trustees. The approved budget for all three funds must be reported to TEA through the [PEIMS](#) process.

### ***Capital Assets and Depreciation***

Capital assets purchased by an Enterprise Fund are recorded within the Enterprise Fund. Assets purchased with governmental funds, i.e., the General Fund and the Special Revenue Fund, are recognized as expenditures in the appropriate fund and also recorded as assets in the general capital asset accounts.

### ***Long-Term Debt***

Long-term debt incurred by the General Fund and Special Revenue Fund is recognized under the modified accrual basis of accounting (see Debt section of this module) and related outstanding principal would be recorded in the General Long-Term Debt Fund. Long-term debt incurred by the Enterprise Fund would be recognized under the accrual basis of accounting (see Debt section) and related outstanding principal would be recorded in the Enterprise Fund.

### ***Profit and Loss Measurement***

A school district must record food service operations in the Enterprise Fund if there is no intent by the school district to subsidize the food service operations from the revenues of the General Fund. However, such a school district may occasionally have inadvertent losses in the Enterprise Fund that require operating transfers from the General Fund. This operating transfer does not alter a school district's intent to keep the food service operations self-sustaining.

## ***Recognition of Federal Assistance***

Federal financial assistance received by the school district in support of the food service operations is recorded differently for each type of fund. (Examples of federal financial assistance are National School Lunch Program, Summer Feeding Program, US Department of Agriculture Commodity Supplemental Program and National School Breakfast Program.) For the General Fund and the Special Revenue Fund, federal financial assistance should be recorded as operating revenue; however, for the Enterprise Fund such assistance is recorded as non-operating revenue.

### **1.3.2.3 Revenue Recognition**

Revenues recognition issues relating to user fees and commodities are discussed below.

#### ***User Fees***

Revenue from user fees must be recognized in the accounting period earned. Consequently, a school district that begins a new school year prior to September 1 must record the revenues from August student meal fees in the current fiscal year. For example, a school district that begins a new school year on August 15 will record user fees earned from August 15 through August 31 as revenue in the current fiscal year. Revenue from user fees earned after August 31 will be recorded in the next fiscal year.

#### ***Commodities***

Many school districts receive commodities from the US Department of Agriculture. Commodities must be recorded in a school district's accounting records.

- In the General Fund and in the Special Revenue Fund, commodities are recorded as operating revenue.
- In the Enterprise Fund, commodities are recorded as non-operating revenue.

Commodities expenditures are recorded differently under the consumption and purchase methods of recording expenditures.

- Under the consumption method, expenditures are recorded as commodities are used. The initial entry to record the commodities debits an inventory account. When the commodities are used the inventory account is credited and the appropriate expenditure accounts are debited.
  
- Under the purchase method, commodities expenditures are recorded when the commodities are received
  
- Under either the consumption or the purchase method of accounting for commodity inventories, an adjustment must be made at fiscal year-end to reflect the unused portion of commodities that remain on hand with the school district.
  - Under the consumption method the journal entry to record the ending commodity inventory would be to debit commodity revenues and to credit deferred revenues.
  
  - Under the purchase method, the above entry would be necessary, as well as a journal entry to debit inventory and credit commodity expenditures. See the Inventory section of this module for additional information.

### 1.3.2.4 Fund Balance

A school district may not have a fund balance exceeding three months' average food service operations expenditures in any fund type used to record the department's financial information. In addition, these balances must be used exclusively for allowable child nutrition program purposes.

The OMB A-133 Compliance Supplement notes that a School Food Account (SFA) is required to account for all revenues and expenditures of its non-profit school food service in accordance with State requirements. A SFA must operate its food services on a non-profit basis; all revenue generated by the school food service must be used to operate and improve its food services (7 CFR sections 210.14 (a), 210.14 (c), 210.19 (a)(2), 215.7(d)(1), 220.2(o-2), and 220.7(e)(1)(i)).

The Texas Department of Agriculture provides financial information in its [Administrator's Reference Manual](#). An excerpt is provided in the link below:

[http://www.squaremeals.org/vgn/tda/files/2348/32390\\_Section%2014-Financial%20Information.pdf](http://www.squaremeals.org/vgn/tda/files/2348/32390_Section%2014-Financial%20Information.pdf)

### 1.3.3 On-Behalf Teacher Retirement System Payments

GASB Statement No. 24, (see Appendix 1 - GASB Statement Summaries and the Payroll Liabilities sections of this module) affects school district accounting for pensions and other post employment benefits. Direct payments made by a paying entity on behalf of another, legally separate entity (employer entity) to a third-party recipient which relate to fringe benefits or salaries (“on-behalf payments”) must be recognized as revenues and expenditures/expenses by the recipient employer entity. As a result, payments (contributions) made by the state (the “paying entity”) to the Teacher Retirement System of Texas (TRS, the third-party recipient) on behalf of a school district (an “employer entity”) must be recorded as equal revenues and expenditures/expenses of the school district. This section provides a discussion of on-behalf payments and methods for calculating and accounting for them.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, superseded GASB Statement No. 12. Since most districts don’t offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance to be provided by the Comptroller. Please refer to the Comptroller’s OPEB website for additional guidance.

Payments that the Teacher Retirement System of Texas receives from the federal government pursuant to the retiree drug subsidy (RDS) provisions of Medicare Part D, as established in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 should be recorded as on-behalf payments in the same manner as pension payments discussed previously. The school district should use the same account numbers as the on-behalf payments for pensions. These amounts are provided by TRS annually on their website under the [GASB 24 section](#). See 1.2.5.2 for a sample journal entry.

#### 1.3.3.1 Overview of Teacher Retirement Contributions and Payments

Employees of a school district that are eligible for teacher retirement have a percentage of their salaries withheld to be paid to TRS. In addition, the state pays matching funds to the

TRS on behalf of the employees. The “matching amount” is not always equal to the deducted amount. For example, 7.05% may be deducted from employee gross pay (6.4% for teacher retirement and .65% for TRS-Care, the TRS health plan for retired employees) and the state may “match” with 6.58% for retirement and 1.00% for TRS-Care for a total matching amount of 7.58%.

School districts (rather than the state) must pay the “matching amounts” for school district employees that are paid from *federal funds*. Additionally, under certain circumstances, the school district must pay a *portion* of the “matching amounts” for professional employees paid from *non-federal sources*. The “matching amounts” that are not paid by school districts are paid by the state of Texas. These “matching amounts” paid by the state on behalf of a school district’s employees must be recorded by the school district as on-behalf payment revenues and expenditures.

Beginning with the 2007-08 school year the state contribution rate increased from 6.0% to 6.58%. The member contribution rate remained 6.4%. If rate changes are made, TRS will communicate this information to the reporting entities.

*(Refer to TRS Payroll Reporting Procedures Manual located in the [employers section](#) of the TRS website for current deduction instructions and rates)*

### **1.3.3.2 On-Behalf Payment Calculation and Accounting Methodology**

One method for calculating the amount of on-behalf revenue and expenditure/expense is as follows:

1. Sum the employee salaries (both from federal and non-federal sources) subject to TRS deductions for the fiscal year (from Form TRS 4 or computer equivalent).
2. Multiply this sum by the *state* TRS “matching” rate (add the retirement rate and the TRS-Care rates). This product is the *total TRS matching expenditure paid* (regardless of who paid the matching amount).
3. Sum the TRS “matching” amounts paid by the school district for the fiscal year (include statutory minimum matching, federal grant matching, 90-day new employee, and TRS-Care matching).

4. Subtract the sum of the TRS “matching” amounts *paid by the school district* (step 3) from the *total TRS matching expenditure paid*. The remainder is the amount of “matching” expenditure that must be recorded by the school district as an “on-behalf” expenditure.
5. Record the expenditure in the accounting records.

An example of how to implement this method of calculating the on-behalf expenditure follows.

---

**Exhibit 28. Possible Methodology for Calculating and Recording On-Behalf Payment Expenditures**

---

1. *Sum the salaries subject to TRS deductions for the fiscal year.*

Assume a school district has salaries subject to TRS deductions totaling \$3,000,000 for the fiscal year.

2. *Multiply this sum by the state TRS “matching” rate. (Add the matching retirement rate and the matching TRS-Care rate.)*

Assume that the TRS matching rate is 7.58%. (6.58% for the matching retirement rate and 1% for the matching TRS-Care rate)

$$\begin{array}{r}
 \$3,000,000 \\
 \times 7.58\% \\
 \hline
 \mathbf{\$ 227,400}
 \end{array}$$

Note: The TRS matching rates shown above are used for the purpose of this example only. A school district should refer to the TRS Payroll Reporting Procedures Manual located in the [employers section](#) of the TRS website for current deduction instructions and rates.

3. Sum the TRS “matching” amounts paid by the school district for the fiscal year (include statutory minimum matching, federal grant matching and TRS-Care matching).

Assuming the amounts below, the TRS “matching” amounts paid by the school district during this fiscal year are:

Statutory Minimum	\$60,950
Federal Grant	\$36,550
TRS-Care	\$2,500
<b>Total</b>	<b>\$100,000</b>

4. Subtract the sum of the TRS “matching” expenditures paid by the school district (step 3) from the total TRS “matching” expenditure (step 2). The remainder is the “matching” expenditure that must be recorded by the school district as on-behalf.

\$227,400  
(100,000)  
**\$127,400**

5. Record the on-behalf expenditure in the accounting records.

Record the \$127,400 on-behalf expenditure. It is acceptable under GASB Statement No. 24 for all of the “on-behalf” payments to be charged to the general fund.

The following example illustrates a method of calculating amounts to be charged to the general fund by function. The payroll amount subject to TRS deduction is converted function by function, to a percentage of the total. This percentage is then applied to the on-behalf expenditure to be recorded (\$127,400):

Function-Object Code 61XX (A)	Total Expenditures (B)	Percentage of Total Payroll Expenditures (B)/Total (B) (C)	Amount to record, by function as an on-behalf payment (Object code 6144) (C) x Total (D) (D)
11-6100	\$2,167,569	73.23%	\$ 93,295
12-6100	65,690	2.22%	2,828
13-6100	33,491	1.13%	1,440



21-6100	42,674	1.44%	1,835
23-6100	63,555	2.15%	2,739
31-6100	68,676	2.32%	2,956
33-6100	45,000	1.52%	1,936
34-6100	38,142	1.29%	1,643
41-6100	255,777	8.64%	11,007
51-6100	137,481	4.65%	5,925
53-6100	41,732	1.41%	1,796
Total	\$2,959,787	100.00%	\$127,400

Note: Revenues equal to on-behalf payment expenditures/expenses should be recorded, by fund, in Revenue Object Code 5831. A sample journal entry illustrating the recording of on-behalf payment revenues and expenditures/expenses is included in the Pensions section of this module.

### 1.3.4 Payments to Other Educational Entities

Currently there is only one situation involving the distribution of Foundation School Program revenues and/or local revenues by local school districts to another educational entity. Although these transactions will be immaterial for most school districts, school districts should consistently apply the accounting guidance given below to ensure that the information reported by school districts is comparable.

- Juvenile Justice Alternative Education Programs

Previously there were two additional situations which affected the distribution of both Foundation School Program and local revenues. These two situations were:

- Charter Schools
- Public Education Grant Programs

As explained in the following sections, these two situations are now obsolete.

### 1.3.4.1 Charter Schools

Charter schools are authorized under Chapter 12, Subchapter D, TEC. A charter may be granted by the State Board of Education for the operation of a school providing instruction to one or more elementary or secondary grade levels. These schools were previously funded by two sources of funds: Foundation School Program funds distributed directly from the state, and local funds paid in the form of tuition by the school district in which a student attending the school resided (TEC §§12.106, 12.107).

When the school district paid tuition to a charter school, such as a Chapter 41 school district, the payment was recognized as an expenditure to the school district. The school district classified the expenditure in Function 96, Payments to Charter Schools, using Expenditure Object Code 6223, Student Tuition - Other than to Public Schools.

House Bill 6, enacted by the 77<sup>th</sup> Legislature in 2001, changed the method of funding to one source of funds distributed directly from the state. Function 96 became obsolete effective September 1, 2004 and is no longer a valid function code.

### 1.3.4.2 Public Education Grant Programs

The Public Education Grant Program is authorized under Chapter 29, Subchapter G, TEC. This program allows an eligible student (as described by Section 29.202 and 29.203, TEC) to attend a public school in another school district chosen by the student's parent. The school district where the student received services recognized the state aid earned as a result of providing services in the 5810 series of Revenue Object Codes.

Previously, when one school district paid a public education grant to another school district, the payment was recognized as an expenditure to the paying school district. The school district classified the expenditure in Function 94, Payments to Other School Districts under the Public Education Grant Program, using Expenditure Object Code 6222, Student Tuition - Public Schools.

House Bill 318, enacted by the 75<sup>th</sup> Legislature in 1997, changed the method of funding so that the student is included in the average daily attendance of the district in which the student is attending school rather than the district in which the student resides. Function 94 became obsolete effective September 1, 2004 and is no longer a valid function code.

### 1.3.4.3 Juvenile Justice Alternative Education Programs

The Juvenile Justice Alternative Education Program is required under Chapter 37, Subchapter A, TEC. A juvenile justice program must be developed by the juvenile board of a county with a population greater than 125,000 and may be developed by a county with a smaller population. The programs are to be created to provide educational services to students who have been found by a juvenile court to have engaged in delinquent behavior. Juvenile courts are required to transfer such students to Juvenile Justice Alternative Programs on the date of adjudication. The school district in which the student is enrolled at the date the court orders the student to attend a Juvenile Justice Alternative Education Program must make a transfer payment for the student to the juvenile board. This transfer payment must be made for the portion of the school year for which the juvenile justice program provides educational services in an amount equal to the district's average per student expenditure in alternative education programs. The financing arrangements are discussed in [TEC §37.011](#).

The school district in which the student is enrolled at the date the court orders the student to attend a Juvenile Justice Alternative Education Program is required to report the student's attendance and recognize the revenue associated with the student which is paid to the Juvenile Justice Alternative Education Program. The school district should recognize the revenue associated with the transfer payment in the same manner as it would if the student were attending in the school district. Thus, the school district should recognize the local portion of the transfer payment in the 5710 series of Revenue Object Codes and recognize the state portion of the transfer payment in the 5810 series of Revenue Object Codes.

When a school district makes a payment to a juvenile board under the Juvenile Justice Alternative Education Program, the payment should be recognized as an expenditure to the school district. The school district should classify the expenditure in Function 95, Payments to Juvenile Justice Alternative Education Programs, using Expenditure Object Code 6223, Student Tuition - Other than to Public Schools.

## 1.4 Account Codes

### 1.4.1 Overview of Account Codes

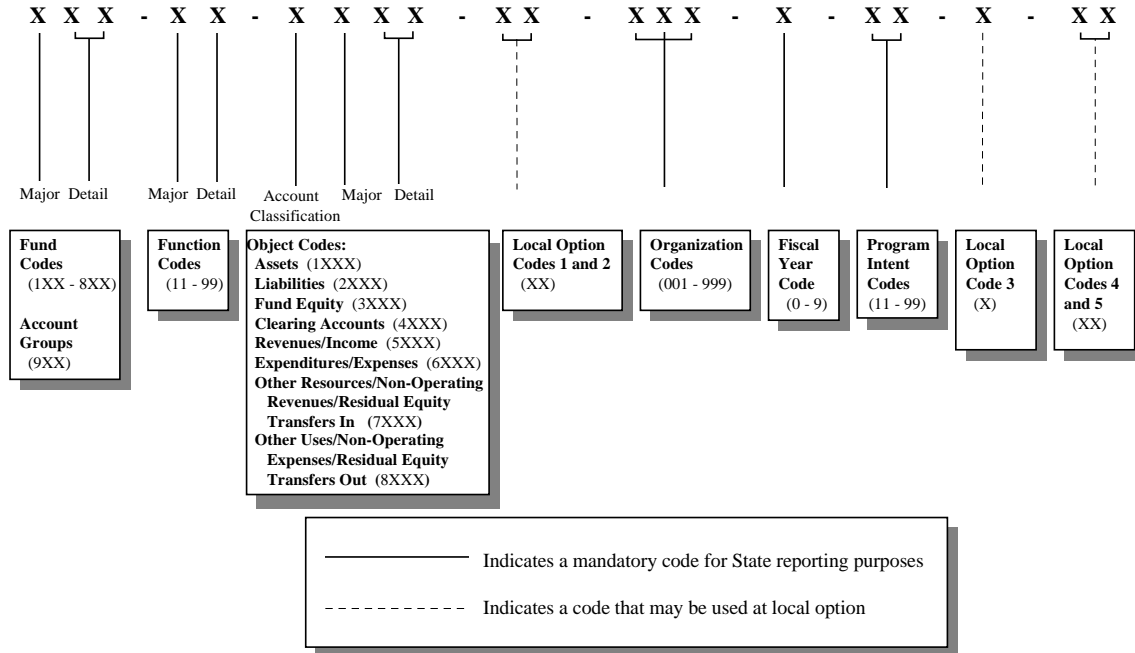
Section 44.007 of the [Texas Education Code](#) (Code or TEC) requires that a standard school district fiscal accounting system be adopted by each school district. The system must meet at least the minimum requirements prescribed by the State Board of Education and also be subject to review and comment by the state auditor. Additionally, the accounting system must conform to Generally Accepted Accounting Principles (GAAP). This section further requires that a report be provided at the time that the school district budget is filed, showing financial information sufficient to enable the state board of education to monitor the funding process and to determine educational system costs by school district, campus and program.

The [Texas Education Code](#), Section 44.008, requires each school district to have an annual independent audit conducted that meets the minimum requirements of the state board of education, subject to review and comment by the state auditor. The annual audit must include the performance of certain audit procedures for the purpose of reviewing the accuracy of the fiscal information provided by the district through the Public Education Information Management System ([PEIMS](#)). The audit procedures are to be adequate to detect material errors in the school district's fiscal data to be reported through the PEIMS system for the fiscal period under audit.

A major purpose of the following accounting code structure is to establish the standard school district fiscal accounting system required by law. Although certain codes within the overview 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 29. Account Code Structure**

**The Code Structure**



**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.

Example:

A 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 applied to expenditures/expenses that identify the purpose of the transaction. The first digit identifies the major class and the second digit refers to the specific function within the area.

Example:

The function "Health Service" 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 that identifies 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.

Example:

Money received for current year taxes is classified in account 5711. The 5 denotes revenue, the 7 shows Local and Intermediate Sources, the 1 denotes local real and personal property taxes 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 that identifies the organization, i.e., High School, Middle School, Elementary School, Superintendent's office, etc. An organization code does not necessarily correspond with a physical location. The activity, not the location, defines the organization. Campuses are examples of organization codes and are specified for each school district in the Texas School Directory.

Example:

Expenditures for a high school might be classified as 001. This is a campus organization code that is defined in the Texas School Directory for that high school.

## **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.

Examples:

For the 2005-06 fiscal year of the school district, a 6 would denote the fiscal year.

An ESEA, Title I, Part A - Improving Basic Programs grant for the project year from July 1, 2005 through June 30, 2006 would be indicated by a 6. A grant for the project year from July 1, 2006 through June 30, 2007 would be indicated by a 7. Therefore, 10 months of the ESEA, Title I, Part A - Improving Basic Programs grant expenditures would be accounted for under project year 6 and 2 months would be accounted for under project year 7.

## **Program Intent Code**

A 2 digit code used to designate the intent of a program provided to students. These codes 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 (the student group toward which the instructional or other service is directed) determines the program intent code, not the demographic makeup of the students served.

Example:

An entire class of physics is taught at the basic level. Program intent code 11 would designate Basic Educational Services.

## **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 district to further describe the transaction.

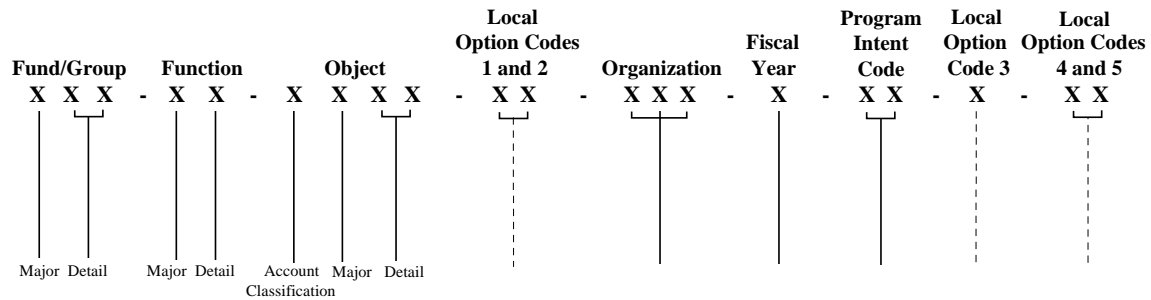


## 1.4.2 Fund Codes

School district accounting systems are organized and operated on a fund basis. A fund is an accounting entity with a self-balancing set of accounts recording financial resources and liabilities. A school district designates the fund’s financial resources for a distinct purpose. The fund’s purpose can be established by the state or federal government as well as the school district. The  $\mathcal{R}$  by a fund indicates that the fund is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such funds are applicable to the school district.

**Exhibit 30. Fund Code Structure**

### The Code Structure



**Fund Codes**  
(1XX - 8XX)

**Account Group Codes**  
(9XX)

————— Indicates a mandatory code for State reporting purposes

----- Indicates a code that may be used at local option

School districts should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

## **100 - 600**

## **GOVERNMENTAL FUND TYPES**

Governmental fund types for Texas school districts consist of four governmental fund groups (General, Special Revenue, Capital Projects and Debt Service) that account for the acquisition, use and balances of expendable financial resources and related liabilities as required by law or rule.

### **100**

### **GENERAL FUND**

The general fund is a governmental fund with budgetary control which is used to show transactions resulting from operations of on-going organizations and activities from a variety of revenue sources for which fund balance is controlled by and retained for the use of the local education agency. The general fund utilizes the modified accrual basis of accounting. To maintain separate revenue and expenditure accounts to assure the integrity of specific revenue purposes when required by law or rule, the general fund is to employ the classifications defined below.

#### **℞ 101**

#### **Food Service**

This classification is to be used by the school district for a food service program, under certain circumstances.

The Food Service Fund is considered a part of the General Fund if it meets the following criteria:

- No user fees are charged; i.e., students are not charged for meals, and
- Participation in the National School Lunch Program (NSLP) is not a factor. Whether the school district participates or not, the General Fund subsidizes the Food Service Fund for all amounts required in excess of the NSLP reimbursements

Fund Codes	
Major	Detail
X	XX

The fund balance of the Food Service Fund may not exceed three months of food service operations, and such balances are to be used exclusively for allowable child nutrition program purposes. (10.553, breakfast; 10.555, lunch) (Note: See Fund Codes 240 and 701 which are alternative methods of accounting for Food Service Funds, depending on the guidelines established by the school district.)

The Summer Feeding Program funded by the Department of Human Services (DHS) is not to be classified in this fund, but rather in the Special Revenue Fund Code 242.

### **℞ 102 ESC State Support (Education Service Centers Only)**

This classification is to be used by an education service center to account, on a project basis, for funds to provide for the general operation of the education service centers and to develop, maintain, and deliver core services for student and school district performance or other areas identified by the Commissioner of Education.

### **103-160 Reserved for Future State Definition**

These classifications are reserved for future state designation and are not to be used by the school district.

### **161-198 Locally Defined Classifications (Convert to Fund 199 for PEIMS)**

These classifications are used, at the option of the school district, to further classify specific revenues and related expenditures for local requirements. For [PEIMS](#) reporting these accounts are converted to Fund 199.

### **℞ 199 General Fund**

This classification must be used to account for funds in which the local governing board designates. The local governing board has wide discretion in their use as provided by law. This fund usually

includes transactions as a result of revenues from local maintenance taxes, payments in lieu of taxes, foundation entitlements, State and County available and other Foundation School Program sources which are not identified on warrants for foundation entitlements. This fund classification is also used to record transactions involving the instructional facilities allotment for lease-purchase related purposes (Fund Code 699, Debt Service Fund, is used to record transactions involving the FSP instructional facilities allotment for bonded indebtedness (voter approved debt) related purposes). Any locally defined codes that are used at the local option are to be converted to Fund 199 for [PEIMS](#) reporting.

## **200/300/400 SPECIAL REVENUE FUNDS**

Special revenue funds are governmental funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This excludes expendable trusts and major capital projects. These funds utilize the modified accrual basis of accounting.

When accounts are designated as “Education Service Centers Only,” school districts are not to use these fund classifications.

Special revenue funds are grouped in the following categories:

<b>Funds</b>	<b>Category/Description</b>
<b>200-289</b>	<p><b>Special Revenue (Federal Programs)</b></p> <p>This group of funds is used to account for federally funded special revenue funds. Member districts of shared services arrangements are to use these codes to account for the member district portion of a shared services arrangement. Each federal fund has a number assigned in the Catalog of Federal Domestic Assistance (CFDA). These numbers are reflected at the end of the definition of each fund. For those funds that are administered by the Texas Commission on Alcohol and Drug Abuse (TCADA), the appropriate TCADA code is also designated.</p>
<b>290-379</b>	<p><b>Special Revenue (Federally Funded Shared Services Arrangements)</b></p> <p>This group of funds is used to account for the fiscal</p>

<b>Funds</b>	<b>Category/Description</b>
	agent portion of a shared services arrangement that is federally funded. Each federal fund has a number assigned in the Catalog of Federal Domestic Assistance (CFDA). These numbers are reflected at the end of the definition of each fund. For those funds that are administered by the Texas Commission on Alcohol and Drug Abuse (TCADA), the appropriate TCADA code is also designated.
<b>380-429</b>	<p><b>Special Revenue (State Funded)</b></p> <p>This group of funds is used to account for state funded special revenue funds.</p>
<b>430-459</b>	<p><b>Special Revenue (State/Locally Funded Shared Services Arrangements)</b></p> <p>This group of funds is used to account for the fiscal agent portion of a shared services arrangement that is state/locally funded.</p>
<b>460-499</b>	<p><b>Special Revenue (Local Programs)</b></p> <p>This group of funds is used to account for special revenue funds from local sources.</p>

**200****SPECIAL REVENUE (FEDERAL PROGRAMS)**

Federal Programs that are used by school districts and education service centers not acting as a fiscal agent for a shared services arrangement are designated by Fund Codes 201 through 289. Most, but not all, of these funds must be applied for through a Standard Application System (SAS).

**201 - 202 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞ 203 Child Care Development Block Grant**

This fund classification is to be used to account, on a project basis, for funds granted under Title XX of the Social Security Act. (93.575) (U.S. Department of Health and Human Services)

**℞ 204 ESEA, Title IV, Part A - Safe and Drug-Free Schools and Communities Act**

This fund classification is to be used to account, on a project basis, for funds granted as a result of the NCLB Act of 2001. These funds are to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention programs. This program is authorized under P.L. 107-110 (84.186A) (U.S. Department of Education)

**℞ 205 Head Start**

This fund classification is to be used to account, on a project basis, for funds granted for the Head Start Program by the United States Department of Health and Human Services. (93.600) (U.S. Department of Health and Human Services)

**℞ 206 ESEA, Title X, Part C - Education for the Homeless Children and Youth**

This fund classification is to be used to account, on a project basis, for funds granted for a variety of staff development and supplemental services, including in-service training, counseling, psychological services and tutoring. This grant is funded by P.L. 107-110, McKinney-Vento Homeless Education Assistance Improvement of 2001 as amended by NCLB Act of 2001, Title X, Part C. (84.196) (U.S. Department of Education)

**207 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 208 Human Immunodeficiency Virus (HIV) Education**

This fund classification is to be used to account, on a project basis, for funds granted for educator training programs in human immunodeficiency virus (HIV) education for school-aged populations. Education Service Centers receive support to provide technical assistance, workshops and materials, and collection of data on HIV educational programs and practices. (93.938) (U.S. Department of Health and Human Services)

**℞ 209 Energy Conservation for Institutional Buildings**

This fund classification is to be used to account, on a project basis, for funds granted for energy conservation by the US Department of Energy. (81.052)

**210 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 211 ESEA, Title I, Part A - Improving Basic Programs**

This fund classification is to be used to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children. This program is authorized under P.L. 107-110. (84.010A) (U.S. Department of Education)

**Note:** This fund code is also used for ESEA Title I, Part D, Subpart 2 - LEA programs with locally operated correctional facilities and Title I – School Improvement Program.

**℞ 212 ESEA, Title I, Part C - Education of Migratory Children**

This fund classification is to be used to account, on a project basis, for funds granted for programs benefiting children of migrant agriculture or agriculture-related workers and children of migrant fishermen.

This grant is funded by P.L. 107-110. (84.011) (U.S. Department of Education)

**℞ 213 ESEA, Title I, Part B - Even Start Family Literacy**

This fund classification is to be used to account, on a project basis, for funds granted for programs to help parents become full partners in their children's education, help children reach their full potential as learners, and provide literacy training for their parents by integrating adult education and early childhood education into a unified family-centered program. This grant is funded by P.L. 107-110, Title I, Part B, Subpart 3, William F. Goodling Even Start Family Literacy Program. (84.213) (U.S. Department of Education)

**214 -217 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞ 218 ESEA Title V, Part D, Subpart 6 - Jacob K. Javits Gifted and Talented Students Education Act**

This fund classification is to be used to account, on a project basis, for funds granted to carry out programs designed to meet the educational needs of gifted and talented students, including the training of personnel in the education of gifted and talented students and in the use of gifted and talented services, materials, and methods for all students. (P.L. 107-110, Title V, Part D, Subpart 6) (U.S. Department of Education)

**219 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 220 Adult Education (ABE) - Federal**

This fund classification is to be used to account, on a project basis, for funds granted to provide or support programs for adult education and literacy services to adults who are beyond compulsory school age attendance, and do not have a high school diploma, or lack sufficient mastery of basic educational skills to function effectively in society, or are unable to speak, read or write the English language; and are not enrolled in school. Educational services include basic educational skills (reading, writing, speaking and mathematics), English as a Second Language



instruction, and secondary level competencies for acquisition of a high school diploma or equivalent. This includes sections 322, 326, and 353 under P.L. 91.230 as amended by PL 102.73, The National Literacy Act. If a school district has more than one section, separate accountability must be maintained. This may be accomplished by using one of the locally defined segments of the code structure. (84.002) (U.S. Department of Education)

## **221 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

## **℞222 National and Community Service Trust Act - Learn and Serve America**

This fund classification is to be used to account, on a project basis, for funds allocated for enabling students to apply classroom learning to real life experiences. This grant is funded by P.L. 103-82. (94.004) (Corporation for National and Community Services)

## **℞ 223 Temporary Assistance for Needy Families (TANF)**

This fund classification is to be used to account, on a project basis, for funds granted to provide education services to undereducated adult recipients of cash assistance under Temporary Assistance for Needy Families (TANF). Recipients of benefits are required to participate in adult basic education or job training programs as a condition of eligibility. Educational services include basic educational skills (reading, writing, speaking, and mathematics), English as a Second Language instruction and secondary level competencies for acquisition of a high school diploma or its equivalent. This grant is funded by P.L. 104-193. (93.558) (U.S. Department of Health and Human Services)

## **℞ 224 IDEA - Part B, Formula**

This fund classification is to be used to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This fund classification includes capacity building and improvement (sliver) subgrants. (84.027) (U.S. Department of Education)

**℞ 225 IDEA - Part B, Preschool**

This fund classification is to be used to account, on a project basis, for funds granted for preschool children with disabilities. This grant is funded by PL 105-17. (84.173) (U.S. Department of Education)

**℞ 226 IDEA - Part B, Discretionary**

This fund classification is to be used to account, on a project basis, for funds used to support an Education Service Center (ESC) special education component and also:

- Targeted support to LEAs
- Regional Day School Programs for the Deaf
- Private residential placements
- Priority projects
- Other emerging needs

(84.027) (U.S. Department of Education)

**℞ 227 IDEA - Part B, Deaf**

This fund classification is to be used to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This fund classification includes capacity building and improvement (sliver) deaf subgrants. (84.027) (U.S. Department of Education)

**℞ 228 IDEA - Part B, Preschool Deaf**

This fund classification is to be used to account, on a project basis, for funds granted for preschool children with disabilities by P.L. 105-17. (84.173) (U.S. Department of Education)

**℞ 229 IDEA - Part D, Deaf-Blind**

This fund classification is to be used to account, on a project basis, for federal grant funds for the Texas Deaf-Blind Project for Children Who Are Deaf-Blind. (CFDA#84-326-C). (84.025) (U.S. Department of Education)

**℞ 230 IDEA - Part D, Personnel Training**

This fund classification is to be used to account, on a project basis, for funds granted for programs related to the training and preparation of school personnel who provide educational services to students with disabilities. (84.029) (U.S. Department of Education)

**231 - 235 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞ 236 Substance Abuse Prevention and Treatment Block Grant - Intervention**

This fund classification is to be used to account, on a project basis, for funds granted through the Texas Department of State Health Services for intervention services for youth up to age 18. Texas Commission on Alcohol and Drug Abuse became a part of this agency on September 1, 2004. (TCADA code YIN) (93.959) (U.S. Department of Health and Human Services)

**℞ 237 ESEA Title IV - Safe and Drug-Free Schools and Communities Act**

This fund classification is to be used to account, on a project basis, for funds granted through the Office of the Governor, Criminal Justice Division, for prevention/intervention services for youth (up to age 18), including DARE. This grant is funded by P.L. 103-382. (CJD code ED) (84.186A) (U.S. Department of Education)

**℞ 238 Substance Abuse Prevention and Treatment Block Grant - Females**

This fund classification is to be used to account, on a project basis, for funds granted through the Texas Department of State Health Services for intervention services for females under the age of 18. Texas Commission on Alcohol and Drug Abuse became a part of this agency on September 1, 2004. (TCADA code YPF) (93.959) (U. S. Department of Health and Human Services)

**℞ 239                    Substance Abuse Prevention and Treatment Block Grant - Prevention**

This fund classification is to be used to account, on a project basis, for funds granted through the Texas Department of State Health Services for prevention services for youth. Texas Commission on Alcohol and Drug Abuse became a part of this agency on September 1, 2004. (TCADA code YPP) (93.959) (U.S. Department of Health and Human Services)

**℞ 240                    National School Breakfast and Lunch Program**

This fund classification is to be used for programs using federal reimbursement revenues originating from the United States Department of Agriculture (USDA). The Food Service Fund is considered a Special Revenue Fund if it meets the following criteria:

- User fees are charged to supplement the National School Lunch Program (NSLP) reimbursement -- i.e., students are charged for meals.
- The General Fund subsidizes the Food Service Fund for all amounts required in excess of the NSLP reimbursements and user fees.
- The school district does not intend for the Food Service Fund to be self-sustaining.

This fund may have a fund balance not to exceed three months of food service operations, and such balances are to be used exclusively for allowable child nutrition program purposes. (10.553, breakfast; 10.555, lunch)

**℞ 241 Education Service Center Child Nutrition**

This fund classification is also to be used to account, on a project basis, for funds to operate a regional program of administrative support for the child nutrition program by the education service centers.

**℞ 242 Summer Feeding Program, Texas Department of Agriculture (TDA)**

This fund classification is to be used to account, on a project basis, for funds received from the Texas Department of Agriculture that are awarded for meals provided to the community based on the average number of daily participants. This fund should be used regardless of whether a school district's National School Breakfast and Lunch Program is accounted for in the General Fund (101), a Special Revenue Fund (240) or an Enterprise Fund (701). (10.559)

**℞ 243 Career and Technical - Technical Preparation**

This fund classification is to be used to account, on a project basis, for funds granted to provide a combined secondary and postsecondary program (grade 9 through high school and two years of postsecondary) of technical skills in the areas of:

- Engineering
- Science
- Mechanical, industrial or practical arts or trades
- Agriculture
- Health
- Business

(84.243A) (U.S. Department of Education)

**℞ 244 Career and Technical - Basic Grant**

This fund classification is to be used to account, on a project basis, for funds granted to provide Career and Technical education to develop new and/or improve Career and Technical education programs for paid and unpaid employment. Full participation in the basic grant is from individuals who are members of special populations, at 1) a limited number of campuses (sites) or 2) a limited number of program areas. (84.048) (U.S. Department of Education)

**℞ 245 Career and Technical - Single Parent**

This fund classification is to be used to account, on a project basis, for funds granted to provide marketable skills through programs, services and activities (including dependent care and transportation) for individuals who are single parents, displaced homemakers or single pregnant women. (84.048A) (U.S. Department of Education)

**℞ 246 Career and Technical - Sex Equity**

This fund classification is to be used to account, on a project basis, for funds granted to use for programs, services (including preparatory services and support services, comprehensive career guidance and counseling) and activities to eliminate sex bias and stereotyping in Career and Technical education. (84.048A) (U.S. Department of Education)

**℞ 247 Career and Technical - Curriculum Development**

This fund classification is to be used to account, on a project basis, for funds granted to develop, disseminate and field test curriculum. This especially includes curriculum that integrates vocational and academic methodologies and provides a coherent sequence of courses through which academic and occupational skills may be measured. (84.048A) (U.S. Department of Education)

**℞ 248 Career and Technical - Professional Development**

This fund classification is to be used to account, on a project basis, for funds used for Career and Technical education teachers and academic teachers who are working with Career and Technical education students. The personnel included are corrections educators and counselors, and educators and counselors in community-based organizations. Services include in-service and pre-service training of teachers in state-of-the-art programs and techniques, such as integration of vocational and academic curriculum, with particular emphasis on training of minority teachers. (84.048A) (U.S. Department of Education)

**℞ 249 Career and Technical - Community Based Organization**

This fund classification is to be used to account, on a project basis, for funds granted for joint projects of eligible recipients and community-based organizations that provide special Career and Technical education services and activities. (84.174A) (U.S. Department of Education)

**℞ 250 Career and Technical - Apprenticeship**

This fund classification is to be used to account, on a project basis, for funds granted for work-site programs such as:

- Cooperative training
- Internships
- Joint programs
- Services and activities with community-based organizations, work study and apprenticeship programs

(84.048A) (U.S. Department of Education)

**℞ 251 Career and Technical - Quality Work Force**

This fund classification is to be used to account, on a project basis, for funds granted for the operation of a Quality Work Force Planning

Committee (partnership between educators and employers).  
(84.048A) (U.S. Department of Education)

### **℞ 252 Career and Technical - Other Program Improvement**

This fund classification is to be used to account, on a project basis, for funds granted for Career and Technical used for other program improvement activities such as assessment and promotion of partnerships among:

- Business
- Education
- Industry
- Labor
- Community-based organizations
- Governmental agencies
- Supplemental Federal Grant to States for Facilities, Equipment and Other Program Improvements (Title III, Part F)

(84.253A) (U.S. Department of Education)

### **℞ 253 IDEA, Part C, Early Intervention (Deaf)**

This fund classification is to be used to account on a project basis, for funds granted to assist local Regional Day School for the Deaf programs and the Texas School for the Deaf in providing direct services to hearing impaired infants to toddlers, ages birth through two years of age. The program provides supplemental and appropriate services to eligible students that are provided by a certified and trained teacher. This grant is funded by P.L. 101-119. (84.181A) (U.S. Department of Education)

### **254 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.



**℞255 ESEA, Title II, Part A - Teacher and Principal Training and Recruiting**

This fund classification is to be used to provide financial assistance to LEAs to (1) Increase student academic achievement through improving teacher and principal quality and increasing the number of highly qualified teachers in classrooms and highly qualified principals and assistant principals in schools, and (2) hold local education agencies and schools accountable for improving student academic achievement. (P.L. 107-110) (84.367A) (U.S. Department of Education)

**℞ 256 ESEA, Title I, Part F - Comprehensive School Reform**

This fund classification is to be used to account on a project basis, for funds granted to develop comprehensive school reforms, based on reliable research and effective practices and including an emphasis on basic academics and parental involvement. This program is authorized under P.L. 107-110 (84.010B) (U.S. Department of Education)

**257 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 258 Public Charter Schools**

This fund classification is to be used to account on a project basis, for funds granted to public charter schools for planning, program design, implementation, assisting other schools and/or to disseminate information about the charter school. This program is authorized under P.L. 107-110, Title V, Part B, Subpart 1. (84.282) (U.S. Department of Education)

**℞ 259 Matching Funds for Library Purchases**

This fund classification is to be used to account, on a project basis, for federal matching funds received by the district for expenditures for books and other school library materials that are catalogued and circulated from a central source in each school building. The Texas Education Agency provides a 30% match for each dollar expended, not to exceed one dollar expended per student enrolled, in each year of the biennium, to be used for

the purchase of library books and other library materials. (84.999) State Consolidated Administrative Funds

Note: this program may be funded from one of three different funding sources and thus coded to one of three different funding codes. Refer to the Notice of Grant Award for the FAR fund code to be used.

## **260 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

### **℞261 Reading First**

This fund classification is to be used to account, on a project basis, for funds granted to establish reading programs for students in kindergarten through grade 3 that are based on scientifically based reading research, to ensure that every student can read at grade level or above not later than the end of grade 3 (P. L. 107-110, Title I, Part B, Subpart 1) (84.357) (U.S. Department of Education).

### **℞262 Title II, Part D, Subpart 1 - Enhancing Education through Technology**

This fund classification is to be used to account, on a project basis, for funds granted for the implementation and support of a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement (P. L. 107-110, Title II, Part D, Subpart 1) (84.318) (U.S. Department of Education).

### **℞263 Title III, Part A - English Language Acquisition and Language Enhancement**

This fund classification is to be used to account, on a project basis, for funds granted to improve the education of limited English proficient children, by assisting the children to learn English and meet challenging State academic content and student academic achievement standards (P. L. 107-110, Title III, Part A, Subpart 1) (84.365A) (U.S. Department of Education).

### **℞264 Community Service Grant Program**

This fund classification is to be used to account, on a project basis, for funds granted to carry out programs under which students expelled or suspended from school are required to perform community service (P. L.

107-110, Title IV, Part A, Subpart 2) (84.184c) ( U.S. Department of Education).

**℞265 Title IV, Part B - 21st Century Community Learning Centers**

This fund classification is to be used to account, on a project basis, for funds granted to provide opportunities for communities to establish or expand activities in community learning centers that provide opportunities for academic enrichment and additional services to students and literary and related educational development for families of students (P. L. 107-110, Title IV, Part B) (84.287) (U.S. Department of Education).

**℞266 ARRA of 2009, Title XIV, State Fiscal Stabilization Fund (Effective fiscal year 2008/2009)**

This fund classification is to be used to account, on a project basis, for funds granted to improve basic programs authorized by the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001; the Individuals with Disabilities Education Act (IDEA); the Adult and Family Literacy Act; the Carl D. Perkins and Technical Education Act of 2006, or for the modernization, renovation, or repair of public school facilities, including modernization, renovation, and repairs that are consistent with a recognized green building rating system. (84.394) This grant is funded by the American Recovery and Reinvestment Act (ARRA) of 2009, Title XIV.

**℞267 Improving Academic Achievement (Grants for State Assessments and Related Activities)**

This fund classification is to be used to account, on a project basis, for funds granted to increase educational achievement through the development and administration of state assessments and standards and through professional development aligned with student standards and assessments (P. L. 107-110, Title VI, Part A, Subpart 1, Section 6111) (84.369) (U.S. Department of Education).

**℞268      Improving Academic Achievement (Grants for Enhanced Assessment Instruments)**

This fund classification is to be used to account, on a project basis, for funds granted to increase educational achievement through the development and administration of state assessments and standards and through professional development aligned with student standards and assessments (P. L. 107-110, Title VI, Part A, Subpart 1, Section 6112) (84.368) (U.S. Department of Education).

**℞269      Title V, Part A - Innovative Programs**

This fund classification is to be used to account, on a project basis, for funds granted to implement or expand innovative assistance programs to improve student, teacher, and school performance through a variety of local reform and improvement activities. This program is authorized under P.L. 107-110 (84.298) (U.S. Department of Education).

Any funds from Title VI, Innovative Education Program Strategies (fund code 235) will roll forward into this code.

Some of the matching funds for library materials are funded from Title V, Part A and would use fund code 269. Refer to the Notice of Grant award for the FAR code to be used. A local option code must be assigned to account for the matching library funds separately from the Title V, Part A formula funds.

**℞270      ESEA, Title VI, Part B – Rural and Low-Income School Program**

This fund classification is to be used to account, on a project basis, for funds allocated to local educational agencies to enable them to address the unique needs of rural school districts. This program is authorized under P.L. 107-110 (84.358B) (U.S. Department of Education).

**℞271 Workforce Investment Act Youth Activities (Effective September 1, 2005)**

This fund classification is to be used to account, on a project basis, for funds allocated to local educational agencies to help low income youth between the ages of 14 and 21 acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood. This program is authorized under P.L.105-220 (17.259) (Department of Labor)

**℞272 Medicaid Administrative Claiming Program – MAC (Effective September 1, 2005)**

This fund classification is to be used to account, on a project basis, for funds allocated to local education agencies for reimbursement of eligible administrative costs for activities attributed to the implementation of the Medicaid state plan. Expenditures attributed to the required matching amount are recorded in the General Fund and are to be accounted for with use of a local option account code, as needed, for local monitoring of compliance with federal matching requirements. (93.778)

**℞273 Mathematics and Science Partnerships (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to eligible partnerships to improve the academic achievement of students in mathematics and science by providing professional development to improve teaching and by recruiting math, engineering, and science majors to teaching. This grant is authorized under Title II, Part B of the No Child Left Behind Act, P. L. 107-110. (84.336B) (U.S. Department of Education)

**℞274 GEAR UP (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to provide services and support to low-income minority school districts to ensure that students are academically prepared for higher education, graduate from high school, and have access to higher education opportunities. (84.334S) (U.S. Department of Education)

**℞275 School Dropout Prevention (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to provide for school dropout prevention and reentry programs and to raise academic achievement levels to ensure that all children attain their highest academic potential and have substantial and ongoing opportunities through school wide programs proven effective in school dropout prevention and reentry. This grant is authorized under Title I Part H of the No Child Left Behind Act, P. L. 107-110. (84.360A) (U.S. Department of Education)

**℞276 Title I SIP Academy Grant (Effective fiscal year 2008/09)**

Section 1003(g) of Title I of the NCLB Act authorizes funds to help TEA and LEAs address the needs of campuses in improvement, corrective action, and restructuring in order to improve student achievement. In conjunction with the Title I School Improvement Program funds under section 1003(a), SIP Academy grants are to be used to leverage change and improve technical assistance under sections 1116 and 1117 of Title I, Part A through TEA's and LEAs' targeting activities towards measurable outcomes as required by USDE. Expected results from the use of these grants include improving student proficiency, increasing the number of campuses that make adequate yearly progress, and using data to inform decisions and create a system of continuous feedback and improvement. The School Improvement Fund, appropriated by Congress for the first time for 2007-08, is authorized under Title I Section 1003(g) of the No Child Left Behind Act, P. L. 107-110. (84.377A) (U.S. Department of Education) This grant has been named the "SIP Academy" grant in Texas by the state Title I Committee of Practitioners.

**277-278 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞279 Title II, Part D, Subpart 1 – Enhancing Education through Technology – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used to account, on a project basis, for funds granted for the implementation and support of a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement (P.L. 107-110, Title II,

Part D, Subpart 1) (84.386) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**℞280 ESEA, Title X, Part C –Education for the Homeless Children and Youth –  
ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used to account, on a project basis, for funds granted for a variety of staff development and supplemental services, including in-service training, counseling, psychological services and tutoring. This grant is funded by P.L. 107-110, McKinney-Vento Homeless Education Assistance Improvement of 2001 as amended by NCLB Act of 2001, Title X, Part C. (84.387) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**281-282 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞283 IDEA - Part B, Formula– ARRA (Stimulus) (Effective fiscal year  
2008/2009)**

This fund classification is to be used to account, on a project basis, for funds granted to operate educational programs for children with disabilities. (84.391) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**℞284 IDEA - Part B, Preschool – ARRA (Stimulus) (Effective fiscal year  
2008/2009)**

This fund classification is to be used to account, on a project basis, for funds for preschool children with disabilities. This grant is funded by P.L. 105-17. (84.392) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**℞285 ESEA, Title I, Part A – Improving Basic Programs – ARRA (Stimulus)  
(Effective fiscal year 2008/2009)**

This fund classification is to be used to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children. This program is authorized under P.L. 107-110. (84.389) (U.S. Department of Education) (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII).

Note: This fund code is also used for ESEA Title I Part D, Subpart 2 – LEA programs with locally operated correctional facilities and Title I – School Improvement Program.

**℞286 Title I SIP Academy Grant – ARRA (Stimulus) (Effective fiscal year  
2008/2009)**

Section 1003(g) of Title I of the NCLB Act authorizes funds to help TEA and LEAs address the needs of campuses in improvement, corrective action, and restructuring in order to improve student achievement. In conjunction with the Title I School Improvement Program funds under section 1003(a), SIP Academy grants are to be used to leverage change and improve technical assistance under sections 1116 and 1117 of Title I, Part A through TEA's and LEAs' targeting activities towards measurable outcomes as required by USDE. Expected results from the use of these grants include improving student proficiency, increasing the number of campuses that make adequate yearly progress, and using data to inform decisions and create a system of continuous feedback and improvement. The School Improvement Fund, appropriated by Congress for the first time for 2007-08, is authorized under Title I Section 1003(g) of the No Child Left Behind Act, P.L. 107-110. (84.388) (U.S. Department of Education) This grant has been named the "SIP Academy" grant in Texas by the state Title I Committee of Practitioners. (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII).

**287-288 Federally Funded Special Revenue Funds - Locally Defined (Convert to  
Fund 289 for PEIMS)**

These fund classifications are used, at the option of the school district, to classify federally funded special revenue funds not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Fund 289.



**℞ 289 Federally Funded Special Revenue Funds**

This fund classification is to be used to account, on a project basis, for federally funded special revenue funds that have not been specified above. Any locally defined codes that are used at the local option are to be converted to Fund 289 for [PEIMS](#) reporting.

**290 FEDERALLY FUNDED SHARED SERVICES ARRANGEMENTS**

The special revenue funds listed below (Fund Codes 291 through 379) are used to account for federal funds held by a fiscal agent school district or education service center that either (1) provides and pays for all services to member districts; (2) provides and pays for some services to member districts and sends a portion of the grant to each member district to expend; or, (3) sends all of the grant to member districts to expend.

Amounts sent by the fiscal agent to shared services arrangement member school districts are reported by those school districts as revenues and expenditures of the Special Revenue Fund in the appropriate fund (Fund Codes 201 through 289). Federally-funded shared services arrangements are accounted for in the same manner as grants in the Special Revenue Fund. At the end of each fiscal year, the fiscal agent is responsible for submitting financial data, by member district, through the Public Education Information Management System ([PEIMS](#)) in a special record for shared services arrangements.

**291 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞292 Shared Services Arrangements - Child Care Development Block Grant**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted under Title XX of the Social Security Act. (93.575) (U.S. Department of Health and Human Services)

**℞293 Shared Services Arrangements - ESEA, Title IV, Part A - Safe and Drug-Free Schools and Communities Act**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted as a result of the Improving Americas School Act of 1994. These funds are to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention programs. This program is authorized under P.L. 107-110. (84.186A) (U.S. Department of Education)

**℞294 Shared Services Arrangements - Head Start**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for the Head Start Program by the US Department of Health and Human Services. (93.600)

**℞295 Shared Services Arrangements - ESEA Title X, Part C - Education for the Homeless Children and Youth**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for a variety of staff development and supplemental services, including in-service training, counseling, psychological services and tutoring. This grant is funded by P.L. 107-110, McKinney-Vento Homeless Education Assistance Improvement of 2001 as amended by NCLB Act of 2001, Title X, Part C. (84.196) (U.S. Department of Education)

**296 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞297 Shared Services Arrangements - Human Immunodeficiency Virus (HIV) Education**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for programs for educator training in human immunodeficiency virus (HIV)

education for school-aged populations. Education Service Centers receive support to provide technical assistance, workshops and materials, and collection of data on HIV educational programs and practices. (93.938) (U.S. Department of Health and Human Services)

**℞ 298 Shared Services Arrangements - Energy Conservation for Institutional Buildings**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for energy conservation by the US Department of Energy. (81.052)

**299 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 300 Shared Services Arrangements - ESEA, Title I, Part A - Improving Basic Programs**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children. This program is authorized under P.L. 107-110. (84.010A) (U.S. Department of Education)

**Note:** This fund code is also used for ESEA Title I Part D, Subpart 2 - LEA programs with locally operated correctional facilities and Title I – School Improvement Program.

**℞ 301 Shared Services Arrangements - ESEA Title I, Part C - Education of Migratory Children**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for programs benefiting children of migrant agriculture or agriculture-related workers and children of migrant fishermen. This grant is funded by P.L. 107-110. (84.011) (U.S. Department of Education)

**℞ 302 Shared Services Arrangements - ESEA Title I, Part B, Subpart 3 - Even Start Family Literacy**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for programs to help parents become full partners in their children's education, help children reach their full potential as learners, and provide literacy training for their parents by integrating adult education and early childhood education into a unified family-centered program.. This grant is funded by P.L. 107-110, Title I, Part B, Subpart 3, Goodling Even Start Family Literacy Program. (84.213) (U.S. Department of Education)

**303 - 306 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞ 307 Shared Services Arrangements - ESEA Title V, Part D, Subpart 6 - Jacob K. Javits Gifted and Talented Students Education Act**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to carry out programs designed to meet the educational needs of gifted and talented students, including the training of personnel in the education of gifted and talented students and in the use of gifted and talented services, materials, and methods for all students. (P.L. 107-110, Title V, Part D, Subpart 6) (84.206) (U.S. Department of Education)

**308 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 309 Shared Services Arrangements - Adult Basic Education (ABE) - Federal**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide or support programs for adult education and literacy services to adults age 16 and above, who do not have a high school diploma and are not enrolled in school. Under Section 231 and

Section 225 funds may be used for adult education and literacy services, including workplace literacy, family literacy, and English literacy programs. Under Section 223, funds may be used for professional development of the Workforce Investment Act of 1998. If a fiscal agent receives funding under more than one section, separate accountability must be maintained. This may be accomplished by using one of the locally defined segments of the code structure. (84.002) (U.S. Department of Education)

### **310 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

#### **℞ 311 Shared Services Arrangements - National and Community Service Trust Act - Learn and Serve America**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis for funds allocated for enabling students to apply classroom learning to real life experiences. This grant is funded by P.L. 103-82. (94.004) (Corporation for National and Community Services)

#### **℞ 312 Shared Services Arrangements -Temporary Assistance for Needy Families (TANF)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide education services to undereducated adult recipients of cash assistance under Temporary Assistance for Needy Families (TANF). Recipients of benefits are required to participate in adult basic education or job training programs as a condition of eligibility. Educational services include basic educational skills (reading, writing, speaking, and mathematics), English as a Second Language instruction and secondary level competencies for acquisition of a high school diploma or its equivalent. This grant is funded by P.L. 104-193. (93.558) (U.S. Department of Health and Human Services)

#### **℞ 313 Shared Services Arrangements - IDEA - Part B, Formula**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This

fund classification includes capacity building and improvement (sliver) subgrants. (84.027) (U.S. Department of Education)

**℞ 314 Shared Services Arrangements - IDEA - Part B, Preschool**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for preschool children with disabilities. Funded by PL 105-17. (84.173) (U.S. Department of Education)

**℞ 315 Shared Services Arrangements - IDEA - Part B, Discretionary**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used to support an education service center basic special education component and also:

- Targeted support to LEAs
- Regional Day School Programs for the Deaf
- Private residential placements
- Priority projects
- Other emerging needs

(84.027) (U.S. Department of Education)

**℞ 316 Shared Services Arrangements - IDEA - Part B, Deaf**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This fund classification includes capacity building and improvement (sliver) deaf subgrants. (84.027) (U.S. Department of Education)

**℞ 317 Shared Services Arrangements IDEA - Part B, Preschool Deaf**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for preschool children with disabilities by P.L. 105-17. (84.173) (U.S. Department of Education)

**318 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞ 319 Shared Services Arrangements - IDEA - Part D, Personnel Training**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for programs related to the training and preparation of school personnel who provide educational services to students with disabilities. (84.029) (U.S. Department of Education)

**320 - 324 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**℞ 325 Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Intervention**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted through the Texas Commission on Alcohol and Drug Abuse for intervention services for youth up to age 18. (TCADA code YIN) (93.959) (U.S. Department of Health and Human Services)

**℞ 326 Shared Services Arrangements - ESEA Title IV, Part A - Safe and Drug-Free Schools and Communities Act**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted

through the Office of the Governor, Criminal Justice Division, for prevention/intervention services for youth (up to age 18), including DARE. This grant is funded by P.L. 103-382. (CJD code ED) (84.186A) (U.S. Department of Education)

**℞ 327      Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Females**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted through the Texas Commission on Alcohol and Drug Abuse for intervention services for females under the age of 18. (TCADA code YPF) (93.959) (U.S. Department of Health and Human Services)

**℞ 328      Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Prevention**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted through the Texas Commission on Alcohol and Drug Abuse for prevention services for youth. (TCADA code YPP) (93.959) (U.S. Department of Health and Human Services)

**℞ 329      Shared Services Arrangements - Summer Feeding Program, Texas Health and Human Services Commission (HHSC)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds received from the Texas Department of Human Services that are awarded based on the average number of daily participants. (10.559)

**℞ 330      Shared Services Arrangements - Career and Technical - Technical Preparation**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide a combined secondary and postsecondary program (grade 9 through high school and two years of postsecondary) of technical skills in the areas of:

- Engineering



- Science
- Mechanical, industrial or practical arts or trades
- Agriculture
- Health
- Business

(84.243A) (U.S. Department of Education)

**℞ 331 Shared Services Arrangements - Career and Technical - Basic Grant**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide Career and Technical education to develop new and/or improve Career and Technical education programs for paid and unpaid employment. Full participation in the basic grant is from individuals who are members of special populations, at 1) a limited number of campuses (sites) or 2) a limited number of program areas. (84.048) (U.S. Department of Education)

**℞ 332 Shared Services Arrangements - Career and Technical - Single Parent**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide marketable skills through programs, services and activities (includes dependent care and transportation) for individuals who are single parents, displaced homemakers or single pregnant women. (84.048A) (U.S. Department of Education)

**℞ 333 Shared Services Arrangements - Career and Technical - Sex Equity**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for programs, services (including preparatory services and support services, comprehensive career guidance and counseling) and

activities to eliminate sex bias and stereotyping in Career and Technical education. (84.048A) (U. S. Department of Education)

**℞ 334 Shared Services Arrangements - Career and Technical - Curriculum Development**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to develop, disseminate and field test curriculum. This especially includes curriculum that integrates vocational and academic methodologies and provides a coherent sequence of courses through which academic and occupational skills may be measured. (84.048A) (U.S. Department of Education)

**℞ 335 Shared Services Arrangements - Career and Technical - Professional Development**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used for Career and Technical education teachers and academic teachers working with Career and Technical education students. The personnel included are corrections educators and counselors, and educators and counselors in community-based organizations. Services include in-service and pre-service training of teachers in state-of-the-art programs and techniques, such as integration of vocational and academic curriculum, with particular emphasis on training minority teachers. (84.048A) (U.S. Department of Education)

**℞ 336 Shared Services Arrangements - Career and Technical - Community Based Organization**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for joint projects of eligible recipients and community-based organizations that provide special Career and Technical education services and activities. (84.174A) (U.S. Department of Education)

**℞ 337 Shared Services Arrangements - Career and Technical - Apprenticeship**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for work-site programs such as:

- Cooperative training
- Internships
- Joint programs
- Services and activities with community-based organizations, work study and apprenticeship programs (84.048A) (U.S. Department of Education)

**℞ 338 Shared Services Arrangements - Career and Technical - Quality Work Force**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for the operation of a Quality Work Force Planning Committee (partnership between educators and employers). (84.048A) (U.S. Department of Education)

**℞ 339 Shared Services Arrangements - Career and Technical - Other Program Improvement**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for Career and Technical used for other program improvement activities such as assessment and promotion of partnerships among:

- Business
- Education
- Industry
- Labor

- Community-based organizations
- Governmental agencies
- Supplemental Federal Grant to States for Facilities, Equipment and Other Program Improvements (Title III, Part F) (84.253A) (U.S. Department of Education)

**℞ 340 Shared Services Arrangements - IDEA, Part C, Early Intervention (Deaf)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to assist local Regional Day School for the Deaf programs and the Texas School for the Deaf in providing direct services to hearing impaired infants to toddlers, ages birth through two years of age. The program provides supplemental and appropriate services to eligible students that are provided by a certified and trained teacher. This grant is funded by P.L. 101-119. (84.181A) (U.S. Department of Education)

**341 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞342 Shared Services Arrangements - Title II, Part A - Teacher and Principal Training and Recruiting**

This fund classification is to be used by the fiscal agent of a shared services arrangement to provide financial assistance to LEAs to (1) Increase student academic achievement through improving teacher and principal quality and increasing the number of highly qualified teachers in classrooms and highly qualified principals and assistant principals in schools, and (2) hold local education agencies and schools accountable for improving student academic achievement. (P.L. 107-110) (84.367A) (U.S. Department of Education)

**℞ 343 Shared Services Arrangements - ESEA Title I, Part F - Comprehensive School Reform**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to develop comprehensive school reforms, based on reliable research

and effective practices and including an emphasis on basic academics and parental involvement. This program is authorized under P.L. 107-110 (84.010B) (U.S. Department of Education)

### **344 - 346 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

#### **℞347 Shared Services Arrangements - ESEA, Title VI, Part B, Subpart 2 – Rural and Low-Income School Program**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds allocated to local educational agencies to enable them to address the unique needs of rural school districts. This program is authorized under P.L. 107-110 (84.358B) (U.S. Department of Education).

#### **℞348 Shared Services Arrangements - Reading First**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to establish reading programs for students in kindergarten through grade 3 that are based on scientifically based reading research, to ensure that every student can read at grade level or above not later than the end of grade 3 (P. L. 107-110, Title I, Part B, Subpart 1) (84.357) (U.S. Department of Education).

#### **℞349 Shared Services Arrangements – Title II, Part D, Subpart 1 - Enhancing Education Through Technology**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for the implementation and support of a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement (P. L. 107-110, Title II, Part D, Subpart 1) (84.318A)(U.S. Department of Education).

**℞350 Shared Services Arrangements - Title III, Part A - English Language Acquisition and Language Enhancement**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to improve the education of limited English proficient children, by assisting the children to learn English and meet challenging State academic content and student academic achievement standards (P. L. 107-110, Title III, Part A, Subpart 1) (84.365A) (U.S. Department of Education).

**℞351 Shared Services Arrangements - Community Service Grant Program**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to carry out programs under which students expelled or suspended from school are required to perform community service (P. L. 107-110, Title IV, Part A, Subpart 2) (84.184c) (U. S. Department of Education).

**℞352 Shared Services Arrangements - 21st Century Community Learning Centers**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide opportunities for communities to establish or expand activities in community learning centers that provide opportunities for academic enrichment and additional services to students and literary and related educational development for families of students (P. L. 107-110, Title IV, Part B) (84.287) (U.S. Department of Education).

**353 Reserved for Future State Definition**

This fund classification is reserved for future state designation and is not to be used by the school district.

**℞354 Shared Services Arrangements - Improving Academic Achievement (Grants for State Assessments and Related Activities)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to increase educational achievement through the development and

administration of state assessments and standards and through professional development aligned with student standards and assessments (P. L. 107-110, Title VI, Part A, Subpart 1, Section 6111) (84.369) (U.S. Department of Education).

**℞355 Shared Services Arrangements - Improving Academic Achievement (Grants for Enhanced Assessment Instruments)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to increase educational achievement through the development and administration of state assessments and standards and through professional development aligned with student standards and assessments (P. L. 107-110, Title VI, Part A, Subpart 1, Section 6112) (84.368) (U.S. Department of Education).

**℞356 Shared Services Arrangements - Title V, Part A - Innovative Programs**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to implement or expand innovative assistance programs to improve student, teacher, and school performance through a variety of local reform and improvement activities. This grant is funded by P.L. 107-110 (84.298) (U.S. Department of Education).

Any funds from Title VI, Innovative Education Program Strategies (fund code 324) will roll forward into this code.

**℞357 Shared Services Arrangements - Mathematics and Science Partnerships (Effective fiscal year 2008/09)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to eligible partnerships to improve the academic achievement of students in mathematics and science by providing professional development to improve teaching and by recruiting math, engineering, and science majors to teaching. This grant is authorized under Title II, Part B of the No Child Left Behind Act, P. L. 107-110. (84.336B) (U.S. Department of Education)

**℞358 Shared Services Arrangements - Title I SIP Academy Grant (Effective fiscal year 2008/09)**

This fund is only to be used by the fiscal agent of a shared services arrangement. Section 1003(g) of Title I of the NCLB Act authorizes funds to help TEA and LEAs address the needs of campuses in improvement, corrective action, and restructuring in order to improve student achievement. In conjunction with the Title I School Improvement Program funds under section 1003(a), SIP Academy grants are to be used to leverage change and improve technical assistance under sections 1116 and 1117 of Title I, Part A through TEA's and LEAs' targeting activities towards measurable outcomes as required by USDE. Expected results from the use of these grants include improving student proficiency, increasing the number of campuses that make adequate yearly progress, and using data to inform decisions and create a system of continuous feedback and improvement. The School Improvement Fund, appropriated by Congress for the first time for 2007-08, is authorized under Title I Section 1003(g) of the No Child Left Behind Act, P. L. 107-110. (84.377A) (U.S. Department of Education) This grant has been named the "SIP Academy" grant in Texas by the state Title I Committee of Practitioners.

**℞359 Shared Services Arrangements -- ESEA, Title I, Part A – Improving Basic Programs – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children. This program is authorized under P.L. 107-110. (84.389) (U.S. Department of Education) (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII).

Note: This fund code is also used for ESEA Title I Part D, Subpart 2 – LEA programs with locally operated correctional facilities and Title I – School Improvement Program.

**℞360 Shared Services Arrangements -- Title I SIP Academy Grant – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement. Section 1003(g) of Title I of the NCLB Act authorizes funds to help TEA and LEAs address the needs of campuses in improvement, corrective action, and restructuring in order to improve student achievement. In conjunction with the Title I School Improvement Program



funds under section 1003(a), SIP Academy grants are to be used to leverage change and improve technical assistance under sections 1116 and 1117 of Title I, Part A through TEA's and LEAs' targeting activities towards measurable outcomes as required by USDE. Expected results from the use of these grants include improving student proficiency, increasing the number of campuses that make adequate yearly progress, and using data to inform decisions and create a system of continuous feedback and improvement. The School Improvement Fund, appropriated by Congress for the first time for 2007-08, is authorized under Title I Section 1003(g) of the No Child Left Behind Act, P.L. 107-110. (84.388) (U.S. Department of Education) This grant has been named the "SIP Academy" grant in Texas by the state Title I Committee of Practitioners. (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII).

**R361 Shared Services Arrangements -- Title II, Part D, Subpart 1 – Enhancing Education through Technology – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for the implementation and support of a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement (P.L. 107-110, Title II, Part D, Subpart 1) (84.386) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**362-363 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**R364 Shared Services Arrangements -- IDEA - Part B, Formula– ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This fund classification includes capacity building and improvement (sliver) subgrants. (84.391) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**R365 Shared Services Arrangements -- IDEA - Part B, Preschool – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for preschool children with disabilities. This grant is funded by P.L. 105-17. (84.392) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**℞366 Shared Services Arrangements -- ARRA of 2009, Title XIV, State Fiscal Stabilization Fund (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to improve basic programs authorized by the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001; the Individuals with Disabilities Education Act (IDEA); the Adult and Family Literacy Act; the Carl D. Perkins and Technical Education Act of 2006, or for the modernization, renovation, or repair of public school facilities, including modernization, renovation, and repairs that are consistent with a recognized green building rating system. (84.394) This grant is funded by the American Recovery and Reinvestment Act (ARRA) of 2009, Title XIV.

**℞367 Shared Services Arrangements -- ESEA, Title X, Part C –Education for the Homeless Children and Youth – ARRA (Stimulus) (Effective fiscal year 2008/2009)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted for a variety of staff development and supplemental services, including in-service training, counseling, psychological services and tutoring. This grant is funded by P.L. 107-110, McKinney-Vento Homeless Education Assistance Improvement of 2001 as amended by NCLB Act of 2001, Title X, Part C. (84.387) (U.S. Department of Education). (American Recovery and Reinvestment Act (ARRA) of 2009, Title VIII)

**368-378 Federally Funded Shared Services Arrangements - Locally Defined (Convert to Fund 379 for PEIMS)**

These fund classifications are used, at the option of the fiscal agent of a shared services arrangement to account, on a project basis, for federally funded shared services arrangements not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Fund 379.

**℞379**      **Federally Funded Shared Services Arrangements**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account for federally funded shared services arrangements not listed elsewhere. Any locally defined codes that are used at the local option are to be converted to Fund 379 for [PEIMS](#) reporting.

**380**      **SPECIAL REVENUE FUNDS (STATE PROGRAMS)**

State programs that are used by school districts and education service centers not acting as a fiscal agent for a shared services arrangement are designated by Fund Codes 381 through 429. This includes any funds sent by the fiscal agent to the member school district for use by that school district.

**℞ 381**      **Adult Basic Education (ABE) - State**

This fund classification is to be used to account, on a project basis, for funds granted to provide or support programs for adult education and literacy services to adults 16 and above, who do not have a high school diploma and are out of school. Funds can be used for same purposes as federal adult education funds.

**℞ 382**      **Temporary Assistance for Needy Families (TANF) - State §29.252**

This fund classification is to be used to account, on a project basis, for funds granted to provide education services to undereducated adult recipients of cash assistance under Temporary Assistance for Needy Families (TANF). Recipients of benefits are required to participate in adult basic education or job training programs as a condition of eligibility. Educational services include basic educational skills (reading, writing, speaking and mathematics), English as Second Language instruction and secondary level competencies for acquisition of a high school diploma or its equivalent. Funded under TEC §29.252.

**℞ 383 Professional Staff Development**

This fund classification is to be used to account, on a project basis, for funds used to provide preservice and staff development training in technology and innovative teaching practices for teachers and administrators. Public schools and ESCs may serve as fiscal agents for the establishment of a center for professional development (funded under TEC 21.047) under the direction of an institution of higher education or may receive funds directly to provide training and staff development in technology and innovative teaching practices.

**℞ 384 Texas After School Initiative**

This fund classification is to be used to account, on a project basis, for funds granted to implement quality after-school programs serving students of middle school age.

**℞ 385 State Supplemental Visually Impaired (SSVI)**

This fund classification is to be used to account for State Supplemental Visually Impaired funds. This fund is to be used by single school districts, on a project basis, to account for any of these funds received from the ESC or district fiscal agent of a shared services arrangement.

**℞ 386 Regional Day School for the Deaf**

This fund classification is to be used to account, on a project basis, for funds allocated for staff and activities of the Regional Day School Program for the Deaf (RDSPD). These funds are not to be used to pay salaries of teachers with a teaching assignment other than deaf students in the RDSPD. State deaf funds should not be used to pay the salary of teachers of American Sign Language as a foreign language at the junior high or high school level, as this is a course for regular education credit.

**℞ 387 Quality Work Force Planning - State**

This fund classification is to be used to account, on a project basis, for funds for the benefit of a quality work force planning committee.

**℞ 388 Innovative Education Grants**

This fund classification is to be used to account, on a project basis, for grants awarded to campuses for innovative programs. These grants are funded by the Public Education Development Fund.

**℞ 389 Master Mathematics Teacher**

This fund classification is to be used to account, on a project basis, for stipends to school districts with Master Mathematics teachers who are certified according to the provisions in TEC 21.0482.

**℞ 390 Early Childhood Limited English Proficient (LEP) Summer Program**

This fund classification is to be used to account, on a project basis, for funds for summer school programs for LEP students only if a bilingual program is part of the standard curriculum. Monies may be used to fund both required summer school and voluntary summer school for LEP students. (TEC 29.058)

**℞ 391 Year Round Schools Incentive**

This fund classification is to be used to account, on a project basis, for noncompetitive awards for year round schools.

**℞ 392 Noneducational Community-Based Support**

This fund classification is to be used to account, on a project basis, for the provision of noneducational community-based support services to students with disabilities who would remain or have to be placed in residential facilities for educational reasons without the provision of these services. The support services may include transportation, respite for the parents, case management, social work, in-home family support and other items. (TEC 29.013)

**℞ 393 Texas Successful Schools Program**

This fund classification is to be used to account, on a project basis, for grant monies applied for by school districts after being notified by TEA of their eligibility based on Academic Excellence Indicator System (AEIS) criteria. (TEC 39.091)

**℞ 394 Life Skills Program**

This fund classification is to be used to account, on a project basis, for funds granted to provide pregnant and parenting students the services needed to keep them in school until completion. (TEC 29.085)

**℞ 395 Comprehensive Developmental Guidance Program on Elementary Campuses for Students in At-Risk Situations Program**

This fund classification is to be used to account, on a project basis, for funds granted for the planning, implementation and evaluation of comprehensive, developmental guidance and counseling programs on elementary school campuses with high concentrations of students in at-risk situations. The objectives of this project are to:

- Provide appropriate counseling and guidance for the changing social, emotional and academic needs of students
- Provide direct services to students to help them manage academic and social needs
- Support the efforts of teachers and parents in promoting the students' self-esteem, academic readiness, social and interpersonal sensitivity and skills and awareness of academic and future career opportunities.

(TEC 33.005)

**℞ 396 Communities in Schools**

This fund classification is to be used to account, on a project basis, for funds granted for an in-school multi-disciplinary approach to

decreasing the dropout rate in the school district by increasing each participant's chance of being successful in school.

**℞ 397      Advanced Placement Incentives**

This fund classification is to be used to account, on a project basis, for funds awarded to school districts under the Texas Advanced Placement Award Incentive Program, Chapter 28, Subchapter C, TEC.

**℞ 398      Children's Trust Fund of Texas**

This fund classification is to be used to account, on a project basis, for funds granted by the private agency, Children's Trust Fund of Texas. This agency encourages community support and the use of volunteers within the program.

**℞ 399      Investment Capital Funds/Campus Deregulation and Restructuring to Improve Student Achievement**

This fund classification is to be used to account, on a project basis, for funds to help individual public school campuses implement practices and procedures consistent with school deregulation and school restructuring to improve student achievement and increase parental involvement in the schools through staff development and training under the Investment Capital Funds. (TEC 7.024)

**℞ 400      School Health (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of comprehensive school health services to schools.

**℞401      State-Funded Optional Extended-Year Program**

This fund classification is to be used to account, on a project basis, for funds received for extended-year programs funded under §29.082 TEC.

**℞ 402 Texas Ready to Read Program**

This fund classification is to be used to account, on a project basis, for funds granted to provide preschool programs to provide scientific, research-based, pre-reading instruction, with the goal of improving pre-reading skills of three- and four-year old students.

**℞ 403 Certification (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of regional certification of officers.

**℞ 404 Student Success Initiative**

This fund classification is to be used to account, on a project basis, for funds granted for teacher training and allocations to schools to implement scientific, research-based programs for students who have been identified as unlikely to achieve the third grade TAKS reading standard by the end of the third grade.

**℞ 405 Gifted and Talented (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of support for school district efforts in the area of gifted and talented education.

**℞ 406 Teacher Recruitment (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of teacher recruitment.

**℞ 407 Bilingual Education (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of support for school district efforts in the area of bilingual education/ESL.



**℞ 408 Technology (Education Service Centers Only)**

This fund classification is to be used to account, on a project basis, for funds to operate a program of support for school district efforts in the area of technology.

**℞ 409 High School Completion and Success/Texas High School Project**

This fund classification is to be used to account, on a project basis, for funds granted for schools to implement programs to support the improvement of high school graduation rates and post-secondary readiness.

**℞ 410 State Textbook Fund**

This fund classification is to be used to account, on a project basis, for funds awarded to school districts under the textbook allotment (see 411 Technology Allotment). (TEC Chapter 31, Subchapter B)

**℞ 411 Technology Allotment**

This fund classification is to be used to account, on a project basis, for funds awarded to school districts to purchase technological software or equipment that contributes to student learning, or to pay for training for educational personnel involved in the use of these materials. (TEC Chapter 32, Subchapter A)

**℞ 412 Public School Child Care Services**

This fund classification is to be used to account, on a project basis, for funds awarded to school districts for child care service for school-age children. (TEC 33.902)

**℞ 413 Telecommunication Infrastructure Fund**

This fund classification is to be used to account, on a project basis, for funds awarded by the Telecommunication Infrastructure Board.

**℞ 414 Texas Reading Initiative/Texas Reading, Math and Science Initiative**

This fund classification is to be used to account, on a project basis, for funds granted to improve student achievement in reading, math, and science through the provision of materials, professional development, student instructional programs, and other related activities.

**℞ 415 Kindergarten and Prekindergarten Grants**

This fund classification is to be used to account, on a project basis, for funds granted to implement or expand kindergarten or prekindergarten programs not required under TEC 29.153.

**℞ 416 State Head Start**

This fund classification is to be used to account, on a project basis, for funds granted to provide an educational component to federal Head Start programs or similar government-funded early childhood care and education programs.

**℞ 417 Educational Technology (Ed Tech) Pilot**

This fund classification is to be used to account, on a project basis, for funds granted to design, implement and administer pilot programs that explore the impact of delivering curriculum content via various technologies. TEC 32.035

**℞ 418 Active Employee Health Insurance Coverage or Supplemental Compensation (Deleted Effective August 31, 2007)**

This fund classification must be used to account for revenues that are legally restricted to the TRS supplemental compensation under Article 3.50-8, Insurance Code, and the expenditure of the TRS supplemental compensation. The payment of the TRS supplemental compensation amount to an eligible employee is not reported by the district to the TRS in the covered aggregate annual compensation amount for the employee that is being reported for retirement benefit contribution purposes. If at the end of the fiscal year, funds received are less than the TRS supplemental compensation amount expended, then an entry will be recorded to “due from state.” If at the end of the

fiscal year, funds received are more than the TRS supplemental compensation amount expended, then an entry will be recorded to “due to state.” The fund balance of this fund is zero at the end of the district’s fiscal year.

The district is responsible for employer-paid payroll taxes that are attributed to the TRS supplemental compensation amount, including Medicare, Unemployment Compensation, and Workers Compensation, and in some instances, Social Security (in accordance with the district’s agreement with the federal government to participate as an entity in the Social Security program for all or certain classes of eligible employees). **All employer-paid payroll taxes expended from this fund must be reimbursed from other funds**, including the General Fund, other Special Revenue Funds (within the designated purpose projects’ budgetary authority and if payroll-related costs are included in allowable cost provisions) and other funds, as applicable. See Appendix 7 for accounting entries for reimbursing fund code 418 under interfund transactions. As a second option for situations wherein accounting systems do not efficiently facilitate a direct charge to other funds for the employer-paid payroll taxes attributed to the TRS supplemental compensation, the district is to record an Operating Transfer Out (object code 8911) in the General Fund (or other appropriate fund) and record an Operating Transfer In (object code 7915) under fund code 418 for the full amount of employer-paid payroll taxes recorded as an expenditure in fund code 418.

**℞419 Head Start-Ready to Read/Early Childhood School Readiness**

This fund classification is to be used to account, on a project basis, for funds granted to preschool programs to provide scientific, research-based, pre-reading instruction for three-and four-year old children.

**420 Reserved for Future State Definition**

This classification is reserved for future state designation and is not to be used by the school district.

**℞421 Master Reading Teacher**

This fund classification is to be used to account, on a project basis, for stipends to school districts with Master Reading teachers who are certified according to the provisions in TEC 21.0481.

**℞422 Matching Funds for Library Purchases**

This fund classification is to be used to account, on a project basis, for matching funds received by the district for expenditures for books and other school library materials that are catalogued and circulated from a central source in each school building. The Texas Education Agency provides a 30% match for each dollar expended, not to exceed one dollar expended per student enrolled, in each year of the biennium, to be used for the purchase of library books and other library materials.

**℞423 Limited English Proficient (LEP) Student Success Initiative (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to schools to provide intensive programs of instruction for limited English-proficient (LEP) students and teacher training resources specific to instruction of LEP students. [TEC 39.024(d) and (e)]

**℞424 School Leadership Pilot Program (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to develop and implement a school leadership pilot program for principals. [TEC 11.203]

**℞425 Teacher Induction and Mentoring Program (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to schools that assign mentor teachers to classroom teachers who have less than two years of teaching experience. [TEC 21.458]

**℞426 Texas Educator Excellence Award Grant Program (Effective fiscal year 2008/09)**

This fund classification is to be used to account, on a project basis, for funds granted to schools which have an approved campus incentive plan to award teachers and other school staff for improving student achievement. [TEC Chapter 21, Subchapter N, Awards for Student Achievement]

**427 State Funded Special Revenue Funds - Locally Defined (Convert to Fund 429 for PEIMS)**

This fund classification is to be used to account, on a project basis, for funds that are received from the state that are not listed elsewhere. For [PEIMS](#) reporting, this fund converts to Fund 429.

**℞428 High School Allotment (Effective fiscal year 2007/08 for actual; 2006/07 for budget)**

This fund classification is to be used to account for the \$275 per high school student to prepare students to go on to higher education, encourage students to take advanced academic course work, increase the rigor of academic course work, align secondary and postsecondary curriculum and support promising high school completion and success initiatives in grades 6 through 12. If the district meets certain college readiness and completion rate standards, there are less restrictions on how the funds are spent—see TEC 39.234.

This amount is not paid separately, but is combined with other Foundation School Program funds. The breakdown of the amount is provided on the Summary of Finance for journal entry purposes.

See the [High School Allotment](#) section of the HB1 implementation page for general information and a link to TAC 61 for rules on high school allotment.

This fund may be used through fiscal year 2009/10 to record any remaining fund balance at the end of fiscal year 2008/09; however, after that point it should be coded to fund 199 and program intent code 31 to align with the movement to Tier I funding beginning with fiscal year 2009-10.

**℞ 429 State Funded Special Revenue Funds**

State funded special revenue funds not listed above are to be accounted for in this fund. Any locally defined codes that are used at the local option are to be converted to fund 429 for [PEIMS](#) reporting.

## **430 SHARED SERVICES ARRANGEMENTS - STATE/LOCAL FUNDED**

The special revenue funds listed below (Fund Codes 431 through 459) are used to account for state/local funds held by a fiscal agent school district or regional education service center that either (1) provides and pays for all services to member districts; (2) provides and pays for some services to member districts and sends a portion of the grant to each member district to expend; (3) receives funds from member districts to expend on shared personnel, etc.; or, (4) sends all of the grant to member districts to expend.

Amounts sent by the fiscal agent to shared services arrangement member school districts are reported by those school districts as revenues and expenditures of the Special Revenue Fund in the appropriate fund (Fund Codes 381 through 429). Federally funded shared services arrangements are accounted for in the same manner as grants in the Special Revenue Fund. At the end of each fiscal year, the fiscal agent is responsible for submitting financial data, by member district, through the Public Education Information Management System ([PEIMS](#)) in a special record for shared services arrangements.

### **℞ 431 Shared Services Arrangements - Adult Education - State / Educational Technology (Ed Tech) Pilot**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide or support programs for adult education and literacy services to adults age 16 and above who do not have a high school diploma and are out of school. Funds can be used for same purposes as federal adult education funds.

### **℞ 432 Shared Services Arrangements - Temporary Assistance for Needy Families (TANF) - State, TEC §29.252**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to provide education services to undereducated adult recipients of cash assistance under Temporary Assistance for Needy Families (TANF). Recipients of benefits are required to participate in adult basic education or job training programs as a condition of eligibility. Educational services include basic

educational skills (reading, writing, speaking and mathematics), English as a Second Language instruction and secondary level competencies for acquisition of a high school diploma or its equivalent. Funded under TEC §29.252.

**℞ 433 Shared Services Arrangements - Professional Staff Development**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used to provide preservice and staff development training in technology and innovative teaching practices for teachers and administrators. Public schools and ESCs may serve as fiscal agents for the establishment of a center for professional development (funded under TEC 21.047) under the direction of an institution of higher education or may receive funds directly to provide training and staff development in technology and innovative teaching practices.

**℞ 434 Shared Services Arrangements - State Supplemental Visually Impaired (SSVI)**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for State Supplemental Visually Impaired (SSVI) funds.

**℞ 435 Shared Services Arrangements - Regional Day School for the Deaf**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis for funds allocated for staff and activities of the Regional Day School Program for the Deaf (RDSPD). These funds are not to be used to pay salaries of teachers with a teaching assignment other than deaf students in the RDSPD. State deaf funds should not be used to pay the salary of teachers of American Sign Language as a foreign language at the junior high or high school level, as this is a course for regular education credit.

**℞ 436 Shared Services Arrangements - Quality Work Force Planning - State**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds for the benefit of a quality work force planning committee.

**℞ 437 Shared Services Arrangements - Special Education**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds for special education, other than regional day school for the deaf and State Supplemental Visually Impaired (SSVI).

**℞ 438 Shared Services Arrangements - Public School Child Care Services**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis for funds awarded to school districts for child care service for school-age children. (TEC 33.902)

**℞ 439 Shared Services Arrangements - Texas Reading Initiative/Texas Reading, Math and Science Initiative**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds awarded to school districts for the implementation of scientific research-based programs, including the purchase of instructional or diagnostic reading materials, instructional staff, and professional staff development of educators.

**℞ 440 Shared Services Arrangements - Telecommunication Infrastructure Fund**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds awarded by the Telecommunication Infrastructure Board.



**℞441 Shared Services Arrangements – Head Start-Ready to Read/Early Childhood School Readiness**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to preschool programs to provide scientific, research-based, pre-reading instruction for three-and four-year old children.

**℞442 Shared Services Arrangements – Limited English Proficient (LEP) Student Success Initiative**

This fund classification is to be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to schools to provide intensive programs of instruction for limited English-proficient (LEP) students and teacher training resources specific to instruction of LEP students. [TEC 39.024(d) and (e)]

**443-445 Reserved For Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**446-458 State/Local Funded Shared Services Arrangements - Locally Defined (Convert to Fund 459 for PEIMS)**

These fund classifications are used, at the option of the school district, for state/local funded shared services arrangements not specifically defined elsewhere. For [PEIMS](#) reporting, these funds are to be converted to Fund 459.

**℞ 459 Shared Services Arrangements - State/Local Funded Educational Programs (includes local/state supplement to federal)**

State/local funded shared services arrangements not listed above are to be shown in this fund. Any locally defined codes that are used at the local option are to be converted to fund 459 for [PEIMS](#) reporting.

**460 SPECIAL REVENUE FUNDS (LOCAL PROGRAMS)**

Fund Codes 461 through 499 are to be used to account for local programs such as campus activity funds or grants from local

businesses or organizations that require that the funds be expended for a specific purpose.

**℞ 461      Campus Activity Funds (see Fund 865 for Student Activity Funds)**

This fund classification is to be used to account for transactions related to a principal's activity fund if the monies generated are not subject to recall by the school district's board of trustees into the General Fund. Gross revenues from sales are recorded in revenue object code 5755. The cost of goods sold is recorded in Function 36, using the appropriate expenditure object code.

**462-469      Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**470-471      Reserved for Future State Definition – Permanent Funds**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**472-478      Permanent Funds - Locally Defined (Convert to Fund 499 for PEIMS)**

These fund classifications are used, at the option of the school district to classify permanent funds not defined elsewhere. For [PEIMS](#) reporting, these funds convert to Fund 479.

**℞ 479      Permanent Fund**

This fund classification is to be used to account for transactions related to resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting organization's programs (Permanent funds do not include private-purpose trust funds). This fund code (accounted for on a modified-accrual basis) is effective September 1, 2001, for certain transactions that were accounted for as nonexpendable trust funds on a full-accrual basis prior to implementation of GASB

Statement 34 reporting standards, such as a legal trust benefiting the acquisition of library books from interest proceeds of an investment fund.

**480-498 Locally Funded Special Revenue Funds - Locally Defined  
(Convert to Fund 499 for PEIMS)**

These fund classifications are used, at the option of the school district to classify locally funded special revenue funds such as grants by corporations to specific campuses not defined elsewhere. For [PEIMS](#) reporting, these funds convert to Fund 499.

**℞ 499 Locally Funded Special Revenue Funds**

Locally funded special revenue funds not listed above are to be accounted for in this fund (effective September 1, 2001, this fund classification is also to be used for transactions that were accounted for as expendable trust funds prior to implementation of GASB Statement 34 reporting standards). Any locally defined codes that are used at the local option are to be converted to Fund 499 for [PEIMS](#) reporting.

**500 DEBT SERVICE FUNDS**

A debt service fund is a governmental fund, with budgetary control, that must be 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. A separate bank account must be kept for this fund. Principal and interest payments for operating indebtedness including warrants, notes, and short-term lease-purchase agreements, are to be made from the fund for which the debt was incurred. This fund utilizes the modified accrual basis of accounting.

**501-510 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**511-598 Debt Service Funds - Locally Defined (Convert to Fund 599 for PEIMS)**

These fund classifications are used, at the option of the school district, to account for specific debt services. For [PEIMS](#) reporting, these accounts are converted to Fund 599.

**℞ 599 Debt Service Funds**

This fund classification is used to combine all debt service funds for reporting. School districts are encouraged to use locally defined debt service funds (Fund Codes 511-598) to provide separate accountability for each type or issue of debt and convert these accounts to Fund 599 for [PEIMS](#) reporting. This fund classification is also used to record transactions involving the FSP instructional facilities allotment for bonded indebtedness (voter approved debt) related purposes (Fund Code 199, General Fund, is used to record transactions involving the instructional facilities allotment for lease-purchase related purposes).

**600 CAPITAL PROJECTS FUNDS**

A capital projects fund is a governmental fund that must be used to account, on a project basis, for projects financed by the proceeds from bond issues, or for capital projects otherwise mandated to be accounted for in this fund. The capital projects fund utilizes the modified accrual basis of accounting.

**601-615 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**616-698 Capital Projects Funds - Locally Defined (Convert to Fund 699 for PEIMS)**

These fund classifications are used, at the option of the school district, to classify capital projects on a project-by-project basis. For [PEIMS](#) reporting, these accounts are converted to Fund 699.

## **℞ 699 Capital Projects Funds**

This fund classification is used to combine all capital projects funds for reporting. It is recommended that each capital project be recorded in a locally defined fund (Fund Codes 616 through 698) and converted to Fund 699 for [PEIMS](#) reporting.

## **700 - 799 PROPRIETARY FUND TYPES**

These types of funds are used to account for a school district's on-going organizations and activities where net income and capital maintenance are measured. All related assets, liabilities, equities, revenues, expenses, non-operating revenues and expenses, and transfers are accounted for through the fund affected. Generally accepted accounting principles that apply to similar businesses in the private sector are applicable to proprietary type funds, as net income and financial position are to be determined. These funds utilize the accrual basis of accounting.

There are two proprietary fund types, enterprise funds and internal service funds.

A budget is not required to be approved by the school district's Board of Trustees for proprietary fund types except for a child nutrition program accounted for under Fund 701. Fund 701 is the only proprietary fund type to be reported to the state through [PEIMS](#).

## **700-749 ENTERPRISE FUNDS**

An enterprise fund is a proprietary fund type accounted for on the accrual basis and not required to be budgeted. The exception is for child nutrition operations accounted for in an enterprise fund in accordance with generally accepted accounting principles for which a budget is to be submitted to the state through [PEIMS](#). Generally accepted accounting principles of the private sector are applicable, as financial position, results of operations and cash flows are to be determined.

Expenses of an enterprise operation, including depreciation, are generally intended to be financed or recovered primarily through user charges rather than from government grants or subsidies.

An example of an operation to be accounted for in the Enterprise Fund is a school district-owned concession stand that serves the general public at school sponsored events, and the primary intent of operations is to realize a profit as a result of sales.

Fund Codes 701-749 are used to account for enterprise funds.

**℞ 701      Enterprise Fund - National School Breakfast and Lunch Program  
(Report Budget and Actual Expenditures through PEIMS)**

This fund classification is to be used to account for budgeted food service operations. This fund is used when a school district intends for the food service operations to be financed from the NSLP program and user charges, rather than from general fund subsidies. Summer feeding programs funded by the Department of Human Services (DHS) are Special Revenue funds and should be accounted for in Fund 242. (10.553, breakfast; 10.555, lunch)

**702-710      Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**711-748      Enterprise Funds - Locally Defined (Not Reported to PEIMS—  
Convert to 749 for PEIMS Payroll Reporting Only)**

These fund classifications are used, at the option of the school district, to account for enterprise funds not defined elsewhere.

**749            Enterprise Funds (Only Reported to Payroll Record in PEIMS)**

This fund classification is used to classify enterprise funds not defined elsewhere.

## 750-799 INTERNAL SERVICE FUNDS

Internal service funds are a proprietary fund accounted for on the accrual basis. No budget is required for internal service funds. These funds are not required to be reported in data submitted through [PEIMS](#) to TEA except the payroll data. Internal service funds apply the same generally accepted accounting principles as the Enterprise Fund.

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 local education agencies or governmental units, on a cost reimbursement basis. An example of an internal service fund is a school district-operated print shop.

School districts may, at their option, utilize local detail codes to further account for internal services.

According to Governmental Accounting Standards Board Statement No. 10, public entity risk pools are required to be accounted for in the Internal Service Fund. A public entity risk pool is a shared services arrangement group of governmental entities joined together to finance an exposure, liability, or risk, such as employee health care, general liability, unemployment compensation and workers' compensation. Fund Codes 751 through 799 are used to account for internal service funds.

### **℞ 751 Transportation (Not Reported to PEIMS)**

This fund classification is used to account for transactions related to transportation services provided to other organizational units of the school district or to other school districts or governmental units on a cost-reimbursement basis. (This fund is used at the option of the school district to facilitate allocation of these costs to other accounts.)

### **℞ 752 Print Shop (Not Reported to PEIMS)**

This fund classification is used to account for transactions related to print shop services provided to other organizational units of the school district or to other school districts or governmental units on a

cost-reimbursement basis. (This fund is used at the option of the school district to facilitate allocation of these costs to other accounts.)

**℞ 753 Insurance (Not Reported to PEIMS)**

This fund classification is used to account for transactions related to self-insurance activities of the school district. (This fund is used at the option of the school district to facilitate allocation of these costs to other accounts.) School districts are to use distinct locally-defined numbers where necessary to maintain separate accountability for each self-insurance program.

**℞ 754 Computer Operations (Not Reported to PEIMS)**

This fund classification is used to account for transactions related to computer services provided to other organizational units of the school district or to other school districts or governmental units on a cost-reimbursement basis. (This fund is used at the option of the school district to facilitate allocation of these costs to other accounts.)

**℞ 755 Public Entity Risk Pool (Not Reported to PEIMS)**

This fund classification is used to account for transactions related to a public entity risk pool. Public entity risk pools are required to be accounted for in the Internal Service Fund. A public entity risk pool is a shared services arrangement group of governmental entities joined together to finance an exposure, liability, or risk, such as employee health care, general liability, unemployment compensation and workers' compensation. If a school district is fiscal agent for more than one type of risk pool, locally defined funds may be used to provide appropriate accounting.

**756-769 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.



**770-798 Internal Service Funds - Locally Defined (Not Reported to PEIMS)**

These fund classifications are used, at the option of the school district, to classify internal service funds not defined elsewhere.

**799 Internal Service Funds (Not Reported to PEIMS)**

This fund is used to account for internal funds not specified elsewhere.

**800 - 899 FIDUCIARY FUND TYPES And Similar Component Units**

This group of funds is used to account for assets held by a school district in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. This fund type consists of pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. It should be noted that substantially all Texas school districts provide benefits through the Teacher Retirement System of Texas and do not provide benefits through a local pension trust fund.

**800 TRUST FUNDS**

These fiduciary funds are accounted for on the economic resources measurement focus and the accrual basis of accounting except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans (refer to GASB 25 and 26 for guidance on recognition of these liabilities). Trust funds are not to be reported through [PEIMS](#). Fund Codes 801 through 829 are used to account for private-purpose trust funds.

**810 Private-purpose Trust Funds - Locally Defined (Not Reported to PEIMS)**

These fiduciary funds are accounted for on the economic resources measurement focus and the accrual basis of accounting. Reporting activities focus on net assets and changes in net assets. Resources accounted for in this fund type include scholarship funds that are received by a school that are to be awarded to current and former students for post-secondary education purposes. Private-purpose trust

funds are not reported through [PEIMS](#). Fund Codes 801 through 829 are used to account for private purpose trust funds.

**811-815 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**816-828 Private-purpose Trust Funds - Locally Defined (Not Reported to PEIMS)**

These fund classifications are used to account for locally defined private-purpose trust funds.

**829 Private-purpose Trust Funds (Not Reported to PEIMS)**

This fund classification is used to account for private-purpose trust funds not defined elsewhere.

**830 Investment TRUST FUNDS**

These fiduciary funds are accounted for on the economic resources measurement focus and the accrual basis of accounting. Reporting activities focus on net assets and changes in net assets. Investment trust funds are not reported through [PEIMS](#). Fund Codes 831 through 849 are used to account for investment trust funds.

**831-835 Reserved for Future State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**836-848 Investment Trust Funds - Locally Defined (Not Reported to PEIMS)**

These fund classifications are used to account for locally defined investment trust funds.

**849 Investment Trust Funds (Not Reported to PEIMS)**

This fund classification is used to account for investment trust funds not defined elsewhere.

**850 PENSION and Other Employee Benefit TRUST FUNDS**

These funds are used to account for local pension and other employee benefit funds that are provided by a school district in lieu of or in addition to the Teacher Retirement System of Texas. Reporting activities focus on net assets and changes in net assets. Funds 851 through 859 are used to account for Pension And Other Employee Benefit Trust Funds.

**851-858 Pension and Other Employee Benefit Trust Funds - Locally Defined (Not Reported to PEIMS)**

These fund classifications are to be used for locally defined pension And Other Employee Benefit trust funds.

**859 Pension and Other Employee Benefit Trust Funds (Not Reported to PEIMS)**

This fund classification is used to account for pension and other employee benefit funds not specified elsewhere.

**860 AGENCY FUNDS**

These funds are accounted for on the economic resources measurement focus and the accrual basis of accounting. These funds are held in a custodial capacity by a school district, and they consist of funds that are the property of students or others. Agency funds do not involve measurement of results of operations, and they have no fund equity, because assets are equal to liabilities.

Examples of agency funds include class funds that are the property of the students. Locally raised revenues used for general operating purposes, such as certain principal's activity accounts, are not agency funds, and are to be budgeted and accounted for in the Special Revenue Fund, or in some instances, in the General Fund.

Furthermore, deferred compensation funds are to be accounted for in the agency fund if the district serves as trustee of the plan. The agency funds are not to be reported through [PEIMS](#). Fund Codes 861 through 899 are used to account for agency funds.

**℞ 861 Agency Fund for Tax Collections (Not Reported to PEIMS)**

This fund classification is used by a school district to account, on the economic resources measurement focus and the accrual basis, for taxes that are collected on behalf of another taxing unit, including Consolidated Taxing Districts. These funds are held in a custodial capacity by the collecting school district and may not be commingled with funds of the collecting school district.

**℞ 862 Agency Fund for Textbook Waiver Refunds (Not Reported to PEIMS)**

This fund classification is used as a clearing account for refunds received from the Texas Education Agency (TEA) due to waivers granted for textbooks.

**863 Reserved for State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district. This fund code may continue to be used for payroll clearing account activities; however, these activities must be eliminated for reporting purposes.

**864 Reserved for State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district. This fund code may continue to be used for accounts payable clearing account activities; however, these activities must be eliminated for reporting purposes.

**℞ 865 Student Activity Account (Not Reported to PEIMS) (See Fund 461 for Campus Activity Funds)**

This fund classification is used as an agency account for student “club” funds or “class” funds.

**866-875 Reserved for State Definition**

These fund classifications are reserved for future state designation and are not to be used by the school district.

**876-898 Locally Defined Agency Funds (Not Reported to PEIMS)**

These fund classifications are to be used for locally defined agency funds not listed above.

**899 Agency Funds (Not Reported to PEIMS)**

This fund classification is used to account for agency funds not specified elsewhere.

**900****GENERAL CAPITAL ASSETS AND LONG-TERM DEBT**

The purpose of these account codes is to record general capital assets and long-term debt involving governmental activities. See special instructions in Section 1.7 of the FAR concerning accounting and reporting requirements involving general capital assets and long-term debt relating to governmental activities, in accordance with GASB Statement No. 34.

**℞ 901 General Capital Assets (Not Reported to PEIMS)**

This code is used to account under an accrual basis of accounting for general capital assets not recorded in the Proprietary Fund Types or fiduciary funds. This account code is for specific pieces of property such as equipment, land and building as well as all associated costs. See special instructions in Section 1.7 of the FAR concerning accounting and reporting requirements involving general capital assets and long-term debt relating to governmental activities, in accordance with GASB Statement No. 34.

**℞ 902 Long-Term Debt (Not Reported to PEIMS)**

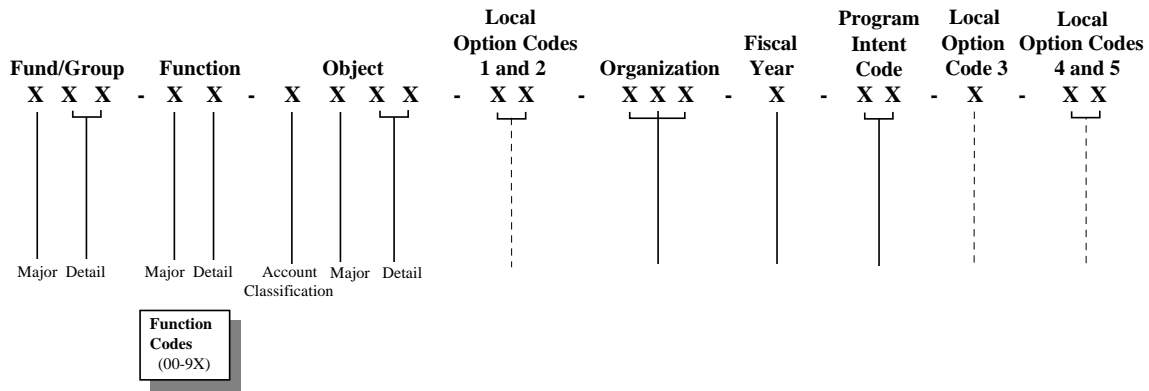
This code is used to account for debts of a non-current nature under an accrual basis of accounting. Long-term debts of Proprietary Fund types and fiduciary funds are accounted for through those fund types and are not included in this account code. See special instructions in Section 1.7 of the FAR concerning accounting and reporting requirements involving capital assets and long-term debt relating to governmental activities, in accordance with GASB Statement No. 34.

### 1.4.3 Function Codes

A function represents a general operational area in a school district and groups together related activities. Most school districts use all of the functions in the process of educating students or organizing the resources to educate students. For example, in order to provide the appropriate atmosphere for learning, school districts transport students to school, teach students, feed students and provide health services. Each of these activities is a function. The  $\mathcal{R}$  by a function indicates that the function is required for reporting purposes (PEIMS and/or Annual Financial and Compliance Report) if such funds are applicable to the school district.

**Exhibit 31. Function Code Structure**

#### The Code Structure



————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

Functions are grouped according to related activities in the following major areas/classes:

- 10 Instruction and Instructional-Related Services
- 20 Instructional and School Leadership
- 30 Support Services - Student (Pupil)
- 40 Administrative Support Services
- 50 Support Services - Non-Student Based
- 60 Ancillary Services
- 70 Debt Service
- 80 Capital Outlay
- 90 Intergovernmental Charges

Each of these major areas is further defined by detail function codes. The  $\mathcal{R}$  by a code indicates that the code is required for [PEIMS](#) reporting purposes if such costs are applicable to the school district.

## **10 Instruction and Instructional-Related Services**

This function code series is used for expenditures/expenses that:

- Provide direct interaction between staff and students to achieve learning
- Provide staff members with the appropriate resources to achieve the appropriate student learning outcomes through either materials or development



Function Codes	
Major	Detail
X	X

**R 11**

**Instruction**

This function is used for activities that deal directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations. It may also be provided through some other approved medium such as television, radio, telephone, telecommunications, multimedia and correspondence. This function includes expenditures / expenses for direct classroom instruction and other activities that deliver, enhance or direct the delivery of learning situations to students.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 11 - Costs to Include:</b>	<b>Function 11 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>Salaries and related expenditures /expenses associated with:</li> <li>Classroom teachers</li> </ul>	<ul style="list-style-type: none"> <li>Salaries and related expenditures/ expenses associated with:</li> <li>Curriculum development (Function 13)</li> </ul>

Function Codes	
Major	Detail
X	X

<b>Function 11 - Costs to Include:</b>	<b>Function 11 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>• Teacher aides</li> <li>• Classroom assistants</li> <li>• Graders</li> <li>• Staff working in the classroom on a dedicated basis</li> <li>• Adult basic education teachers</li> <li>• Substitute teachers (ALL instructional substitutes effective 2008-09 fiscal year)</li> <li>• Teachers that deliver instruction by television, satellite, etc.</li> <li>• TI-IN services provided by education service centers</li> <li>• Classes taught to students by education service centers</li> <li>• Special education instructional services, including speech, occupational and physical therapy</li> <li>• Upkeep and repairs to instructional materials and equipment in the classroom</li> <li>• Instruction in health</li> <li>• Field trips</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries or salary supplements related to department heads (Function 13), curriculum writers (Function 13), program directors (Function 21)</li> <li>• School leadership costs such as principals, assistant principals and their staffs (Function 23)</li> <li>• Salaries and expenditures/expenses (including hardware/software maintenance) for PC networks that include student and general administrative software, license fees and serve multiple functions (Function 53)</li> <li>• Network managers for non-instructional computer networks (Function 53)</li> <li>• Management Information Services (MIS) directors (Function 53)</li> <li>• Salaries and expenditures/expenses for webmaster (excluding costs attributable to instructional settings) (Function 53)</li> <li>• Salaries and expenditures/expenses for technology network, data, or system security (excluding costs attributable to instructional settings) (Function 53)</li> <li>• Salaries and expenditures/expenses information technology developer,</li> </ul>

Function Codes	
Major	Detail
X	X

Function 11 - Costs to Include:	Function 11 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Band instruments purchased by the school district or donated by band boosters or other groups</li> <li>• Instructional computer networks, software, licensing fees, maintenance, supplies, staff and instructional computer lab teacher</li> <li>• Network manager for instructional networks</li> <li>• Technology coordinator for instructional networks</li> <li>• Testing materials for tests developed and administered by teachers</li> <li>• Salaries for instruction, including that portion of the salary for the regular school day that is for teaching physical education (P.E. equivalent) courses for credit when athletic activities are being practiced or are taking place</li> <li>• Instructional supplies including but not limited to classroom supplies, grade books, grade book software, report cards, student handbooks and related costs</li> <li>• Insurance for driver's education vehicles</li> <li>• Graduation expenditures/expenses</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>programmer, tester, or systems analyst (excluding costs attributable to instructional settings) (Function 53)</li> <li>• Supplies and services for upkeep and maintenance of buildings and grounds, including utilities (Function 51)</li> <li>• Tuition for students attending classes in another school district because the resident school district does not offer certain grade levels (Function 99)</li> <li>• Purchase of Weighted ADA (WADA) from either the state or other school districts according to Chapter 41 of the Texas Education Code (Function 91)</li> <li>• Testing materials for standardized tests (Function 31)</li> <li>• Band Uniforms (Function 36)</li> <li>• Insurance on band instruments (Function 51)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 11 - Costs to Include:	Function 11 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Purchase of vehicles for instructional purposes, including driver education</li> </ul>	

**R 12 Instructional Resources and Media Services**

This function is used for expenditures/expenses that are directly and exclusively used for resource centers, establishing and maintaining libraries and other major facilities dealing with educational resources and media.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 12 - Costs to Include:	Function 12 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Salaries and related expenditures/expenses associated</li> </ul>	<ul style="list-style-type: none"> <li>Salaries and related expenditures /expenses associated with:</li> </ul>

Function Codes	
Major	Detail
X	X

Function 12 - Costs to Include:	Function 12 - Costs to Exclude (with Correct Function):
<p>with:</p> <ul style="list-style-type: none"> <li>• Librarians</li> <li>• Library aides and assistants</li> <li>• Media or resource center personnel who work in an audiovisual center, television studio or related work-study areas</li> <li>• Substitute pay for library staff (ALL substitutes effective 2008-09 fiscal year)</li> <li>• Selecting, preparing, cataloging and circulating books and other printed materials</li> <li>• Planning the use of the library by students, teachers and other members of the instructional staff</li> <li>• Building individuals ability in their use of library books and materials</li> <li>• Selecting, preparing, maintaining and making available to members of the instructional staff equipment, films filmstrips, transparencies, tapes, TV programs, software, CD/DVDs and similar materials</li> <li>• Planning, programming, writing and presenting educational programs or segments of</li> </ul>	<ul style="list-style-type: none"> <li>• Encyclopedias and other reference books in the classroom (Function 11)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Textbooks (Function 11)</li> <li>• Teaching supplies used in the classroom (Function 11)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)</li> <li>• Staff who conduct in-service training on the use of technology (Function 13)</li> <li>• Network manager for instructional networks (Function 53)</li> <li>• Technology coordinator for instructional networks (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

<b>Function 12 - Costs to Include:</b>	<b>Function 12 - Costs to Exclude (with Correct Function):</b>
<p>programs by closed circuit or broadcast television</p> <ul style="list-style-type: none"> <li>• Studio crews that record educational programs or segments of programs by closed circuit or broadcast television, including those for TI-IN</li> <li>• Library books, films, video cassettes, CD/DVD disks, and other media that are maintained by a resource center or library</li> <li>• Supplies for binding and repairing books or other media contained in the resource center</li> <li>• Upkeep and repairs to media, library and resource center materials and equipment</li> <li>• Media and Living Science services provided by an education service center</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Purchase of vehicles for instructional resources and media purposes</li> </ul>	

Function Codes	
Major	Detail
X	X

**13**

**Curriculum Development and Instructional Staff Development**

This function is used for expenditures/expenses that are directly and exclusively used to aid instructional staff in planning, developing and evaluating the process of providing learning experiences for students. Expenditures and expenses include inservice training and other staff development for instructional or instructional-related personnel (Functions 11, 12, and 13) of the school district. This function also includes expenditures and expenses related to research and development activities that investigate, experiment, and/or follow-through with the development of new or modified instructional methods, techniques, procedures, services, etc.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 13 - Costs to Include:</b>	<b>Function 13 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>• Staff that research and develop innovative, new or modified instruction</li> <li>• Fees for outside consultants conducting inservice training or staff development for instructional and instructional</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries of instructional staff when attending inservice training or staff development (Function 11 or 12, as applicable)</li> <li>• Substitute pay for instructional staff attending staff development or inservice training (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 13 - Costs to Include:	Function 13 - Costs to Exclude (with Correct Function):
<p>related staff</p> <ul style="list-style-type: none"> <li>• Staff who prepare and/or conduct inservice training or staff development for instructional and instructional related staff (includes instructional technology)</li> <li>• Curriculum coordinator (not responsible for supervising instructional staff)</li> <li>• Subject area or grade level department heads and related support staff</li> <li>• Assistant/Deputy Superintendent(s) for Curriculum</li> <li>• Travel and subsistence for instructional and instructional related staff to attend inservice or staff development meetings</li> <li>• Tuition and fees paid by the school for instructional staff to attend college for additional hours of credit</li> <li>• Supplies, materials and equipment for curriculum development or inservice training</li> <li>• Upkeep and repairs to equipment used for curriculum development or inservice training</li> <li>• Paid sabbatical leaves for instructional staff</li> </ul>	<ul style="list-style-type: none"> <li>• Substitute pay for library staff attending staff development or inservice training (Function 12)</li> <li>• Assistant/Deputy Superintendent(s) for Instruction (Function 21)</li> <li>• Instructional supervisors (Function 21)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Inservice training or staff development for staff that are not classified in functions 11, 12 or 13 (use appropriate function)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)</li> <li>• Technology coordinator for instructional networks (Function 11)</li> </ul>



Function Codes	
Major	Detail
X	X

Function 13 - Costs to Include:	Function 13 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Staff development or inservice training provided by an education service center</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Purchase of vehicles for staff development or curriculum development purposes</li> </ul>	

**20 Instructional and School Leadership**

This function code series is used for expenditures that relate to the managing, directing, supervising and leadership of staff who are providing either instructional or instructional-related services. This function code series also includes the general management and leadership of a school campus.

**21 Instructional Leadership**

This function is used for expenditures/expenses that are directly used for managing, directing, supervising, and providing leadership for staff who provide general and specific instructional services.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate

Function Codes	
Major	Detail
X	X

these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 21 - Costs to Include:	Function 21 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Instructional supervisors</li> <li>• Special population or educational program coordinators or directors (Chapter 1, Special Education, Career and Technical Education, etc.) and related support staff</li> <li>• Upkeep and repairs to materials and equipment related to instructional leadership</li> <li>• Assistant/Deputy Superintendent(s) for Instruction</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Purchase of vehicles for instructional leadership purposes</li> </ul>	<ul style="list-style-type: none"> <li>• Principals, assistant principals and related staff (Function 23)</li> <li>• Staff members who perform accounting, personnel, or other administrative functions (Function 41)</li> <li>• Staff development and inservice training personnel (Function 13)</li> <li>• Assistant/Deputy Superintendent(s) for Curriculum (Function 13)</li> <li>• Curriculum coordinator not responsible for supervising instructional staff (Function 13)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors,</li> </ul>

Function Codes	
Major	Detail
X	X

Function 21 - Costs to Include:	Function 21 - Costs to Exclude (with Correct Function):
	student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)

**℞ 23 School Leadership**

This function is used for expenditures/expenses that are used to direct and manage a school campus. They include the activities performed by the principal, assistant principals and other assistants while they:

- Supervise all operations of the campus
- Evaluate staff members of the campus
- Assign duties to staff members maintaining the records of the students on the campus

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function Codes	
Major	Detail
X	X

<b>Function 23 - Costs to Include:</b>	<b>Function 23 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>• Principals, assistant principals and related staff</li>   <li>• Staff to record, compile and report pupil attendance data, such as attendance databases, including enrollment records</li>   <li>• Campus staff that maintain principal's activity or student activity funds</li>   <li>• All expenditures related to teacher appraisal (even if the appraisal is conducted by a teacher peer group)</li>   <li>• Upkeep and repairs to equipment related to school leadership</li>   <li>• Microcomputers that are used exclusively by the school leadership staff, whether networked or stand alone</li>   <li>• Purchase of vehicles for school leadership purposes</li>   <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li>   <li>• Design of campus improvement plans</li> </ul>	<ul style="list-style-type: none"> <li>• Staff who compile superintendent's annual report (Function 41)</li>   <li>• Networked microcomputers, minicomputers, or mainframe computers that are used for multiple functions -- e.g., general administration in conjunction with school leadership (Function 53)</li>   <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li>   <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, or student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)</li> </ul>

Function Codes	
Major	Detail
X	X

**30 Student Support Services**

This function code series is used for expenditures/expenses that directly support students.

**31 Guidance, Counseling and Evaluation Services**

This function is used for expenditures/expenses that are directly and exclusively used for assessing and testing students’ abilities, aptitudes and interests; counseling students with respect to career and educational opportunities and helping them establish realistic goals. This function includes costs of psychological services, identification of individual characteristics, testing, educational counseling, student evaluation and occupational counseling.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 31 - Costs to Include:</b>	<b>Function 31 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>Counselors and related staff, including Career and Technical or occupational counselors</li> </ul>	<ul style="list-style-type: none"> <li>Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 31 - Costs to Include:	Function 31 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Staff who evaluate student performance using assessment instruments</li> <li>• Mental health screening</li> <li>• Psychologists</li> <li>• Psychiatrists</li> <li>• Diagnosticians</li> <li>• Assistant/Deputy Superintendent(s) for Guidance and Counseling</li> <li>• Student appraisal services</li> <li>• Maintaining information on home and family background, standardized test results and school performance</li> <li>• Maintaining information on course of study for each student</li> <li>• Placement services</li> <li>• Testing materials for standardized tests</li> <li>• Contracted testing services for standardized tests</li> <li>• Student/parent counseling</li> <li>• Upkeep and repairs to equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Costs for providing physical health services to students (Function 33)</li> <li>• Testing materials for student tests developed and administered by teachers (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 31 - Costs to Include:	Function 31 - Costs to Exclude (with Correct Function):
related to guidance and counseling services <ul style="list-style-type: none"> <li>• Purchase of vehicles for guidance and counseling personnel</li> <li>• Supplies for guidance, counseling and evaluation services</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	

**℞ 32 Social Work Services**

This function is used for expenditures/expenses that are directly and exclusively used for activities such as:

- Investigating and diagnosing student social needs arising out of the home, school or community
- Casework and group work services for the child, parent or both
- Interpreting the social needs of students for other staff members
- Promoting modification of the circumstances surrounding the individual student which are related to his or her social needs. (This includes referrals to and interaction with other governmental agencies.)

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

Function Codes	
Major	Detail
X	X

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 32 - Costs to Include:	Function 32 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Truant/attendance officers</li> <li>• Personnel transferring migrant student records</li> <li>• Social workers</li> <li>• Assistant/Deputy Superintendent(s) for Social Services</li> <li>• Purchase of vehicles for social work services</li> <li>• Upkeep and repairs to materials and equipment related to social work services</li> <li>• Supplies for social work services</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>• Staff that record and compile student attendance -- e.g., attendance databases (Function 23)</li> <li>• Staff that record and compile superintendent's report on attendance (Function 41)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Parent education/involvement liaison or coordinator (Function 61)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length</li> </ul>



Function Codes	
Major	Detail
X	X

<b>Function 32 - Costs to Include:</b>	<b>Function 32 - Costs to Exclude (with Correct Function):</b>
	of day, etc. (Function 36)

**℞ 33 Health Services**

This function is used for expenditures/expenses that are directly and exclusively used for providing physical health services to students. This includes activities that provide students with appropriate medical, dental and nursing services.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 33 - Costs to Include:</b>	<b>Function 33 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>• School physicians (including ophthalmologists), dentists, optometrists, nurses and nurses' aides that are used to maintain the health of students or provide health services for the well-being of the students</li> <li>• Contracted medical services</li> </ul>	<ul style="list-style-type: none"> <li>• Medical and health supplies to be used for athletics (Function 36, Program Intent Code 91)</li> <li>• Instruction in health (Function 11)</li> <li>• Speech, health, physical and</li> </ul>

Function Codes	
Major	Detail
X	X

Function 33 - Costs to Include:	Function 33 - Costs to Exclude (with Correct Function):
including doctor visits, dental visits, vision services and nurses services  <ul style="list-style-type: none"> <li>• Staff and student inoculations</li> <li>• Medical and health supplies for the use of students to assist in health care</li> <li>• Medicaid administrative expenditures</li> <li>• Student physical health screening and referral</li> <li>• Upkeep and repairs to materials and equipment related to health services</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Industrial nurses</li> <li>• Purchase of vehicles for health services</li> </ul>	occupational therapy to assist special education students in the learning process (Function 11)  <ul style="list-style-type: none"> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Pre/post employment physicals or drug testing for personnel classified in other functions (charge to appropriate function)</li> <li>• Medical and health supplies to be used for athletics (Function 36)</li> <li>• Physical examinations for purposes of athletics (Function 36)</li> </ul>

**℞ 34 Student (Pupil) Transportation**

This function is used for expenditures/expenses that are incurred for transporting students to and from school.

Expenditures/expenses for regular bus routes to and from school are to be recorded using Program Intent Code 99 (Undistributed), and Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function Codes	
Major	Detail
X	X

Expenditures/expenses for transportation specifically and exclusively for purposes of transporting students relating to enhanced program intents such as Career and Technical and Services to Students with Disabilities (Special Education), etc., are to be recorded in Function 34 with the appropriate program intent codes.

Function 34 - Costs to Include:	Function 34 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Transportation specifically for students that participate in special programs as defined in program intent codes -- e.g., Services to Students with Disabilities (Special Education), Career and Technical, etc. Include the appropriate program intent code when applicable</li> <li>• Transportation supervisors, directors, bus drivers and bus maintenance personnel</li> <li>• Fuel, tires, etc. for buses</li> <li>• Contracted repair of buses</li> <li>• Bus driver training and certification</li> <li>• Fleet insurance for buses</li> <li>• Bonding expenditures/expenses for bus drivers</li> <li>• Assistant/Deputy Superintendent(s) for Transportation</li> <li>• Pre/post employment physicals or drug testing for personnel</li> </ul>	<ul style="list-style-type: none"> <li>• Field trips (Function 11)</li> <li>• Student organization trips -- e.g., FFA, National Honor Society (Function 36)</li> <li>• Additional costs associated with serving as coaches, athletic directors, band directors, sponsors for UIL speech, debate, science competition, class sponsors, student organization sponsors. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (Function 36)</li> <li>• Financing costs -- e.g. principal and interest for acquisition of buses (Function 71)</li> <li>• Principal and interest on school bus loans/capital leases (Function 71)</li> <li>• Vehicles other than those used for student transportation (charge to appropriate function)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 34 - Costs to Include:	Function 34 - Costs to Exclude (with Correct Function):
classified in this function	
<ul style="list-style-type: none"> <li>Initial purchase of school buses</li> </ul>	

### **℞ 35 Food Services**

This function is used for food service operation expenditures/expenses, including the cost of food, labor, and other expenditures/expenses necessary for the preparation, transportation and storage of food to provide to students and staff. Expenditures/expenses are used directly and exclusively for supervision and maintenance of a food service operation.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 35 - Costs to Include:	Function 35 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Food service supervisors or directors and related staff</li> </ul>	<ul style="list-style-type: none"> <li>Food purchases to instruct students on food preparation (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 35 - Costs to Include:	Function 35 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Cooks</li> <li>• Snack bar staff</li> <li>• Food purchases</li> <li>• Non-food purchases such as plates, silverware, napkins, etc. essential to providing food services to students</li> <li>• Commodities</li> <li>• Purchase of vehicles and other transportation costs for the purpose of transporting food from central locations to satellite locations</li> <li>• Purchase of food service equipment (Contact School Meals Programs at the Texas Department of Agriculture for clarification regarding equipment that is eligible under the food service program)</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Concession stands at athletic events (Function 36)</li> <li>• Snacks, food and drinks for resale in an activity fund (Function 36)</li> </ul>

**℞ 36 Extracurricular Activities**

This function is used for expenditures/expenses for school-sponsored activities outside of the school day. These activities are generally designed to provide students with experiences such as motivation and

Function Codes	
Major	Detail
X	X

the enjoyment and improvement of skills in either a competitive or noncompetitive setting.

*Extracurricular* activities include athletics and other activities that normally involve competition between schools (and frequently involve offsetting gate receipts or fees such as football, baseball, volleyball, track and tennis). Other kinds of related activities are included (such as drill team, pep squad and cheerleading, University Interscholastic League competition such as one-act plays, speech, debate, band, Future Farmers of America (FFA), National Honor Society, etc.).

If the school district has activity funds, the goods purchased for resale are to be classified in this function, with the gross sale of goods recorded in Revenue Object Code 5755, Results from Enterprising Activities, Activity Funds and/or Clearing Accounts.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function Codes	
Major	Detail
X	X

Function 36 - Costs to Include:	Function 36 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Athletic salary supplements paid exclusively for coaching, directing or sponsoring extracurricular athletics, drill team, pep squad or cheerleaders (use Program Intent Code 91)</li> <li>• Athletic Directors/assistants and trainers (use Program Intent Code 91)</li> <li>• Expenditures/expenses for <a href="#">insurance</a> to cover student injuries that take place while participating in athletics (use Program Intent Code 91)</li> <li>• Physical examinations for purposes of athletics (use Program Intent Code 91)</li> <li>• Medical and health supplies to be used for athletics (use Program Intent Code 91)</li> <li>• Athletic supplies and equipment, including, uniforms, etc. (use Program Intent Code 91)</li> <li>• Game officials (use Program Intent Code 91)</li> <li>• Travel for coaches, trainers, sponsors, and students including meals and lodging (use Program Intent Code 91)</li> <li>• Travel for band director, sponsors of debate, science competition, etc. and students including meals and lodging for student competition and extracurricular</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries for instruction, including that portion of the salary for the regular school day that is for teaching physical education ( P.E. equivalent) courses for credit when athletic activities are being practiced or are taking place (Function 11)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> <li>• Property insurance for band uniforms, instruments and other equipment (Function 51)</li> <li>• Band instruments purchased by the school district or donated by band boosters or other groups (Function 11)</li> <li>• Security for cocurricular/ extracurricular events (Function 52)</li> <li>• Property insurance for athletic uniforms and equipment (Function 51)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 36 - Costs to Include:	Function 36 - Costs to Exclude (with Correct Function):
<p>activities (use Program Intent Code 99)</p> <ul style="list-style-type: none"> <li>• Gatekeepers, timers, scorekeepers at athletic events (use Program Intent 91)</li> <li>• Additional costs associated with serving as band directors, sponsors for UIL speech, debate, science competition, etc., class sponsors, student organization sponsors -- e.g., Future Farmers of America, National Honor Society, etc. This includes costs associated with additional days employed, reduction of class load, length of day, etc. (use Program Intent Code 99)</li> <li>• Band uniforms (use Program Intent Code 99)</li> <li>• Items (food, drinks, pencils, pens, paper, etc.) for resale in an activity fund (use Program Intent Code 99)</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Purchase of vehicles for cocurricular/extracurricular purposes</li> </ul>	

**40**

**Administrative Support Services**

A function code series for the overall general administrative support services of the school district.



Function Codes	
Major	Detail
X	X

## 41 General Administration

This function is for expenditures/expenses that are for purposes of managing or governing the school district as an overall entity. This function covers multiple activities that are not directly and exclusively used for costs applicable to specific functions. General administration is an indirect cost applicable to other expenditure functions of a school district.

Program Intent Code 99 is to be used for all expenditures for Function 41. The organization codes specified in the 700 organization code group are the only organization codes to be used with Function 41 costs and may not be used in any other function, other than specific costs in Function 53 (Data Processing) that relate to the functions of the business office.

Function 41 - Costs to Include:	Function 41 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Expenditures/expenses for board of trustees, including travel, training and legal fees</li> <li>Salary of chief officer of the school district -- e.g., superintendent while performing administrative duties directly related to the superintendency</li> <li>Other salaries and expenditures/expenses related to the office of the superintendent</li> <li>Salaries and expenditures/expenses related to budgeting, accounting and fiscal affairs, including payroll and internal auditing expenditures/expenses, property accounting (capital assets), inventory and purchasing</li> </ul>	<ul style="list-style-type: none"> <li>Portion of superintendent's salary associated with other duties such as instruction, campus leadership and support services (charge to appropriate function)</li> <li>Incremental costs of tax collection due to purchase of Weighted Average Daily Attendance (WADA) from either the state or other school districts (Function 92)</li> <li>Building and property <a href="#">insurance</a> (Function 51)</li> <li>Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 41 - Costs to Include:	Function 41 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Salaries and expenditures/expenses related to human resources (personnel services)</li> <li>• Salaries and expenditures/expenses related to tax office services for the school district</li> <li>• Salaries and expenditures/expenses related to textbook custodian</li> <li>• Salaries and expenditures/expenses related to support services for aggregating attendance reports to superintendent's report</li> <li>• Salaries and/or other expenditures/expenses associated with legal and risk management issues, including analysis of tax value limitation agreements</li> <li>• Stand alone or networked computers used primarily by Function 41 personnel for administrative purposes</li> <li>• Salaries and expenditures/expenses associated with planning and research</li> <li>• Salaries and expenditures/expenses associated with community/public relations</li> <li>• Vehicles (including acquisition,</li> </ul>	<ul style="list-style-type: none"> <li>• Salaries and expenditures/expenses related to a warehouse operation (Function 51)</li> <li>• Salaries and expenditures/expenses related to personal computer networks, minicomputers and mainframes that include student and general administrative software and serve multiple functions (Function 53)</li> <li>• Management Information Services (MIS) directors (Function 53)</li> <li>• Delinquent tax attorney fees (use liability object code account 2110, Accounts Payable)</li> <li>• Amounts paid to other governmental entities such as county appraisal districts for costs related to the appraisal of property (Function 99)</li> </ul>

Function Codes	
Major	Detail
X	X

<b>Function 41 - Costs to Include:</b>	<b>Function 41 - Costs to Exclude (with Correct Function):</b>
<p>maintenance and supplies) used for administrative personnel</p> <ul style="list-style-type: none"> <li>• Expenditures/expenses for bonding administrative personnel</li> <li>• Costs associated with records management</li> <li>• <a href="#">insurance</a> for administrative automobiles</li> <li>• Purchase of vehicles for administrative staff</li> <li>• Liability insurance for board of trustees and administrative personnel</li> <li>• Design of district improvement plan</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Fees, associated travel, and other related costs for the appraisal of property and the collection of taxes when no other governmental entities are involved</li> <li>• Amounts paid to other governmental entities such as county appraisal districts for costs related to the collection of taxes</li> <li>• Amounts paid for monitors, conservators or management teams required by TEA</li> </ul>	

Function Codes	
Major	Detail
X	X

**50**

**Support Services - Non-Student Based**

**Support Services (New title effective September 1, 2005)**

This function code series is used for expenditures/expenses that are used for school district support services.

**51**

**Facilities Maintenance and Operations (New title effective September 1, 2005)**

This function is used for expenditures/expenses for activities to keep the facilities and grounds open, clean, comfortable and in effective working condition and state of repair, and insured. This function is used to record expenditures/expenses for the maintenance and operation of the physical facilities and grounds. This function also includes expenditures/expenses associated with warehousing and receiving services.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 51 - Costs to Include:</b>	<b>Function 51 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>Salaries and other</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition or purchase of land</li> </ul>

Function Codes	
Major	Detail
X	X

<b>Function 51 - Costs to Include:</b>	<b>Function 51 - Costs to Exclude (with Correct Function):</b>
<p>expenditures/expenses for custodian services</p> <ul style="list-style-type: none"> <li>• Salaries and other expenditures/expenses for building and appliance maintenance</li> <li>• Salaries and other expenditures/expenses for property/casualty insurance</li> <li>• Supervisors, Directors, Assistant/Deputy Superintendents for facilities maintenance and operation</li> <li>• Premiums for blanket casualty <a href="#">insurance</a> for physical facilities, including food service operations</li> <li>• Property insurance for band instruments, uniforms and other equipment</li> <li>• Property insurance for athletic uniforms and other athletic equipment</li> <li>• Acquisition of supplies and contracted maintenance for vehicles used for facilities maintenance and operation, including food service operations</li> <li>• Utilities for the entire school district, including food service operations</li> <li>• Salaries and expenditures/expenses related to</li> </ul>	<p>and/or buildings (Function 81)</p> <ul style="list-style-type: none"> <li>• Remodeling or construction of buildings (Function 81)</li> <li>• Major improvement to sites (Function 81)</li> <li>• Initial installation or extension of service systems or other equipment (Function 81)</li> <li>• Security and monitoring expenditures (Function 52)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 51 - Costs to Include:	Function 51 - Costs to Exclude (with Correct Function):
a warehouse operation  <ul style="list-style-type: none"> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> <li>• Security systems that are part of a smoke detector system</li> <li>• Vehicles purchased for facilities maintenance and operation</li> </ul>	

**℞ 52 Security and Monitoring Services**

This function is used for expenditures/expenses that are for activities to keep student and staff surroundings safe, whether in transit to or from school, on a campus or participating in school-sponsored events at another location.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function Codes	
Major	Detail
X	X

<b>Function 52 - Costs to Include:</b>	<b>Function 52 - Costs to Exclude (with Correct Function):</b>
<ul style="list-style-type: none"> <li>• Security guards</li> <li>• Hall monitors for security purposes</li> <li>• School bus security monitors</li> <li>• School crossing guards</li> <li>• Campus police</li> <li>• Security at school-sponsored events, including cocurricular/extracurricular events</li> <li>• Security vehicles for personnel assigned to this functional area</li> <li>• Supplies, equipment and contracted services for the safekeeping of students and staff, including metal detectors, drug dogs, surveillance devices, etc.</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>• Security systems that are part of a smoke detector system (Function 51)</li> <li>• Truant officers (Function 32)</li> <li>• Social workers (Function 32)</li> <li>• Parent education/involvement liaison or coordinator (Function 61)</li> <li>• School bus aides for special education (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

## 53

## Data Processing Services

This function is for expenditures/expenses for data processing services, whether in-house or contracted. Examples of Function 53 costs are costs for computer facility management; computer processing; systems development; analysis of workflows, processes and requirements; coding, testing, debugging and documentation; systems integration; design of applications supporting information technology infrastructure; maintenance of programs; maintenance of networks; and those interfacing costs associated with general types of technical assistance to data users. Specific types of applications include student accounting, financial accounting and human resources/personnel. Personal Computers (PC's) that are stand alone are to be charged to the appropriate function. Peripherals including terminals and printers are to be charged to the appropriate function. Costs associated with mainframe, minicomputers, servers and networked or standalone microcomputers that provide services to multiple functions are to be recorded here.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

For data processing expenditures associated with business office functions such as accounting and payroll, Organization Code 750 is to be used.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).



Function Codes	
Major	Detail
X	X

Function 53 - Costs to Include:	Function 53 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Salaries and expenditures/expenses (including hardware/software maintenance) for PC networks that include student and general administrative software, license fees and serve multiple functions</li> <li>• Network managers for non-instructional computer networks</li> <li>• Salaries and expenditures/expenses (including hardware/ software maintenance) for minicomputers that include student and general administrative software and serve multiple functions</li> <li>• Salaries and expenditures/expenses (including hardware/ software development and maintenance) for mainframe computers that include student and general administrative software and serve multiple functions</li> <li>• Management Information Services (MIS) directors</li> <li>• Salaries and expenditures/expenses for webmaster (excluding costs attributable to instructional settings)</li> <li>• Salaries and expenditures/expenses for technology network, data, or</li> </ul>	<ul style="list-style-type: none"> <li>• Stand alone or networked computers used by a specific functional area (Charge to appropriate function)</li> <li>• Instructional computer networks, software, licensing fees, maintenance, supplies, staff and instructional computer lab teacher (Function 11)</li> <li>• Instructional Technology Coordinator (Function 11)</li> <li>• Webmaster in instructional setting (Function 11)</li> <li>• Staff who prepare and/or conduct inservice training or staff development for instructional and instructional related staff (includes instructional technology) (Function 13)</li> <li>• Library system software/license including standalone and networked applications (Function 12)</li> <li>• Supplies and services for upkeep and maintenance for buildings and grounds, including utilities (Function 51)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 53 - Costs to Include:	Function 53 - Costs to Exclude (with Correct Function):
<p>system security (excluding costs attributable to instructional settings)</p> <ul style="list-style-type: none"> <li>Salaries and expenditures/expenses information technology developer, programmer, tester, or systems analyst (excluding costs attributable to instructional settings)</li> <li>Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	

**60 Ancillary Services**

This function code series is used for expenditures/ expenses that are for school district support services supplemental to the operation of the school district.

**61 Community Services**

This function is used for expenditures that are for activities or purposes other than regular public education and adult basic education services. These types of expenditures are used for services or activities relating to the whole community or some segment of the community. This includes providing resources to non-public schools, institutions of higher education, and any proprietary types of services incurred for outside entities in the community.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

Function Codes	
Major	Detail
X	X

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 61 - Costs to Include:	Function 61 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Salaries and related expenditures for community recreation services such as the operation of a school library, swimming pool, and playgrounds for the public</li> <li>Parenting programs</li> <li>Parental involvement programs</li> <li>Parent education/involvement liaison or coordinator</li> <li>Parental and education services to adults other than adult basic education</li> <li>Salaries and related expenditures for child care for teen parents attending school</li> <li>Staff for child care for teachers or working parents</li> <li>Baby-sitting after hours and after</li> </ul>	<ul style="list-style-type: none"> <li>Upkeep and maintenance for buildings and grounds (Function 51)</li> <li>Summer feeding program (Function 35)</li> <li>After hours tutorial and enrichment (Function 11)</li> <li>Adult basic education (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

Function 61 - Costs to Include:	Function 61 - Costs to Exclude (with Correct Function):
school daycare  <ul style="list-style-type: none"> <li>• Salaries and related expenditures for amnesty programs</li> <li>• Salaries and related expenditures for civic centers</li> <li>• Salaries and related expenditures for public health programs</li> <li>• Salaries and related expenditures for conducting meetings with parental advisory committees</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	

**℞ 62 School District Administrative Support Services (Used by Education Service Centers Only)**

This function code is to be used exclusively by education service centers for expenditures related to performing certain administrative functions for school districts. These services can include indirect instructional services for students such as guidance and counseling, social work, health and food services as well as general administrative services such as fiscal budget, accounting, joint purchasing, tax administration, SAS preparation services, etc.

This function is used by education service centers for region-wide activities that encompass inservice education and other developmental activities provided to indirect instructional or instructional related school district professional personnel (i.e., professional personnel in functions other than 11, 12 and 13).

Function Codes	
Major	Detail
X	X

Function 62 - Costs to Include:	Function 62- Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Administrative support services for school district personnel</li> <li>• Guidance and counseling staff that provide services to students</li> <li>• Social work staff that provide services to students</li> <li>• Health staff that provide services to students</li> <li>• Staff that provide administrative services to students</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>• Staff that provide instructional services to students (Function 11)</li> </ul>

**70 Debt Service**

This function code series is used for expenditures that are used for the payment of debt principal and interest.

**71 Debt Service**

This function is used for expenditures that are for the retirement of recurring bond, capital lease principal, and other debt, related debt service fees, and for all debt interest. Note principal for short-term loans (one year or less in duration) is to be recorded in the liability account 2122, Notes Payable - Current Year.

Function Codes	
Major	Detail
X	X

For this function the school district is to use Program Intent Code 99 (Undistributed), and Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Please note that for financial reporting purposes only, principal, interest and bond issuance costs and fees are broken down further by Data Control Codes. Refer to the Sample Annual Financial and Compliance Report in Appendix 10 as well as the GASB Audit Data Feed instructions located in the Electronic Report Submission section of the Financial Audits website.

Function 71 - Costs to Include:	Function 71 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Bond principal</li> <li>• Interest on bonds</li> <li>• Capital lease principal</li> <li>• Capital lease purchase interest</li> <li>• Principal on long-term debt</li> <li>• Interest on long-term debt</li> <li>• Interest on short term notes</li> <li>• Principal on school bus loans (that exceed one year in duration)</li> <li>• Interest on school bus loans</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term debt principal - 12 months or less in duration (record initial liability and repayment as a credit and debit to Notes Payable liability account respectively)</li> <li>• Acquisition or purchase of land and/or buildings financed with debt (Function 81)</li> </ul>

Function Codes	
Major	Detail
X	X

**80**

**Capital Outlay**

This function code series is used for expenditures that are acquisitions, construction, or major renovation of school district facilities.

**81**

**Facilities Acquisition and Construction**

This function is used by school districts for expenditures that are for acquiring, equipping, and/or making additions to real property and sites, including lease and capital lease transactions.

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

If specific program intent codes are not used, the school district is to use Program Intent Code 99 (Undistributed). If specific organization codes are not used, the school district is to use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

<b>Function 81 - Costs to Include:</b>	<b>Function 81 - Costs to Exclude (with Correct Function)</b>
<ul style="list-style-type: none"> <li>Acquisition or purchase of land and/or buildings</li> <li>Remodeling or construction of buildings</li> </ul>	<ul style="list-style-type: none"> <li>Debt service expenditures associated with debt to finance capital construction (Function 71)</li> <li>Debt service expenditures associated with capital leases to</li> </ul>

Function Codes	
Major	Detail
X	X

Function 81 - Costs to Include:	Function 81 - Costs to Exclude (with Correct Function)
<ul style="list-style-type: none"> <li>• Major improvement to sites</li> <li>• Initial installation or extension of service systems or other equipment</li> <li>• Initial capital outlay to equip new facilities</li> <li>• Capital outlays under capital leases (this does not include lease payments)</li> <li>• Pre/post employment physicals or drug testing for personnel classified in this function</li> </ul>	<ul style="list-style-type: none"> <li>• finance capital items (Function 71)</li> <li>• Capital expenditures that do not relate to major renovation or construction (charge to appropriate function)</li> <li>• Equipment for facilities maintenance and operation (Function 51)</li> </ul>

**90 Intergovernmental Charges**

“Intergovernmental” is a classification that is appropriate where one governmental unit transfers resources to another. In particular, Chapter 41 purchase of WADA and the transfer of students where one school district pays another school district for educating students are examples of intergovernmental charges.

**91 Contracted Instructional Services Between Public Schools**

This function code is used for expenditures that are used for:

- Providing financial resources for services in another public school through a contract for education of nonresident students under Subchapter E, Chapter 41, TEC
- Purchasing attendance credits from the state under Subchapter D, Chapter 41, TEC



Function Codes	
Major	Detail
X	X

Costs for contractual arrangements under Subchapter E, Chapter 41, are recorded under this function code only if the agreement is to pay for services managed and administered by another school district receiving payments under Subchapter E, Chapter 41, TEC. This function is to be used exclusively for the purchase of Weighted Average Daily Attendance (WADA) from either the state or other school districts.

For this function, the school district is to use Program Intent Code 99 (Undistributed) and Organization Code 999 (Undistributed).

Function 91 - Costs to Include:	Function 91 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Purchase of WADA from other school districts</li> <li>• Purchase of WADA from the state</li> <li>• Technology Consortium costs under Option 4</li> <li>• Career and Technology education programs under TEC 41.125</li> </ul>	<ul style="list-style-type: none"> <li>• Tuition paid by the school district for students to attend college during the regular school day (Function 11)</li> <li>• Tuition paid by the school district for students who attend classes in another school district which is not part of a Public Education Grant or transfer of an entire grade (Function 99)</li> </ul>

**92 Incremental Costs Associated with Chapter 41, Texas Education Code, Purchase or Sale of WADA**

This function code is used for expenditures that are for the purpose of positioning a school district with excess wealth per WADA to purchase attendance credits either from the state or from other school district(s).

Function Codes	
Major	Detail
X	X

Certain expenditures must be accounted for by organization code and program intent code. See Organization Code section and Program Intent section for guidance concerning mandatory and optional uses.

School districts are encouraged to use appropriate program intent and organization codes for all other costs that are directly attributable to a specific program intent and/or organization. However, benefits to the management of the school district in relation to the effort to allocate these costs should be examined before allocating costs that are not mandatory.

For this function the school district is to use Program Intent Code 99 (Undistributed) and Organization Code 999 (Undistributed).

Function 92 - Costs to Include:	Function 92 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>Salaries and expenditures related to the cost of collecting excess taxes to purchase or sell WADA</li> <li>Salaries and expenditures related to the cost of legal fees or elections expenses incurred to purchase WADA</li> </ul>	<ul style="list-style-type: none"> <li>Normal tax collection costs of the school district (Function 41)</li> <li>Normal legal and election costs of the school district (Function 41)</li> <li>Delinquent tax attorney fees (use liability object account code 2110, Accounts Payable)</li> </ul>

**93 Payments to Fiscal Agent/Member Districts of Shared Services Arrangements**

This function code is used for expenditures that are for (1) payments from a member district to a fiscal agent of a shared services arrangement; or, (2) payments from a fiscal agent to a member district of a shared services arrangement.

The appropriate program intent code should be used for these expenditures. Use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function Codes	
Major	Detail
X	X

Function 93 - Costs to Include:	Function 93 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Payments from member districts to fiscal agents of shared services arrangements, where fiscal agent will expend funds on behalf of member districts (Use Expenditure Object Code 6492)</li> <li>• Payments from fiscal agents to member districts of shared services arrangements, where member districts will expend funds (Use Expenditure Object Code 6493)</li> </ul>	<ul style="list-style-type: none"> <li>• No other expenditures are allowed in this function</li> </ul>

**95 Payments to Juvenile Justice Alternative Education Programs**

This function code is used for expenditures that are for the purpose of providing financial resources for Juvenile Justice Alternative Education Programs under Chapter 37, TEC. This function code is used to account for payments to other governmental entities in connection with students that are placed in discretionary or mandatory JJAEP settings.

The appropriate program intent code should be used for these expenditures. Use **Organization Code 999 (Undistributed)** or **Organization Code 998 (Unallocated, Local Option)**.

Function 95 - Costs to Include:	Function 95 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Payments from school districts in which a student resides to a Juvenile Justice Alternative Education Program (Use Expenditure Object Code 6223)</li> </ul>	<ul style="list-style-type: none"> <li>• No other expenditures are allowed in this function</li> </ul>

Function Codes	
Major	Detail
X	X

**97 Payments to Tax Increment Fund**

This function code is used for expenditures that are for the purpose of providing financial resources paid into a tax increment fund under Chapter 311, Tax Code. The revenues are recorded under fund 199, Object 5746. The expenditures are recorded under fund 199, Object 6499.

The appropriate program intent code should be used for these expenditures. Use Organization Code 999 (Undistributed) or Organization Code 998 (Unallocated, Local Option).

Function 97 - Costs to Include:	Function 97 - Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Payments into a tax increment fund under Chapter 311, Tax Code (Use expenditure object code 6499)</li> </ul>	<ul style="list-style-type: none"> <li>• No other expenditures are allowed in this function</li> </ul>

**99 Other Intergovernmental Charges**

This code is used to record other intergovernmental charges not defined above.

This function code is used for expenditures that are used for obtaining instructional services from another public school for grade levels not served in a school district under Section 25.039, TEC.

Function 99 - Costs to Include:	Function 99 Costs to Exclude (with Correct Function):
<ul style="list-style-type: none"> <li>• Salaries and related expenditures, including tuition, to obtain instructional services from another school district for grade</li> </ul>	<ul style="list-style-type: none"> <li>• Tuition paid by the school district for students to attend college during the regular school day (Function 11)</li> </ul>

Function Codes	
Major	Detail
X	X

<b>Function 99 - Costs to Include:</b>	<b>Function 99 Costs to Exclude (with Correct Function):</b>
<p>levels not provided by the sending school district (Use Expenditure Object Code 6222)</p> <ul style="list-style-type: none"> <li>• Amounts paid to other governmental entities such as county appraisal districts for costs related to the appraisal of property (Use Expenditure Object Code 6213)</li> </ul>	<ul style="list-style-type: none"> <li>• Tuition paid by the school district for students who attend classes in another school district which is not part of a Public Education Grant or transfer of an entire grade (Function 11)</li> <li>• Fees, associated travel, and other related costs for the appraisal of property and the collection of taxes when no other governmental entities are involved (Function 41)</li> </ul>

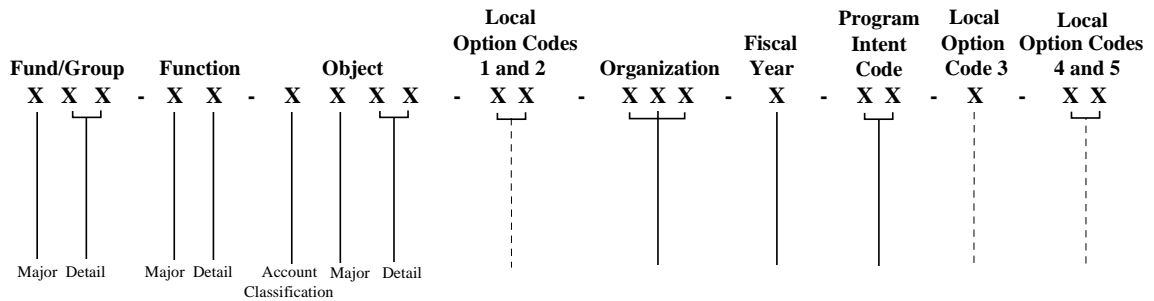
Function Codes	
Major	Detail
X	X

## 1.4.4 Asset Object Codes

Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Asset codes are four digit object codes, and are the sixth through ninth digits in the code structure described in the Account Code Overview. These codes are distinguished from other types of object codes as they always begin with the digit “1.” School districts may optionally account for transactions at a more detailed level than the level indicated. The **R** by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 32. Asset Object Code Structure**

### The Code Structure



**Object Codes:**  
Assets (1XXX)

————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

Asset Object Codes		
Class	Major	Detail
X	X	XX

**1000****ASSETS AND OTHER DEBITS**

*Assets* are recorded as debits in three categories:

- (1) current assets
- (2) capital assets, and
- (3) restricted assets

*Other debits* are recorded as debits in two categories:

- (1) amounts to be provided for payment of debt principal
- (2) amounts available for payment of debt principal.

**1100****CASH AND CASH EQUIVALENTS**

Cash and cash equivalents of a school district are recorded in the 1110 series of accounts.

**1101-1109** **Cash and Cash Equivalents** (These accounts are converted to 1110 for financial statement purposes)

These accounts are to be used, at the option of the school district, to record the school district's cash on deposit and cash on hand as well as temporary cash equivalents. A school district may elect to utilize these account codes to identify separately different cash and investment types. School districts may elect to maintain separate accounts for various cash and cash equivalents types. Object codes 1101 through 1109 may be used to segregate the different classes of accounts shown below. Cash and cash equivalents include the following:

Asset Object Codes		
Class	Major	Detail
X	X	XX

- Cash in Banks

This account is debited with all cash receipts, the contra entry being a credit to a receivable account, revenue, deferred revenue or other uses account. Credits to this account arise from disbursements or return of checks previously deposited.

- Cash in Office

This account is debited on August 31 with any receipts which are attributable to the fiscal year then ending because a lack of time prevented the receipts from being processed and deposited prior to August 31. This account would be cleared on September 1.

- Cash with Fiscal/Paying Agent

This account, which is used for fiscal/paying agents of debt service, is debited as deposits are made with the coupon paying agents. As coupons and bonds are presented the entries would result in a credit to this account and a debit to either coupons or bonds payable.

- Payroll Bank Account

This account is debited with the amount of the net payroll (gross payroll less employee deductions) or the gross payroll depending on which basis of the two is selected by school district. Credits to this account arise from the issuance of payroll checks.

- Imprest Funds

This account represents the amount of cash and evidence of cash disbursements that are held on an imprest basis (petty cash).

- Short-term [investments](#)



Asset Object Codes		
Class	Major	Detail
X	X	XX

**℞ 1110 Cash and Temporary Investments**

**℞ 1110 Cash and Cash Equivalents**

This account is to be used to record all of a school district's cash on deposit and cash on hand as well as temporary cash equivalents. A school district may elect to utilize the preceding accounts to identify separately different cash and cash equivalents. School districts may elect to maintain separate accounts for various cash and cash equivalents.

**℞ 1120 Investments – Current**

This account is to be used to record all securities that are expected to be held for less than one year and that generate revenue in the form of interest or dividends. This account includes certain items (e.g., most certificates of deposit) that are classified as deposits in the notes to the financial statements to disclose custodial credit risk.

See account 1910 for long-term investments.

**1200 RECEIVABLES**

Receivables due for outlays made and expected receipts are charged to the 1200 series of accounts. The credit entry is to deferred revenues (in the instance of property taxes receivable), a revenue account, allowance for uncollectible taxes or fund balance. When monies are received, the appropriate receivable account is credited and the debit entry is to a cash account. The following accounts are included in this classification:

**℞ 1210 Property Taxes - Current**

This account is debited with the current year tax levy that is due.

Asset Object Codes		
Class	Major	Detail
X	X	XX

**℞ 1220****Property Taxes - Delinquent**

This account is used to record taxes for the current year's levy that are past-due as well as for previous years' tax levies that are past-due.

**℞ 1230****Allowance for Uncollectible Taxes (Credit)**

This account represents a credit against taxes, penalties, and tax interest receivable determined as a result of historical tax collecting experience.

**1240****Due from Other Governments**

These accounts are used to record amounts receivable from other governmental entities.

**℞ 1241****Due from State**

This account represents amounts earned/allocated to a school district from state sources (including federal funds received from state sources) that exceed amounts received during the fiscal year.

**℞ 1242****Due from Federal Agencies**

This account represents amounts earned by a school district under a federal financial assistance program in excess of cash receipts during the fiscal year.

**℞ 1243****Due from Other Governments**

This account represents amounts receivable from other governmental entities, including counties, councils of government, cities and other school districts.

Asset Object Codes		
Class	Major	Detail
X	X	XX

**℞ 1250****Accrued Interest**

This account is used to record the amount of interest earned and measurable through month end or fiscal year end on all interest-bearing cash accounts and [investments](#) outstanding at that date.

**1260****Due from Other Funds**

These accounts represent amounts due from other funds. The following accounts are included in this classification:

**℞ 1261****General Fund**

This account represents amounts due from the general fund to other funds of the school district.

**℞ 1262****Special Revenue Fund**

This account represents amounts due from the special revenue fund to other funds of the school district.

**℞ 1263****Debt Service Fund**

This account represents amounts due from the debt service fund to other funds of the school district.

**℞ 1264****Capital Projects Fund**

This account represents amounts due from the capital projects fund to other funds of the school district.

**℞ 1265****Enterprise Fund**

This account represents amounts due from the enterprise fund to other funds of the school district.

Asset Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 1266 Internal Service Fund**

This account represents amounts due from the internal service fund to other funds of the school district.

### **℞ 1267 Trust and Agency Funds**

This account represents amounts due from the trust and agency funds to other funds of the school district.

### **℞ 1268 Permanent Funds**

This account represents amounts due from the permanent funds to other funds of the school district.

### **℞ 1290 Other Receivables**

This account includes all other accounts receivable not specifically identified above. Examples may consist of amounts due from employees, due from external sources (other than from other governments), rents, fees, self-[insurance](#) recoveries, etc.

## **1300 INVENTORIES**

These accounts include value, at cost, of stored noncapital goods on hand that will be charged as expenditures/expenses when issued for use (consumption method of accounting for inventory items). Inventories are sometimes controlled through a central location. If a school district uses the purchases method, an immediate charge for inventory costs is recorded under the appropriate supply expenditure code and inventories are not reported on the balance sheet unless there is a significant amount at the fiscal year end. Amounts reported for inventories under the purchases method on the balance sheet are not available to finance current or future Governmental Fund type expenditures/expenses (because they have been recorded as expenditures/expenses in a prior year). As a result, the amount reported as inventories (excluding commodities)

Asset Object Codes		
Class	Major	Detail
X	X	XX

on the balance sheet is also reported as a credit to account code 3410, Reserve for Investment in Inventories.

### **℞ 1310 Inventories - Supplies and Materials**

This account includes inventories of supplies and materials for school districts using the consumption method of accounting for inventories.

## **1400 OTHER CURRENT ASSETS**

These accounts are debited with any items which are properly chargeable to the operations of future periods, the contra entry being a credit to cash, a liability account or, in the case of an adjustment, an expenditure account. Credits to these accounts arise from journal entries recording period charges, the contra entry being a debit to an expenditure account.

### **℞ 1410 Deferred Expenditures/Expenses**

This account represents certain disbursements that may need to be made in one period but are more accurately reflected in part as an expenditure of the next fiscal year. The credit entry is to cash. This is reversed in a subsequent fiscal period with a credit here and a debit to the appropriate expenditure account.

### **℞ 1420 Capitalized Bond and Other Debt Issuance Costs**

This account represents certain bond and other debt issuance costs, including lease-purchase debt issuance costs that are capitalized.

### **℞ 1430 Premium and Discount on Issuance of Bonds (Delete effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)**

Asset Object Codes		
Class	Major	Detail
X	X	XX

This account represents amounts to be amortized as debt premium and/or discount in connection with the issuance of debt. Historically, amounts have been recorded in Account 1430; however, moving to account number 2516 is more consistent with reporting the discount or premium as a direct deduction from or addition to the face amount of the liability. The same effect can be produced by grouping account 1430 with the debt accounts in a report-writer package for financial statement preparation purposes.

## ℞ 1490

### Other Current Assets

This account includes all other current assets not specifically identified above.

## 1500

### LAND, BUILDINGS AND EQUIPMENT

These accounts include the value of land, buildings, furniture and equipment. Capital assets of school districts are recorded at cost or estimated cost at the time of acquisition. If capital assets are donated, assets are recorded at estimated fair market value at the time of acquisition. Capital assets of Governmental Fund Types and Expendable Trust funds are recorded in the General Capital Asset Account Group, and capital assets of Proprietary Fund Types and similar trust funds are recorded in those fund types.

## ℞ 1510

### Land Purchase and Improvements

This account includes the value of land that is owned outright, whether purchased or donated. Included in the value of land are capital improvements, other than buildings, acquisition costs and other costs necessary to alter the land for its intended purpose.

## ℞ 1520

### Buildings and Improvements

This account includes the value of buildings that are owned outright, whether purchased, constructed or donated. Included in the value of buildings are capital improvements, permanently attached furniture and equipment, and any costs incurred in acquisition.

Asset Object Codes		
Class	Major	Detail
X	X	XX

**1530****Furniture and Equipment**

This account includes the value of furniture and equipment meeting capital outlay criteria, \$5,000 cost per unit or more and a useful life of more than one year (see the 6600 series of expenditure/expense account codes). These assets are owned outright, whether purchased or donated. Included in the cost or estimated fair market value are any costs incurred in acquisition, such as, expenditures/expenses for freight and installation, and other costs necessary to render the item operable.

**℞ 1531**      **Vehicles**

**℞ 1539**      **Furniture and Equipment**

**1540****Capital Assets - District Defined**

This account is used at the discretion of the school district if the school district policy requires the capitalization of items that individually or, as a group, are less than the \$5,000 criterion identified in the 1530 accounts (see the 6600 series of expenditure/expense account codes), or local criteria for grouped assets. These assets are owned outright, whether purchased or donated. Included in the cost or estimated fair market value are any costs incurred in acquisition, such as expenditures /expenses for freight and installation, and other costs necessary to render the item operable.

**℞ 1541**      **Vehicles**

**℞ 1549**      **Furniture and Equipment**

**1550****Assets Purchased Under Capital Leases**

Capital lease transactions are authorized by [Local Government Code](#) Chapter 271, Subchapter A. This includes the total value of items under long-term capital leases. These types of lease agreements may include a purchase provision. At the inception of

Asset Object Codes		
Class	Major	Detail
X	X	XX

the capital lease, the appropriate capital asset account shown below is debited in the amount of the net present value of the capital lease payments. Assets purchased under capital leases by Governmental Fund Types and Expendable Trust funds are recorded in the general capital asset accounts, while those for Proprietary Fund Types and similar trust funds are accounted for through the appropriate fund. Types of capital assets that may be under capital lease are:

**℞ 1551 Buildings**

**℞ 1559 Furniture and Equipment**

**1560 Library Books and Media**

Use this code grouping to record the value of library books and media. Library books and media such as CDs/DVDs, learning diskettes, software and film may be recorded in a capital assets system as a block of items purchased; however, the library should maintain an acquisition ledger that records the detailed cost of each book.

**℞ 1569 Library Books and Media**

**1570 Accumulated Depreciation**

These codes are to be used in those proprietary and trust funds where it is necessary to measure capital maintenance.

**℞ 1571 Accumulated Depreciation - Buildings**

**℞ 1572 Accumulated Depreciation - Vehicles**

**℞ 1573 Accumulated Depreciation - Furniture and Equipment**

**℞ 1574 Accumulated Depreciation - Library Books and Media**



Asset Object Codes		
Class	Major	Detail
X	X	XX

**℞ 1576      Accumulated Depreciation - Capital Leases**

**℞ 1577      Accumulated Depreciation – Infrastructure**

**℞ 1578      Accumulated Depreciation - Art and Collections**

**℞ 1579      Accumulated Depreciation – Historical Treasures**

**℞ 1580      Construction in Progress**

This account is debited as expenditures/expenses are incurred to record in the Capital Projects Fund or appropriate fund the value of construction that has been accepted by a school district and for which a contractor has been or will be paid. At the completion of construction, this account is credited, and the appropriate capital asset account is debited for the cost of the asset.

**1590      Other Capital Assets – Infrastructure, Art, Historical Treasures, and Collections**

These accounts include the value of infrastructure assets, art, historical treasures, collections and similar assets. Capital assets of school districts are recorded at cost or estimated cost at the time of acquisition. If infrastructure assets, art, collections and/or historical treasures are donated, these assets are recorded at estimated fair market value at the time of acquisition or donation. Capitalization of collections is encouraged, but is not required if certain conditions are met as prescribed in GASB Statement No. 34.

**℞ 1591      Infrastructure Assets - Roads**

**℞ 1592      Infrastructure Assets – Drainage Systems**

**℞ 1593      Infrastructure Assets – Water Systems**

Asset Object Codes		
Class	Major	Detail
X	X	XX

- ℞ 1594      Infrastructure Assets – Sewer Systems**
- ℞ 1595      Infrastructure Assets – Lighting Systems**
- ℞ 1596      Infrastructure Assets - Other**
- ℞ 1597      Infrastructure Assets – Network or Subsystems of a Network**
- ℞ 1598      Art and Collections**
- ℞ 1599      Historical Treasures**

**1600 - 1790   Reserved For Future State Definition**

**These classifications are reserved for future state designation and are not to be used by the school district.**

**1800            RESTRICTED ASSETS**

These are assets that are set aside for specific purposes. Restrictions on assets generally occur in Proprietary and Fiduciary Fund Types. An example is a scholarship fund that must be used for a specific purpose.

**℞ 1810            Cash and Temporary Investments**

This account is to be used to account for cash and temporary [investments](#) that are restricted as to use.

**℞ 1890            Other Restricted Assets**

This account is to be used to account for assets other than cash and temporary [investments](#) that are restricted as to use.

Asset Object Codes		
Class	Major	Detail
X	X	XX

**1900****OTHER ASSETS**

These accounts are to be used to account for other assets not specified above.

**℞ 1910****Long-Term Investments**

This account is to be used to account for long-term [investments](#), which are investments that are expected to be held for more than a year or the current operating cycle, whichever is longer. In governmental funds, the long-term investment balance is reflected under reserve of fund balance, code 3490.

See account 1110 for temporary investments.

**℞ 1990****Other Assets**

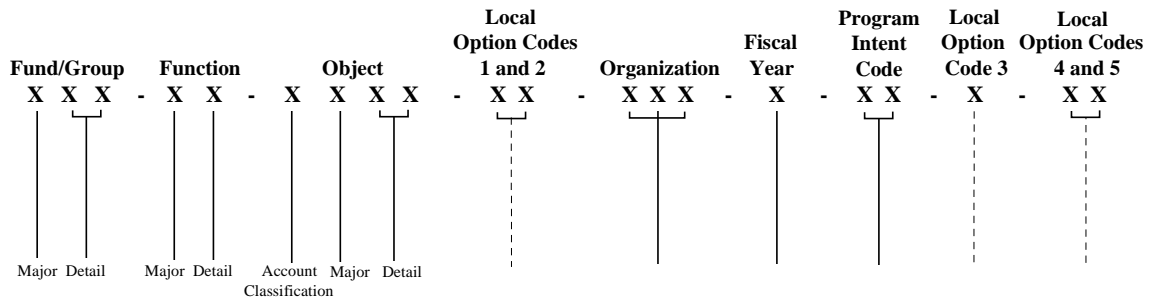
This account is to be used to account for other assets not specified in the 1100 - 1800 series of accounts or account 1910.

**1.4.5 Liability Object Codes**

Liabilities are probable future sacrifices of economic benefits, arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liability codes are four digit object codes, and are the sixth through ninth digits in the code structure described in the Account Code Overview. These codes are distinguished from other types of object codes as they always begin with the digit “2.” School districts may optionally account for transactions at a more detailed level than the level indicated. The ℞ by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 33. Liability Object Code Structure**

**The Code Structure**



Object Codes:  
Liabilities (2XXX)

————— Indicates a mandatory code for State reporting purposes

----- Indicates a code that may be used at local option

**2000**

**LIABILITIES**

*Liabilities* are recorded as credits in two broad categories:

- (1) current liabilities, and
- (2) long-term debts

**2100**

**CURRENT PAYABLES**

**℞ 2110**

**Accounts Payable**

This account represents credit entries for actual liabilities for goods and services received, with the debit entry to an expenditure account. Included in this account would be:

**Liability Object Codes**

<u>Class</u>	<u>Major</u>	<u>Detail</u>
X	X	XX

Trade payable - represents amounts due to outside entities resulting from goods or services received. This represents amounts due to vendor that have not been paid at the end of an accounting period.

Judgments payable- represents amounts currently due to claimants or plaintiffs as a result of self-[insurance](#) claims, settlements, court judgments, etc.

Delinquent tax attorneys payable- represents amounts collected as “costs” from a taxpayer and subsequently paid to an attorney for collecting delinquent taxes.

## **2120 Bonds and Loans Payable - Current Year**

### **℞ 2121 Bonds Payable - Current Year**

This account represents amounts due for current bond coupons or other bond principal payments. Since payments are considered as recurring transactions by generally accepted accounting principles, debits are made to expenditure account 6511, Bond Principal in the Debt Service Fund. Under the modified accrual accounting method, this code is used in the financial statements only if the payment is overdue.

### **℞ 2122 Loans Payable - Current Year**

This account represents amounts due for the current year on notes, warrants, or other evidence of nonbonded indebtedness. See Debt section and Accounting for Debt Transactions section for the accounting treatment for short-term debt (debt to be repaid within twelve months).

### **℞ 2123 Other Liabilities - Current**

This account represents amounts due (recognized as accrued current liabilities) within one year for miscellaneous liabilities, including compensated absences, workers' compensation, self-

Liability Object Codes		
Class	Major	Detail
X	X	XX

funded self-[insurance](#), legal claims and judgments, certain pension plan liabilities and other current liabilities (debt to be repaid within twelve months).

### **℞ 2130 Capital Leases Payable - Current Year**

This account represents amounts due as a result of a capital lease agreement. In Governmental Fund Types, the principal payment is to be recorded in the fund in which the lease proceeds amount was recorded. Under the modified accrual accounting method, this code is used in the financial statements only if the payment is outstanding.

### **2140 Interest Payable**

These accounts are credited as interest become currently payable. The contra entries are debits to the respective Interest Expense accounts (account 6520 series). Under the modified accrual accounting method, this code is used in the financial statements only if the payment is outstanding.

### **℞ 2141 Bond Interest Payable**

### **℞ 2142 Loan Interest Payable**

### **℞ 2143 Capital Lease Interest Payable**

### **2150 Payroll Deductions and Withholdings**

These accounts are credited when the net payroll check which is issued to an employee is recorded as a credit to cash and a debit to accrued wages payable. A debit to these accounts occurs when cash is credited and this account is debited as Teacher Retirement System of Texas (TRS), etc., is paid.

Liability Object Codes		
Class	Major	Detail
X	X	XX

**℞ 2151 Federal Income Taxes**

**℞ 2152 FICA and Medicare Taxes**

**℞ 2153 Group Health and Life Insurance**

**℞ 2154 Credit Union**

**℞ 2155 Teacher Retirement**

**℞ 2159 Other**

**℞ 2160 Accrued Wages Payable**

This account represents amounts earned by employees, but not yet paid.

**2170 Due to Other Funds**

These accounts represent amounts owed to one fund by another fund. The following accounts are included in this classification:

**℞ 2171 General Fund**

This account represents amounts owed to the general fund from other funds of the school district.

**℞ 2172 Special Revenue Fund**

This account represents amounts owed to the special revenue fund from other funds of the school district.

Liability Object Codes		
Class	Major	Detail
X	X	XX

**℞ 2173 Debt Service Fund**

This account represents amounts owed to the debt service fund from other funds of the school district.

**℞ 2174 Capital Projects Fund**

This account represents amounts owed to the capital projects fund from other funds of the school district.

**℞ 2175 Enterprise Fund**

This account represents amounts owed to the enterprise fund from other funds of the school district.

**℞ 2176 Internal Service Fund**

This account represents amounts owed to the internal service fund from other funds of the school district.

**℞ 2177 Trust and Agency Funds**

This account represents amounts owed to the trust and agency funds from other funds of the school district.

**℞ 2178 Permanent Funds**

This account represents amounts owed to the permanent fund from other funds of the school district.

**2180 Due to Other Governments**

These accounts are used to record amounts owed to other governmental entities.



Liability Object Codes		
Class	Major	Detail
X	X	XX

**℞ 2181 Due to State**

This account is used to record amounts owed to state entities.

**℞ 2182 Due to Federal Agencies**

This account is used to record amounts owed to federal agencies.

**℞ 2183 Due to Other Governments**

This account is used to record amounts owed to other governmental entities, including counties, councils of government, cities and other school districts.

**℞ 2184 Due to Government Unit - Taxes**

This account is used to record amounts owed to government units as a result of one governmental entity collecting ad valorem tax revenues for another.

**℞ 2190 Due to Student Groups**

These accounts are used to record amounts owed to student groups within the agency funds. Amounts recorded as Due to Student Groups equal the difference between amounts recorded as assets and any recorded liabilities of student groups, such as accounts payable (there is not to be an amount reported as fund balance pertaining to student groups under agency funds).

**2200 ACCRUED EXPENDITURES/EXPENSES**

**℞ 2210 Accrued Expenditures/Expenses**

This account is used to record a liability for services or goods received in the current period which will not be paid until a later

Liability Object Codes		
Class	Major	Detail
X	X	XX

period, not appropriately recorded under another account, such as, accounts payable. The contra entry is to the appropriate expenditure account. This account is debited when the expense is paid.

**2300**

**DEFERRED REVENUE**

**℞ 2310**

**Deferred Revenue**

This account is credited for the amount of receipts not properly recognized at the time as revenues. For the General Fund at the fiscal year end this amount is usually equal to at least the difference between property taxes and the allowance for uncollectible taxes less the amount recorded for 60 days collections, if any, allowed under revenue recognition rules of the Governmental Accounting Standards Board.

<b>Object 2310 - Deferred Revenue to Include:</b>	<b>Object 2310 - Deferred Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>• Advance payment of tuition</li> <li>• Cash advance for a federally funded grant, not yet expended</li> <li>• Current and delinquent property taxes due</li> <li>• Overpayment of property taxes (current or delinquent) to be applied to future years</li> <li>• Preseason football ticket sales</li> <li>• Pre-payment of long-term vendor contracts</li> </ul>	<ul style="list-style-type: none"> <li>• All receipts recognized as revenues</li> </ul>

Liability Object Codes		
Class	Major	Detail
X	X	XX

**2400****PAYABLE FROM RESTRICTED ASSETS**

These accounts are used to record liabilities that relate to restricted assets. Payables from restricted assets generally are the result of operations from Proprietary and Fiduciary Fund Types. An example is a payment due as a result of a scholarship grant.

**℞ 2410 Construction Contract**

**℞ 2420 Fiscal Agent**

**℞ 2430 Accrued Interest**

**℞ 2440 Other**

**2500****BONDS AND LOANS PAYABLE - LONG-TERM**

**℞ 2510 Bonds Payable - Long-Term**

This account represents amounts of outstanding bonded indebtedness to be retired in future accounting periods. These amounts are recorded as credits in the General Long-Term Debt Fund. Whenever bonds become due, this account is debited and account 2121, Bonds Payable - Current Year, is credited in the Debt Service Fund.

**℞ 2511 Deferred Gain/Loss on Defeasance of Bonds**

This account represents deferred gain or loss in connection with the defeasance of bonds.

**℞ 2512 Accumulated Accretion on Capital Appreciation Bonds**

Liability Object Codes		
Class	Major	Detail
X	X	XX

This account represents the cumulative amount of accreted interest on capital appreciation bonds (CABs). The amount recorded under this object code is accounted for by individual CAB. At the maturity of a CAB, the accreted amount of interest for the CAB plus the discounted value recorded for the CAB debt will equal the face value of the debt instrument.

**℞2516 Premium and Discount on Issuance of Bonds (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)**

This account represents amounts to be amortized as debt premium and/or discount in connection with the issuance of debt. Previously, amounts have been recorded in Account 1430 with the same name; however, this account number is more consistent with reporting the discount or premium as a direct deduction from or addition to the face amount of the liability. The same effect can be produced by grouping account 1430 with the debt accounts in a report-writer package for financial statement preparation purposes.

**℞ 2520 Loans Payable - Long-Term**

This account is used to record the liability for long-term loans. As installments become currently payable, this account is debited and Account 2122, Loans Payable - Current Year, is credited. This account is used to record long-term loans payable by Proprietary Fund Types and similar trust funds (long-term loans of Governmental Fund types and Expendable Trust funds are recorded in the General Long-Term Debt Fund).

**2530 OTHER LONG-TERM DEBT PAYABLE**

**℞ 2531 Capital Leases Payable - Long-Term**

This account is used to record amounts due in future accounting periods as the result of a capital lease agreement. These are recorded as credits in the General Long-Term Debt Fund for Governmental Fund Types and Expendable Trust funds and in the

**Liability Object Codes**

Class	Major	Detail
X	X	XX

appropriate fund for Proprietary Fund Types and similar trust funds. The amount recorded for a capital lease is the current value of the future lease payments.

### **℞ 2532 Vested Vacation Benefits Payable**

This account is used to record vested vacation benefits. As the benefits accumulate, this account is credited for amounts that will not be liquidated during the current fiscal year upon the retirement or resignation of personnel. The contra entry is to account 1640 Amounts to be Provided for Payment of Vested Vacation Benefits and account 1740 Amounts Available for Payment of Vested Vacation Benefits.

### **℞ 2590 Other Long-Term Liabilities**

This account is used to record long-term liabilities not defined elsewhere. This account represents amounts due after more than one year from the balance sheet date (recognized as accrued long-term liabilities) for miscellaneous liabilities, including compensated absences, workers' compensation, self-funded self-[insurance](#), legal claims and judgments, certain pension plan liabilities and other long-term liabilities (debt to be repaid beyond the following twelve-month period).

## **1.4.6 Fund Balances/Net Assets Object Codes**

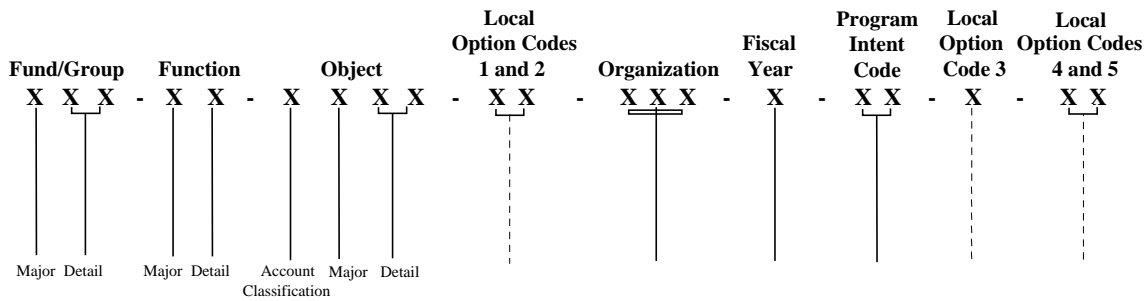
Fund balances/net assets represent the difference between the assets and liabilities of a fund. These codes are four digit object codes, and are the sixth through ninth digits in the code structure described in the Account Code Overview. These codes are distinguished from other types of object codes as they always begin with the digit "3." School districts may optionally account for transactions at a more detailed level than the level indicated. The **℞** by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

In preparation for implementation of GASB 54, which clarifies definitions of governmental fund types, the proposed new accounts have been listed for those districts interested in

early implementation (these accounts have not been added for PEIMS reporting yet). The new account descriptions for those account titles to be changed appear after a forward slash for the account name. In adding or modifying accounts, TEA has tried to maintain similar classifications to those used in the past for ease of implementation. GASB 54 is required to be implemented for all districts for their fiscal year ending in 2011.

**Exhibit 34. Fund Balances/Net Assets Object Code Structure**

**The Code Structure**



**Object Codes:**  
 Fund Balances (3XXX)  
 Fund Net Assets and Equity

————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

**3000**

**FUND BALANCES/NET ASSETS**

*Fund balances and net assets* are recorded as credits to six categories prior to the implementation of GASB 54:

- (1) Invested in Capital Assets, Net of Related Debt
- (2) Restricted Net Assets

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

- (3) Unrestricted Net Assets
- (4) Reserved Fund Balance
- (5) Designated Fund Balance
- (6) Unreserved, Undesignated Fund Balance

The first 3 categories apply to the government-wide financial statements, while the second 3 categories apply to governmental fund financial statements.

*Fund balances and net assets* are recorded as credits to eight categories after the implementation of GASB 54:

- (1) Invested in Capital Assets, Net of Related Debt
- (2) Restricted Net Assets
- (3) Unrestricted Net Assets
- (4) Nonspendable Fund Balance
- (5) Restricted Fund Balance
- (6) Committed Fund Balance
- (7) Assigned Fund Balance
- (8) Unassigned Fund Balance

The first 3 categories apply to the government-wide financial statements, while the second 5 categories apply to governmental fund financial statements.

## 3100

## Reserved For Future State Definition

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**3200****INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT**

This account is used to record the net asset component - invested in capital assets, net of related debt – which represents total capital assets less accumulated depreciation less debt directly related to capital assets. This account is reported in the government-wide financial statements and in financial statements for Proprietary Fund Types and/or fiduciary funds of a school district.

**3300****Reserved For Future State Definition****3400-3600****FUND BALANCE****3400****RESERVED / NONSPENDABLE OR RESTRICTED FUND BALANCE**

These accounts are used to record reserved / nonspendable or restricted fund balances. Reserved / Nonspendable fund balance is that portion of fund equity which is not available for appropriation. Restricted fund balance is that portion of fund equity which has been legally separated for a specific purposes.

**℞ 3410****Reserve for Investment in Inventories / Nonspendable Inventories**

This account is used to record the reserve / nonspendable portion for investment in inventories, which must agree with the inventory balance in account 1310, Inventories - Supplies and Materials, except for commodity inventories. Commodity inventories received through the US Department of Agriculture are to be offset with deferred revenue and not the reserve for inventories.

**℞ 3415****Nonspendable Long-Term Loans/Notes Receivable (Effective July 1 or September 1, 2010 depending on fiscal year)**



Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

This account is used to record the nonspendable amount of long-term loans or notes receivable.

**℞ 3420      Reserve for Retirement of Long-Term Debt (Delete effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the reserve of the Debt Service Fund for retirement of long-term debt, which represents the amounts necessary to retire long-term debt principal prior to implementation of GASB 54. After implementation of GASB 54, these amounts are to be recorded in 3480).

**℞ 3425      Nonspendable Endowment Principal (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the nonspendable principal amount of a permanent fund.

**℞ 3430      Reserve for Prepaid Items / Nonspendable Prepaid Items**

This account is used to record the reserve / nonspendable portion of fund balance to indicate that prepaid items included in assets do not represent expendable available financial resources.

**℞ 3440      Reserve for Outstanding Encumbrances (Delete effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to account for the reserve for encumbrances representing commitments related to unperformed contracts for goods or services. Refer to the Encumbrance Accounting section for further guidance on encumbrances prior to implementation of GASB 54. Subsequent to implementation of GASB 54, amounts are reported as a commitment or assignment according to the purpose of the expenditure.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**℞ 3445****Nonspendable Other (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to account for any other items meeting the definition of nonspendable.

**℞ 3450****Reserve for Food Service / Restricted for Federal /State Funds Grant Restrictions**

This account is used to record the reserve for food service that represents the amount available for the food service program pursuant to the mandates of the National School Lunch and Breakfast Program. After implementation of GASB 54, it will reflect restrictions for any federal or state grant balances.

**℞ 3460****Reserve / Restricted for Fund Balances of Consolidated School Districts**

This reserve / restriction is used for fund balances of school district(s) that were consolidated under Subchapter H, Chapter 41, [Texas Education Code](#) (TEC). Amounts reserved / restricted under this code may be used only for the benefit of the schools of the previously existing individual school districts that generate the funds.

**℞ 3470****Reserve / Restricted for Capital Acquisitions and Contractual Obligations**

This account is used for recording the reserve / restriction for contractual obligations issued, representing funds available to purchase personal property items pursuant to the school district's "Resolution or Order Authorizing the Sale of Contractual Obligations." Examples include contractual obligations issued directly by a district, or those issued through participation in a program such as CAP-- Capital Acquisition Program.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**℞ 3480****Restricted for Retirement of Long-Term Debt (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the restriction of the Debt Service Fund for retirement of long-term debt, which represents the amounts necessary to retire long-term debt principal.

**℞ 3490****Other Reserves / Restrictions of Fund Balance**

This account is used to record other reserves / restrictions of fund balance not described above.

**3500****DESIGNATED / COMMITTED OR ASSIGNED FUND BALANCE**

The designated / committed or assigned fund balance represents tentative plans for the future use of financial resources. Designations /commitments require Board action to earmark fund balance for bona fide purposes that will be fulfilled within a reasonable period of time. Assignments do not require approval in the board minutes and can also be made by an official or body to which the board has delegated authority. Funds other than the general fund report the remainder fund balance as assigned.

**℞ 3510****Designated / Committed Fund Balance - Construction**

This account is used to record the designation /commitment for construction plans by the school district for construction projects not funded by bonded debt.

**℞ 3520****Designated / Committed Fund Balance - Claims and Judgments**

This account is used to record the designation /commitment for claims and judgments and represents funds earmarked for payment for such purposes.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**℞ 3525****Committed Fund Balance – Retirement of Loans/Notes Payable (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the commitment for loans and notes payable and represents funds earmarked for payment for such purposes. This relates to loans and notes payable committed by the board vs. the restrictive terms of the bond.

**℞ 3530****Designated / Committed Fund Balance - Capital Expenditures for Equipment**

This account is used to record the designation /commitment for capital expenditures for equipment representing plans by the school district for major equipment expenditures not funded by bonded debt or Caps funds.

**℞ 3540****Designated / Committed Fund Balance - Self-Insurance**

This account is used to record the designation /commitment for self-insurance representing funds set aside by the school district for actuarial liabilities of self-insurance programs.

**℞ 3545****Other Committed Fund Balance (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record other commitments of fund balance not described above.

**℞ 3550****Assigned Fund Balance – Construction (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the assignment for construction represents plans by the school district for construction projects not funded by bonded debt.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**℞ 3560      Assigned Fund Balance - Claims and Judgments  
(Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the assignment for claims and judgments and represents funds earmarked for payment for such purposes.

**℞ 3565      Assigned Fund Balance – Retirement of Loans/Notes Payable (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the assignment for loans and notes payable and represents funds earmarked for payment for such purposes.

**℞ 3570      Assigned Fund Balance - Capital Expenditures for Equipment (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the assignment for capital expenditures for equipment representing plans by the school district for major equipment expenditures not funded by bonded debt or Caps funds.

**℞ 3580      Assigned Fund Balance - Self-Insurance (Effective July 1 or September 1, 2010 depending on fiscal year)**

This account is used to record the assignment for self-insurance representing funds set aside by the school district for actuarial liabilities of self-insurance programs.

**℞ 3590      Other Designated / Assigned Fund Balance**

This account is used to record other designations /assignments of fund balance not described above.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

**℞ 3600****UNRESERVED, UNDESIGNATED / UNASSIGNED FUND BALANCE**

The unreserved, undesignated / unassigned fund balance represents that portion of fund equity that is currently available to finance expenditures/expenses not already approved by the Board of Trustees or described under GASB 54 as the amount in excess of nonspendable, restricted, committed, and assigned fund balance (surplus).

**3700****BUDGETARY FUND BALANCE - Locally Defined**

The budgetary fund balance code may be used to offset Object Control Codes 5010, 6010, 7010, and 8010. This account will have a zero balance at fiscal year end.

**℞ 3800****RESTRICTED NET ASSETS**

This account is used to record the net asset component – restricted net assets – which represents net assets restricted by a source external to the district. This account is reported in the government-wide financial statements and in financial statements for Proprietary Fund Types and/or fiduciary funds of a school district.

**℞ 3900****UNRESTRICTED NET ASSETS**

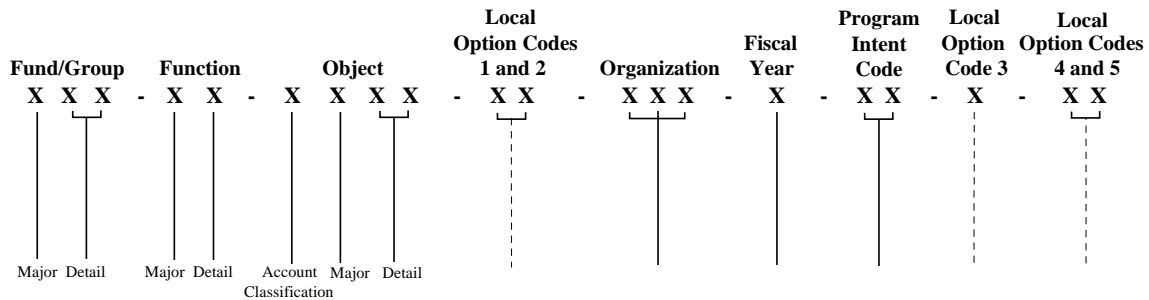
This account is used to record the net asset component – unrestricted net assets – which is reported in the government-wide financial statements and in financial statements for Proprietary Fund Types and/or fiduciary funds of a school district. Unrestricted net assets represents any net assets not classified in accounts 3200 and 3800.

Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

## 1.4.7 Clearing Account Object Codes

Clearing account codes are four digit object codes, and are the sixth through ninth digits in the code structure described in Account Code Overview. These codes are distinguished from other types of object codes as they always begin with the digit “4.” School districts may optionally account for transactions at a more detailed level than the level indicated. The **R** by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 35. Clearing Account Object Code Structure**



**Object Codes:**  
Clearing Accounts (4XXX)

————— Indicates a mandatory code for State reporting purposes  
 ----- Indicates a code that may be used at local option

These codes differ from other object codes as they are not reflected in the accounts shown on the school district's financial statements. Clearing accounts are used to balance the accounting records during interim periods and are closed to other accounts at the end of the fiscal year. Additional clearing accounts may be utilized as needed by a local school district.

**4000**                      **CLEARING ACCOUNTS**

**4300**                      **ENCUMBRANCE RESERVES**

**4310**                      **Reserve for Encumbrances - Locally Defined**

This code is used, at the option of the school district, to record a credit entry when encumbrances are incurred. At year-end, this account is closed against outstanding encumbrances. The amount of valid encumbrances will be classified in account 3440, Reserve for Outstanding Encumbrances, to be re-encumbered at the beginning of the new fiscal year.



Fund Equity Object Codes		
Class	Major	Detail
X	X	XX

## 1.4.8 Revenue Object Codes

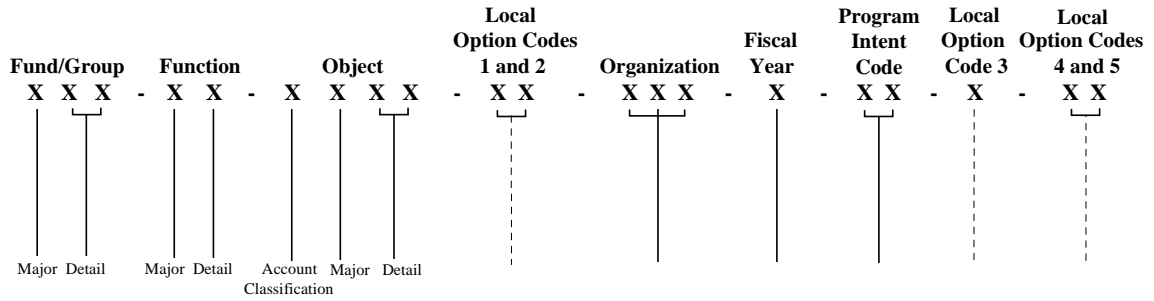
Revenues are defined as an increase in a school district's current financial resources. These codes are distinguished from other types of object codes as they always begin with the digit "5."

The school district's accounting records are to reflect revenues at the most detail level, as depicted in the chart of accounts (4 digits) for accounting and Public Education Information Management System ([PEIMS](#)) reporting (both budget and actual) purposes. If a school district needs to use codes in addition to the mandatory codes for managerial purposes, the optional codes provided for local use in the code structure should be used.

The  $\mathcal{R}$  by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 36. Revenue Object Code Structure**

**The Code Structure**



**Object Codes:**  
Revenues (5XXX)

————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

Governmental Accounting Standards Board (GASB) Codification 1600.106 states that revenues and other governmental fund financial resource increments are recognized when they are susceptible to accrual, which means they must be both measurable and available. Revenues are measurable when the amount of the revenues is subject to reasonable estimation. To be available, revenues must be subject to collection within the current period, or after the end of the period but in time to pay liabilities outstanding at the end of the current period.

Revenues recorded in the Proprietary Fund Type and similar trust funds are recognized when earned in essentially the same manner as in commercial accounting.

School districts must account for a variety of revenues, including property taxes, foundation fund entitlements, user charges and grants.

Revenue object codes are four digit object codes, and are the sixth through ninth digits in the code structure.

**Revenue Object Codes**

Class	Major	Detail
X	X	XX

**5000****REVENUE CONTROL ACCOUNTS**

These codes consist of accounts that summarize estimated (budgeted) and actual (realized) revenues. These are optional codes and accounts that may be used in financial accounting applications for school districts.

**5010****Estimated Revenues - Control - Locally Defined**

This account is debited at the beginning of the period for the amount of revenues anticipated. The credit entry is to the object code 3700 - Budgetary Fund Balance and this account is closed at year end. This control account is to be used at the option of the school district.

**5020****Realized Revenues - Control - Locally Defined**

This account is credited for the total revenues realized (including any accrued amounts) during the period. The postings to the Revenue Ledger (detail revenue accounts) must be equal to this total realized revenue control account. The debit entry is to cash or a receivable account. At the end of the period this account is closed to Fund Balance. This control account is to be used at the option of the school district.

**5700-5900****REVENUES**

Revenues are credited in the accounting period in which they become available and measurable.

**5700****REVENUES FROM LOCAL AND INTERMEDIATE SOURCES****5710****Local Real and Personal Property Taxes**

Revenue Object Codes		
Class	Major	Detail
X	X	XX

All revenues from local real and personal property taxes are to be recorded in this code class. School districts should carefully classify tax (actual levy) and other tax revenues, such as penalties and interest, since tax collections impact state funding. This code class applies to school districts including component school districts of a consolidated taxing district.

**℞ 5711 Taxes, Current Year Levy**

This code is used to classify revenues realized as a result of collecting taxes for real and personal property as levied for the current year. This code is also used to classify revenues that are the current year component share of taxes from a consolidated taxing district. This includes past due, current delinquent and supplemental taxes for the current year levy. Taxes collected from current year assessments are to be prorated between the General and Debt Service Funds as applicable. School districts that elect to provide separate accounting for past due, current delinquent and supplemental taxes for the current year levy may use local option codes to do so.

Object 5711 Revenue to Include:	Object 5711 Revenue to Exclude (with correct object):
<ul style="list-style-type: none"> <li>• Taxes collected for the current year levy, October 1 to January 31</li> <li>• Current delinquent taxes collected (for the current year levy) between February 1 and the district’s fiscal year-end</li> <li>• Supplemental taxes, taxes from litigation, taxes under protest or other taxes not certified on the original approved roll</li> <li>• Current delinquent taxes accrued for the 60 days beginning September 1 and ending October 30 or July 1 and ending August 29, depending on the district’s</li> </ul>	<ul style="list-style-type: none"> <li>• Prior year taxes (taxes levied in prior years, Object 5712)</li> <li>• All taxes collected other than current year tax levy (Object 5712)</li> <li>• Penalties and interest (Object 5719)</li> <li>• Delinquent tax collection fees charged to taxpayer and paid to an attorney (Object 2110)</li> <li>• Overpayment of taxes for current year levy (Object 2310 for deferred revenue or Object 2110 for refund of overpaid taxes)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5711 Revenue to Include:	Object 5711 Revenue to Exclude (with correct object):
fiscal year	

**℞ 5712 Taxes, Prior Years**

This code is used to classify revenues realized as a result of collecting taxes for real and personal property as levied for prior years, including taxes which may have previously been determined to be uncollectible. This code includes supplements to the prior year tax rolls. Taxes collected from prior year assessments are to be prorated between the General and Debt Service Funds according to the tax rates of the year of levy, as applicable.

Object 5712 Revenue to Include:	Object 5712 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• All taxes collected for prior year levies</li> <li>• Taxes collected against county education district receivables purchased from successor-in-interest</li> <li>• Prior year delinquent taxes accrued for 60 days beginning September 1 through October 30 or July 1 through August 29 depending on the district’s fiscal year end</li> <li>• Local revenue received from former successor-in-interest entity of a former county education district</li> </ul>	<ul style="list-style-type: none"> <li>• All taxes collected for current year levy (Object 5711)</li> <li>• Penalties and interest ( Object 5719)</li> <li>• Delinquent tax collection fees charged to taxpayer and paid to an attorney (Object 2110)</li> <li>• Overpayment of taxes for current year levy (Object 2310 for deferred revenue or object 2110 for refund of overpaid taxes)</li> </ul>

**5713-5715 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**5716-5718 Penalties, Interest and Other Tax Revenues - Locally Defined (Convert to Object Code 5719 for PEIMS)**

These codes are used, at the option of the school district, to classify tax revenues not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5719, Penalties, Interest and Other Tax Revenues. These accounts should not include any tax levy, all of which is classified in either account 5711 or account 5712.

**℞ 5719 Penalties, Interest and Other Tax Revenues**

This code is used to classify revenues realized as a result of collecting tax revenues other than those specified above, including penalties and interest. Any locally defined codes that are used at the local option are to be converted to account 5719 for [PEIMS](#) reporting. Delinquent tax collection fees that are charged as “costs” to the taxpayer and paid to an attorney are to be treated as a liability in account 2110, Accounts Payable, and not classified as revenues.

Object 5719 Revenue to Include:	Object 5719 Revenue to Exclude:
<ul style="list-style-type: none"> <li>All penalties and interest for tax collection</li> </ul>	<ul style="list-style-type: none"> <li>Current year taxes (Object 5711)</li> <li>Prior year delinquent taxes (Object 5712)</li> <li>Delinquent tax collection fees charged to taxpayer and paid to an attorney (Object 2110)</li> </ul>

**5720 Local Revenues Realized as a Result of Services Rendered to Other School Districts**

**℞ 5721 Local Revenues Resulting from Sale of Weighted Average Daily Attendance (WADA) to Other School Districts**

Revenue Object Codes		
Class	Major	Detail
X	X	XX

This code is used to classify revenues realized from the sale of WADA to other school districts. This account is used only for any amount in excess of what the school district would normally receive from the Foundation School Program Act.

Object 5721 Revenue to Include:	Object 5721 Revenue to Exclude:
<ul style="list-style-type: none"> <li>Revenues in excess of what the district would normally receive from the Foundation School Program Act</li> </ul>	<ul style="list-style-type: none"> <li>All other revenues</li> </ul>

**℞ 5722 Shared Services Arrangements - Local Revenues from Member Districts**

This code is used to classify local revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements.

Object 5722 Revenue to Include:	Object 5722 Revenue to Exclude:
<p>Examples of revenues classified in this account are:</p> <ul style="list-style-type: none"> <li>Local revenue from member districts of shared services arrangements</li> <li>All or a portion of allotments from the Foundation School Program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel such as a program director, counselors, diagnosticians and speech therapists</li> <li>Local funds for sharing of</li> </ul>	<ul style="list-style-type: none"> <li>State funded revenue from shared service arrangements (Object 5841)</li> <li>Federal revenue from shared service arrangements (Object 5951)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5722 Revenue to Include:	Object 5722 Revenue to Exclude:
personnel, such as librarians, counselors and nurses	

### **5723 Shared Services Arrangements - Local Revenues from Fiscal Agent**

This code is used to classify local revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent's expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements.

Object 5723 Revenue to Include:	Object 5723 Revenue to Exclude:
<p>Examples of revenues classified in this account are:</p> <ul style="list-style-type: none"> <li>Local revenues received from fiscal agent of shared service arrangement</li> <li>All or a portion of allotments from the Foundation School Program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel such as a program director, counselors, diagnosticians and speech therapists</li> <li>Local/state funds for sharing of program personnel, such as librarians, counselors and nurses</li> </ul>	<ul style="list-style-type: none"> <li>State revenues received from fiscal agent of shared service arrangement (Object 5842)</li> <li>Federal revenue received from fiscal agent of shared service arrangement (Object 5952)</li> </ul>

### **5724-5726 Reserved for Future State Definition**



Revenue Object Codes		
Class	Major	Detail
X	X	XX

These codes are reserved for future state designation and are not to be used by the school district.

**5727-5728 Local Revenues Resulting from Services Rendered to Other School Districts - Locally Defined (Convert to Object Code 5729 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues resulting from services rendered to other school districts not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5729, Local Revenue Resulting from Services Rendered to Other School Districts.

**℞ 5729 Local Revenues Resulting from Services Rendered to Other School Districts**

This code is used to classify revenues realized from services rendered to other school districts not specified above.

Any locally defined accounts that are used at the local option are to be converted to account 5729 for [PEIMS](#) reporting.

<b>Object 5729 Revenue to Include:</b>	<b>Object 5729 Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>• Revenue for services to other school districts such as printing, transportation and maintenance services</li> <li>• Tuition from other school districts</li> <li>• Revenue received from other districts as registration fees for staff development</li> <li>• Tuition paid from one school district to another resulting in entire grades of students being transferred to provide grade levels not taught by the sending school</li> </ul>	<ul style="list-style-type: none"> <li>• Tuition from local sources (Object 5739)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5729 Revenue to Include:	Object 5729 Revenue to Exclude:
district <ul style="list-style-type: none"> <li>Tuition paid for an enhanced service for specific students not offered by the sending school district</li> <li>Tuition paid for students being transferred under the Public Education Grant Program, Section 29.201, TEC</li> </ul>	

## 5730 Tuition and Fees

### 5731-5734 Reserved for Future State Definition

These codes are reserved for future state designation and are not to be used by the school district.

### 5735-5738 Tuition and Fees - Locally Defined (Convert to Object Code 5739 for PEIMS)

These codes are used, at the option of the school district, to classify tuition and fees not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5739, Tuition and Fees.

### **5739 Tuition and Fees from Local Sources**

This code is used to classify revenues realized for tuition and fees from local sources.

Any locally defined codes that are used at the local option are to be converted to account 5739 for [PEIMS](#) reporting.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5739 Revenue to Include:	Object 5739 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Driver education tuition</li> <li>• Tuition from out of district patrons -regular day school</li> <li>• Tuition from over age students</li> <li>• Tuition for summer school</li> <li>• Tuition from early childhood programs</li> </ul>	<ul style="list-style-type: none"> <li>• Tuition from other school districts (object 5729)</li> </ul>

**5740 Other Revenues from Local Sources**

***℞* 5741 Earnings from Permanent Funds and Endowments**

This code is used to classify revenues realized as a result of earnings from local permanent school funds and endowments, including net earnings from rentals and leases of property purchased from, or set aside as, part of the local permanent funds.

Object 5741 Revenue to Include:	Object 5741 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Earnings from permanent school funds and endowments</li> </ul>	<ul style="list-style-type: none"> <li>• All other revenues</li> </ul>

***℞* 5742 Earnings from Temporary Deposits and Investments**

This code is used to classify revenues realized as a result of earnings from deposits and [investments](#). Market losses are

Revenue Object Codes		
Class	Major	Detail
X	X	XX

reflected as a debt entry to 5742 and gains as a credit entry to 5742.

Object 5742 Revenue to Include:	Object 5742 Revenue to Exclude:
Interest from: <ul style="list-style-type: none"> <li>• Market gains</li> <li>• U.S. government agency securities</li> <li>• Commercial paper</li> <li>• Sweep accounts</li> <li>• Certificates of deposit</li> <li>• Texas local governments (Texas municipalities)</li> <li>• Investment pools</li> </ul>	<ul style="list-style-type: none"> <li>• Earnings from local permanent funds and endowments (Object 5741)</li> </ul>

### **℞ 5743 Rent**

This code is used to classify revenues realized from rental of facilities or other property.

Object 5743 Revenue to Include:	Object 5743 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Rent of a stadium, activity center, gym, school or other district owned facility</li> </ul>	<ul style="list-style-type: none"> <li>• Ticket sales to athletic events (Object 5752)</li> <li>• Revenue from</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5743 Revenue to Include:	Object 5743 Revenue to Exclude:
	extracurricular/cocurricular activities other than athletics (Object 5753)

**℞ 5744 Revenue from Foundations, Other Non-Profit Organizations, Gifts and Bequests**

This code is used to classify revenue from foundations, other non-profit organizations, and gifts and bequests received from philanthropic or private businesses, or individuals.

Object 5744 Revenue to Include:	Object 5744 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Donations of cash or the value of items donated</li> </ul>	<ul style="list-style-type: none"> <li>• State and federal grants (Object 58XX or 59XX)</li> </ul>

**℞ 5745 Insurance Recovery**

This code is used to classify amounts received from [insurance](#) companies for the repair or replacement of the insured property for assets of Governmental Fund Types and Expendable Trust Funds.

Object 5745 Revenue to Include:	Object 5745 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Gross proceeds from insurance companies for the repair or replacement of insured property</li> </ul>	<ul style="list-style-type: none"> <li>• All other revenue</li> </ul>

**℞ 5746 Property Taxes Collected for Tax Increment Fund**

Revenue Object Codes		
Class	Major	Detail
X	X	XX

This code is used to classify amounts received for financing a tax increment fund. The expenditures associated with these revenues should be recorded in the general fund, under function code 97 - Tax Increment Fund and should be disbursed using object code 6499.

Object 5746 Revenue to Include:	Object 5746 Revenue to Exclude:
<ul style="list-style-type: none"> <li>Property taxes collected for Tax Increment Fund</li> </ul>	<ul style="list-style-type: none"> <li>Taxes collected for the current year levy, October 1 to January 31 (Object 5711)</li> <li>Current delinquent taxes collected (for the current year levy) between February 1 and August 31 or June 30 depending on the district's fiscal year (Object 5711)</li> <li>Supplemental taxes, taxes from litigation, taxes under protest or other taxes not certified on the original approved roll (Object 5711)</li> <li>Current delinquent taxes accrued for the 60 days beginning September 1 and ending October 30 or July 1 and ending August 29 depending on the district's fiscal year (Object 5711)</li> <li>All taxes collected for prior year levies (Object 5712)</li> <li>Taxes collected against county education district receivables purchased from successor-in-interest (Object 5712)</li> <li>Prior year delinquent taxes accrued for 60 days beginning</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5746 Revenue to Include:	Object 5746 Revenue to Exclude:
	September 1 through October 30 or July 1 through August 29 depending on the district's fiscal year end (Object 5712)

**5747 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**5748 Other Revenues from Local Sources - Locally Defined (Convert to Object Code 5749 for PEIMS)**

This code is used, at the option of the school district, to classify revenues realized from local sources not defined elsewhere. For [PEIMS](#) reporting, this account is converted to account 5749, Other Revenue from Local Sources.

**℞ 5749 Other Revenues from Local Sources**

This code is used to classify other revenues realized from local sources not specified above. Any locally defined codes that are used at the local option are to be converted to account 5749 for [PEIMS](#) reporting.

Object 5749 Revenue to Include:	Object 5749 Revenue to Exclude:
Miscellaneous revenue not identified in other revenue coding 57XX. For example: <ul style="list-style-type: none"> <li>• Library fines</li> <li>• Revenue from sale of materials</li> </ul>	<ul style="list-style-type: none"> <li>• Concession sales specifically attributable to athletics (in accordance with local policy; Object 5752)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5749 Revenue to Include:	Object 5749 Revenue to Exclude:
<p>requested under open records</p> <ul style="list-style-type: none"> <li>• Sale of curriculum materials</li> <li>• Revenue from copy machines usage</li> <li>• Concession sales not specifically attributable to athletics (in accordance with local policy)</li> <li>• Application fees for tax value limitation agreements (Ex. Chapter 313)</li> </ul>	

**5750****Revenues from Cocurricular, Enterprising Services or Activities****℞ 5751****Food Service Activity**

This code is used to classify revenues realized from food service activities, including payments for meals from students and adults. This account does not include revenues realized from participation in the National School Lunch and Breakfast Programs or USDA commodities which are classified in account 5921, National School Breakfast Program; account 5922, National School Lunch Program; and 5923, USDA Commodities for those school districts that account for food service operations in the general or special revenue fund. School Districts that use an Enterprise Fund to account for food service operations should use accounts 7952, National School Breakfast Program, 7953, National School Lunch Program and account 7954, USDA Commodities.

Object 5751 Revenue to Include:	Object 5751 Revenue to Exclude:
Full price payments for student and adult meals including:	In the General and Special Revenue Funds:



Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5751 Revenue to Include:	Object 5751 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Sale of milk</li> <li>• Catering fees</li> <li>• Reduced meal prices paid by students</li> <li>• Sale of a la carte items</li> </ul>	<p>A. Federal School Breakfast Program (Object 5921), Federal School Lunch Program (Object 5922), and Department of Agriculture (USDA) Commodities (Object 5923)</p> <p>In the Enterprise Fund:</p> <p>B. National School Breakfast Program (Object 7955). National School Lunch Program (Object 7953) Department of Agriculture Commodities (Object 7954)</p>

**℞ 5752 Athletic Activities**

This code is used to classify revenues realized from athletic activities, including admission and gate receipts.

Object 5752 Revenue to Include:	Object 5752 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Ticket sales to athletic events</li> <li>• Concession sales specifically attributable to athletics (in accordance with local policy)</li> </ul>	<ul style="list-style-type: none"> <li>• Rental of a stadium, gym or other athletic facility (Object 5743)</li> <li>• Concession sales not specifically attributable to athletics (in accordance with local policy; Object 5749)</li> </ul>

**℞ 5753 Extracurricular Activities Other than Athletics**

This code is used to classify revenues realized from extracurricular activities other than athletics.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5753 Revenue to Include:	Object 5753 Revenue to Exclude:
<ul style="list-style-type: none"> <li>Ticket sales or entry fees for extracurricular events where recorded by the district rather than by a student activity fund, according to local policy</li> </ul>	<ul style="list-style-type: none"> <li>Athletic gate receipts (Object 5752)</li> </ul>

### **℞ 5754 Interfund service provided and used Interfund Transactions**

This code is used to classify revenues realized from fees charged to users and recorded in an Internal Service Fund.

Object 5754 Revenue to Include:	Object 5754 Revenue to Exclude:
<ul style="list-style-type: none"> <li>Fees charged by a printing department operated as an internal service fund</li> <li>Health insurance or worker's compensation premiums charged for insurance programs operated on a self-funded basis as an internal service fund</li> </ul>	<ul style="list-style-type: none"> <li>Interest earned on deposits accounted for in the internal service fund (Object 7955)</li> </ul>

### **℞ 5755 Enterprising Services Revenue**

This code is used to classify gross revenues realized from vending machines, school stores, coke machines, etc., not related to the regular food service program. Items purchased for resale are to be classified in the appropriate expenditure object code in Function 36, Cocurricular/Extracurricular Activities.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

## **5756 Reserved for Future State Definition**

This code is reserved for future state designation and is not to be used by the school district.

## **5757-5758 Cocurricular, Enterprising Services or Activities - Locally Defined (Convert to Object Code 5759 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues realized from cocurricular or enterprising services or activities not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5759, Cocurricular, Enterprising Services or Activities.

## **℞ 5759 Cocurricular, Enterprising Services or Activities**

This code is used to classify revenues realized from cocurricular or enterprising services/activities not defined elsewhere. Any locally defined codes that are used at the local option are to be converted to account 5759 for [PEIMS](#) reporting.

## **5760 Revenues from Intermediate Sources**

### **5761-5765 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **5766-5768 Revenues from Intermediate Sources - Locally Defined (Convert to Object Code 5769 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues realized from intermediate sources not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5769, Miscellaneous Revenue from Intermediate Sources.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**℞ 5769****Miscellaneous Revenues from Intermediate Sources**

This code is used to classify revenues realized from administrative units or political subdivisions (i.e., counties, municipalities, utility districts, etc.) excluding state and federal governmental entities. Any locally defined codes that are used at the local option are to be converted to account 5769 for [PEIMS](#) reporting.

<b>Object 5769 Revenue to Include:</b>	<b>Object 5769 Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>Revenue from the city, county or other non-school district local government or administrative unit</li> </ul>	<ul style="list-style-type: none"> <li>Revenue from other school districts (Object 5729)</li> <li>Revenue from state government entity (Object 58XX)</li> <li>Revenue from federal governmental entities (Object 59XX)</li> </ul>

**5770-5790 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**5800 STATE PROGRAM REVENUES****5810 Per Capita and Foundation School Program Act Revenues**

This code is used to classify revenues realized from the Texas Education Agency, allocated on the basis of state law relating to the Foundation School Program Act.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**℞ 5811 Per Capita Apportionment**

This code is used to classify revenues realized from the State Available School Fund.

Object 5811 Revenue to Include:	Object 5811 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• Available School Fund revenues</li> </ul>	<ul style="list-style-type: none"> <li>• State technology and textbook allotment (Object 5829)</li> <li>• Foundation School Fund revenues (Object 5812)</li> <li>• Public Education Grant (Object 5812)</li> <li>• Optional Extended Year (Object 5812)</li> <li>• Parenting, Education and Pregnancy Grant (Object 5812)</li> <li>• State Supplemental Visually Impaired or Regional Day School for the Deaf (Object 5812)</li> </ul>

**℞ 5812 Foundation School Program Act Entitlements**

This code is used to classify revenues realized for public schools participating in, and eligible for, benefits under the Foundation School Program Act.

Object 5812 Revenue to Include:	Object 5812 Revenue to Exclude:

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5812 Revenue to Include:	Object 5812 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• The portion of a Chapter 41 receipt received from a Chapter 41 district that corresponds to the reduction in state aid of a Chapter 42 district</li> <li>• Foundation School Fund Chapter 42 revenues</li> <li>• Optional Extended Year</li> <li>• Parenting, Education and Pregnancy Grant (PEP)</li> <li>• State Supplemental Visually Impaired or Regional Day School for Deaf</li> <li>• Public Education Grant</li> <li>• High School Allotment</li> </ul>	<ul style="list-style-type: none"> <li>• State technology and textbook allotment (Object 5829)</li> <li>• Available School Fund revenues (Object 5811)</li> <li>• Federal revenue passed through a state agency (Object 5939)</li> </ul>

### **℞ 5813 Foundation School Program Act Incentive Aid**

This code is used to classify revenues realized to assist eligible school districts under Subchapter G, Chapter 13, [Texas Education Code](#).

### **5814-5816 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**Revenue Object Codes**

Class	Major	Detail
X	X	XX

### **5817-5818 Foundation School Program Act Revenues - Locally Defined (Convert to Object Code 5819 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues realized from the foundation fund not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5819, Other Foundation Fund Program Act Revenues.

### **℞ 5819 Other Foundation School Program Act Revenues**

This code is used to classify revenues realized from the foundation school program not specified above. Any locally defined codes that are used at the local option are to be converted to account 5819 for [PEIMS](#) reporting.

### **5820 State Program Revenues Distributed by Texas Education Agency**

This code is used to classify revenues realized from the Texas Education Agency for state programs that may be funded through appropriations other than from the Foundation School Program Act.

### **5821-5825 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **5826-5828 Revenues from Other State Programs - Locally Defined (Convert to Object Code 5829 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues realized from other state programs not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5829, State Program Revenues Distributed by Texas Education Agency.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**℞ 5829****State Program Revenues Distributed by Texas Education Agency**

This code is used to classify revenues realized from the Texas Education Agency for programs not specified above. Any locally defined codes that are used at the local option are to be converted to account 5829 for [PEIMS](#) reporting.

<b>Object 5829 Revenue to Include:</b>	<b>Object 5829 Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>• State technology and textbook allotment</li> <li>• Facilities Grant</li> <li>• Revenues realized from the Texas Education Agency for programs not specified above</li> </ul>	<ul style="list-style-type: none"> <li>• Federal revenue passed through a state agency (Object 5939)</li> <li>• Available School Fund revenues (Object 5811)</li> <li>• The portion of a Chapter 41 receipt received from a Chapter 41 district that corresponds to the reduction in state aid of a Chapter 42 district (Object 5812)</li> <li>• Foundation School Fund Chapter 42 revenues (Object 5812)</li> <li>• Optional Extended Year (Object 5812)</li> <li>• Parenting, Education and Pregnancy Grant (Object 5812)</li> <li>• State Supplemental Visually Impaired or Regional Day School for the Deaf (Object 5812)</li> <li>• Public Education Grant (Object 5812)</li> <li>• High School Allotment (Object 5812)</li> </ul>



**Revenue Object Codes**

Class	Major	Detail
X	X	XX

## **5830 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)**

This code is used to classify state revenues from state agencies other than Texas Education Agency, including those directly from the Comptroller of Public Accounts for tax refunds.

### **℞ 5831 Teacher Retirement/TRS Care - On-Behalf Payments**

This code is used to classify revenues from “On-Behalf” payments of matching teacher retirement paid for active members of the school district in accordance with GASB Statement No. 24. A school district contributes matching funds for personnel funded from federal sources and, if applicable, statutory minimum funds for qualifying personnel. The school district also provides certain employer contributions for the retired teachers’ health insurance plan (TRS Care). The state provides all other matching funds on behalf of members. The amount that the state provides in excess of school district contributions are to be recorded here. An equal expenditure amount should be recorded in account 6144, Teacher Retirement - On-Behalf Payments.

This code is also used to record the funds deposited into the accounts of eligible employees as a result of the new Health Reimbursement Arrangement (HRA) program. The HRA program will be administered by the Teacher Retirement System (TRS) and will go into effect on September 1, 2004.

Medicare Part D payments made by the federal government to TRS are also recorded to this account with an equal expenditure amount to account 6144, Teacher Retirement – On-Behalf Payments. See sections 1.2.5.2 and 1.3.3 for additional information.

### **℞ 5832 TRS Supplemental Compensation Under Article 3.50-8, Insurance Code (Deleted effective 8/31/07)**

This code was used to classify revenues from funds distributed (through the TEA payment system) to school districts by the Teacher Retirement System (TRS) in accordance with provisions of the Active Employee Health Insurance Coverage or Compensation Supplementation program.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

HB 1 of the 79<sup>th</sup> Legislature, 3<sup>rd</sup> called session, converted this amount to salary; therefore, this code is no longer necessary.

### **5833-5835 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **5836-5838 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency) - Locally Defined (Convert to Object Code 5839 for PEIMS)**

These codes are used, at the option of the school district, to classify state revenues realized from other State of Texas government agencies not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5839, State Revenues from State of Texas Government Agencies (Other Than Texas Education Agency).

### **℞ 5839 State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)**

This code is used to classify state revenues from State of Texas government agencies, other than Texas Education Agency, not defined elsewhere. Any locally defined codes that are used at the local option are to be converted to account 5839 for [PEIMS](#) reporting.

<b>Object 5839 Revenue to Include:</b>	<b>Object 5839 Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>Funds received from the Telecommunications Infrastructure Fund (TIF)</li> </ul>	<ul style="list-style-type: none"> <li>Federal revenues passed through a state agency (Object 5939)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

## 5840 Shared Services Arrangements - State Revenues

State revenues from shared services arrangements are state funds received from either (1) a member district by a fiscal agent; or (2) a fiscal agent by a member district. For purposes of these revenue object codes, state revenues are defined as state funds granted through an application where the entire grant is funded through the state. Examples of state funds included in these revenue object codes are:

- State-funded Adult Basic Education programs
- Regional Day School for the Deaf
- State Supplemental Visually Impaired

### ℞ 5841 Shared Services Arrangements - State Revenues from Member Districts

This code is used to classify state revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements.

Object 5841 Revenue to Include:	Object 5841 Revenue to Exclude:
<ul style="list-style-type: none"> <li>• State revenues realized from member districts of a shared service arrangement</li> </ul>	<ul style="list-style-type: none"> <li>• Locally funded revenue from member districts of shared service arrangement (Object 5722)</li> <li>• Federal revenues from members of a shared service arrangement (Object 5951)</li> <li>• All or a portion of allotments from</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

Object 5841 Revenue to Include:	Object 5841 Revenue to Exclude:
	the Foundation School Program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel such as a program director, counselors, diagnosticians and speech therapists (Object 5722)

**℞5842 Shared Services Arrangements - State Revenues from Fiscal Agent**

This code is used to classify state revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent’s expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements.

Object 5842 Revenue to Include:	Object 5842 Revenue to Exclude:
<ul style="list-style-type: none"> <li>State revenues realized from fiscal agents of a shared service arrangement</li> </ul>	<ul style="list-style-type: none"> <li>Locally funded revenues from shared services arrangement (Object 5723)</li> <li>Federally funded revenues from shared services arrangement (Object 5952)</li> <li>All or a portion of allotments from the Foundation School Program that are part of a shared services arrangement, such as local/state special education funds for sharing of personnel such as a program director, counselors, diagnosticians and speech therapists (Object 5723)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

### **5843-5845 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **5846-5848 Shared Services Arrangements - State Revenues Locally Defined (Convert to Object Code 5849 for PEIMS)**

These codes are used, at the option of the school district, to classify state revenues realized through a Shared Services Arrangements not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5849, State Revenues from Shared Services Arrangements.

### **℞ 5849 Shared Services Arrangements - State Revenues**

This code is used to classify state revenues through Shared Services Arrangements not defined elsewhere. Any locally defined codes that are used at the local option are to be converted to account 5849 for [PEIMS](#) reporting.

### **5850-5890 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **5900 FEDERAL PROGRAM REVENUES**

Federal program revenues are recognized after an allowable expenditure has been incurred. Each federal grant has a unique Catalog for Federal Domestic Assistance (CFDA) identification number that can be found listed with the fund definitions, except for the School Health and Related Services Program (see account 5931).

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**5910****Federal Revenues Distributed Through Government Entities Other than State or Federal Agencies**

This code is used to classify revenues realized from entities of the Federal government passed through a city, education service center, council of government, etc., and is not received directly from a state or federal agency. Each federal grant has a unique Catalog for Federal Domestic Assistance (CFDA) identification number that can be found listed with the fund definitions.

**5911-5915 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**5916-5918 Federal Revenues Distributed Through Government Entities Other than State or Federal Agencies - Locally Defined (Convert to Object Code 5919 for PEIMS)**

These codes are used, at the option of the school district, to classify federal revenues realized from a government agency other than a state or federal agency not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5919, Federal Revenues Distributed Through Government Entities Other than State or Federal Agencies.

**℞ 5919****Federal Revenues Distributed Through Government Entities Other than State or Federal Agencies**

This code is used to classify revenues realized for federal programs passed through another governmental entity, such as cities, education service centers, councils of government, etc. Any locally defined codes that are used at the local option are to be converted to account 5919 for [PEIMS](#) reporting.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**5920**

**Federal Revenues Distributed by the Texas Education Agency**

This code is used to classify revenues realized from entities of the Federal government, passed through the Texas Education Agency.

**℞ 5921**

**School Breakfast Program**

This code is used to classify revenues realized as the result of the federally-funded breakfast program administered by the Texas Department of Agriculture. For school districts that utilize the enterprise fund to account for the school breakfast program, school breakfast program funds are to be recorded in the non-operating revenue object code 7952, School Breakfast Program. (10.553)

**℞ 5922**

**National School Lunch Program**

This code is used to classify revenues realized as a result of the federally-funded lunch program administered by the Texas Department of Agriculture. For school districts that utilize the enterprise fund to account for the food service program, national school lunch funds are to be recorded in the non-operating revenue object code 7953, National School Lunch Program (NSLP). (10.555)

<b>Object 5922 Revenue to Include:</b>	<b>Object 5922 Revenue to Exclude:</b>
<ul style="list-style-type: none"> <li>National School Lunch Program revenues</li> </ul>	<ul style="list-style-type: none"> <li>Revenues received for a summer Feeding Program (Object 5939)</li> <li>Revenues from School Breakfast Program (Object 5921)</li> </ul>

Revenue Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 5923 United States Department of Agriculture (USDA) Commodities**

This code is used to classify revenues realized from USDA commodities used in the school lunch program. Under the consumption method, revenues are realized as commodities are used whereas under the purchase method, revenues are realized when commodities are received. Since actual cash is not received, a debit entry is made simultaneously either to expenditure object code 6344, USDA Commodities (purchase method), or an asset code 1310, Inventory - Supplies and Materials (consumption method). For school districts that utilize the enterprise fund to account for the food service program, commodities are to be recorded in the non-operating revenue object code 7954, USDA Commodities. (10.555)

### **5924-5926 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **5927-5928 Federal Revenues Distributed by Texas Education Agency - Locally Defined (Convert to Object Code 5929 for PEIMS)**

These codes are used, at the option of the school district, to classify federal revenues realized from Texas Education Agency not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5929, Federal Revenues Distributed by Texas Education Agency.

### **℞ 5929 Federal Revenues Distributed by Texas Education Agency**

This code is used to classify revenues realized for federal programs passed through Texas Education Agency not defined elsewhere. Any locally defined codes that are used at the local option are to be converted to account 5929 for [PEIMS](#) reporting.

### **5930 Federal Revenues Distributed by Other State of Texas Government Agencies (Other than Texas Education Agency)**



Revenue Object Codes		
Class	Major	Detail
X	X	XX

This code is used to classify revenues realized from entities of the federal government, passed through state agencies other than Texas Education Agency.

### **℞ 5931 School Health and Related Services (SHARS)**

This code is to be used to account for funds received from the School Health and Related Services (SHARS) Program. Funds received represent reimbursements to the school district for school-based health services, which are provided to special education students enrolled in the Medicaid Program. These receipts are not considered “federal financial assistance” for inclusion in the Schedule of Federal Financial Assistance. In addition, the expenditures associated with SHARS reimbursements will be subtracted from special education expenditures for maintenance of effort purposes.

### **℞ 5932 Medicaid Administrative Claiming Program -MAC**

This code is to be used to account for funds received from the Texas Health and Human Services Commission (HHSC) that are awarded to reimburse school districts for administrative activities they perform to help the State implement the Medicaid state plan (outreach, explaining various health program, helping students and their families to complete paperwork to become eligible for Medicaid and other federal programs, helping students secure doctor appointments, explaining the side effects of a medication, etc.). The reimbursement for school districts will be based on the overall district Medicaid eligibility, not on specific students. These receipts are considered “federal financial assistance” for inclusion in the Schedule of Federal Financial Assistance. (93.778)

### **5933-5935 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**5936-5938 Federal Revenues Distributed by State of Texas Government Agencies (Other than Texas Education Agency) - Locally Defined (Convert to Object Code 5939 for PEIMS)**

These codes are used, at the option of the school district, to classify federal revenues realized from state government agencies other than Texas Education Agency not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5939, Federal Revenues Distributed by State of Texas Governmental Agencies (Other Than Texas Education Agency).

**℞ 5939 Federal Revenues Distributed by State of Texas Government Agencies (Other than Texas Education Agency)**

This code is used to classify revenues realized for federal programs passed through state agencies other than Texas Education Agency not defined elsewhere. Any locally defined codes that are used at the local option are to be converted to account 5939 for [PEIMS](#) reporting.

**5940 Federal Revenues Distributed Directly From the Federal Government**

This code is used to classify revenues realized directly from agencies of the Federal government.

**℞ 5941 Impact Aid**

This code is used to classify revenues realized for payments in lieu of taxes, to be used for current general operating expenditures. (84.041)

**5942-5945 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Revenue Object Codes		
Class	Major	Detail
X	X	XX

### **5946-5948 Federal Revenues Distributed Directly from the Federal Government - Locally Defined (Convert to Object Code 5949 for PEIMS)**

These codes are used, at the option of the school district, to classify revenues realized from directly from federal agencies not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5949, Federal Revenues Distributed Directly From the Federal Government.

### **℞ 5949 Federal Revenues Distributed Directly from the Federal Government**

This code is used to classify revenues realized for federal programs received directly from the federal government not otherwise listed above. Any locally defined codes that are used at the local option are to be converted to account 5949 for [PEIMS](#) reporting.

### **5950 Shared Services Arrangements - Federal Revenues**

Federal revenues from shared services arrangements are federal funds received from either (1) a member district by a fiscal agent; or (2) a fiscal agent by a member district. For purposes of these revenue object codes, federal revenues are defined as federal funds granted through an application where the entire grant is funded by the federal government, even though a state government may distribute the funds. Examples of federal funds included in these revenue object codes are:

- Federally-funded Adult Basic Education programs
- ESEA, Title I, Part A -Improving Basic Programs
- ESEA Title I, Part C - Education of Migratory Children

Revenue Object Codes		
Class	Major	Detail
X	X	XX

**℞ 5951 Shared Services Arrangements - Federal Revenues from Member Districts**

This code is used to classify federal revenues realized from member districts of a shared services arrangement by a fiscal agent. The revenues realized by fiscal agents in this account should agree with the member districts' expenditures in account 6492, Payments to Fiscal Agents of Shared Services Arrangements.

**℞ 5952 Shared Services Arrangement - Federal Revenues from Fiscal Agent**

This code is used to classify federal revenues realized from the fiscal agent of a shared services arrangement by a member district. The revenues realized by member districts in this account should agree with the fiscal agent's expenditures in account 6493, Payments to Member Districts of Shared Services Arrangements.

**5953-5955 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**5956-5958 Shared Services Arrangements - Federal Revenues - Locally Defined (Convert to Object Code 5959 for PEIMS)**

These codes are used, at the option of the school district, to classify federal revenues realized from shared services arrangements not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 5959, Federal Revenues - Shared Services Arrangements.

**℞ 5959 Shared Services Arrangements - Federal Revenues**

This code is used to classify revenues realized for federal programs received through a shared services arrangement not otherwise

Revenue Object Codes		
Class	Major	Detail
X	X	XX

listed above. Any locally defined codes that are used at the local option are to be converted to account 5959 for [PEIMS](#) reporting.

### **5960-5990      Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **1.4.9 Expenditure/Expense Object Codes**

Expenditures/expenses should be classified by the major object classes according to the types of items purchased or services obtained.

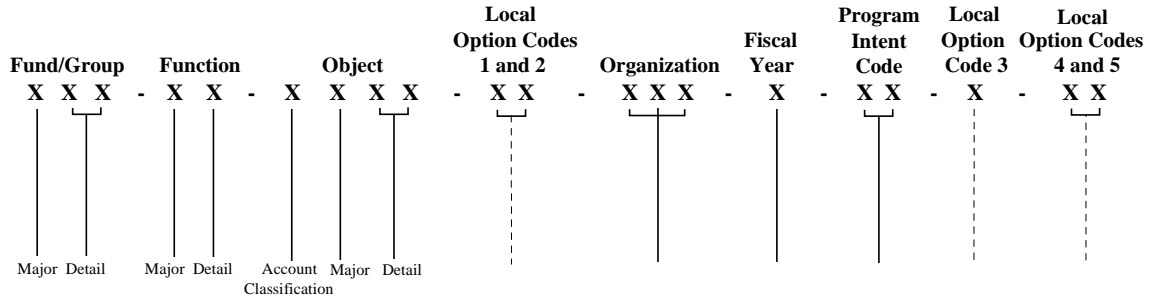
An expenditure/expense account identifies the nature and object of an account, or a transaction. The school district's accounting records are to reflect expenditures/expenses at the most detail level, as depicted in the chart of accounts (4 digits) for accounting and Public Education Information Management System ([PEIMS](#)) reporting (actual data) purposes. For PEIMS budget reporting purposes, expenditures/expenses are reported to the second digit of detail (6100, 6200, etc.) If a school district needs to use codes in addition to the mandatory codes for managerial purposes, the optional codes provided for local use in the code structure should be used.

These codes are distinguished from other types of object codes as they always begin with the digit "6."

The  $\mathcal{R}$  by a code indicates that the code is required for reporting purposes (PEIMS and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 37. Expenditure/Expense Object Code Structure**

**The Code Structure**



**Object Codes:**  
Expenditures/Expenses (6XXX)

————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

**The following table summarizes the major categories of operating expense object codes. See the following pages for the detailed codes for posting transactions.**

<b>SUMMARY EXPENSE OBJECT CODES</b>	
<b>6100 PAYROLL COSTS</b>	
6110	TEACHERS AND OTHER PROFESSIONAL PERSONNEL
6120	SUPPORT PERSONNEL
6130	EMPLOYEE ALLOWANCES
6140	EMPLOYEE BENEFITS
<b>6200 PROFESSIONAL AND CONTRACTED SERVICES</b>	
6210	PROFESSIONAL SERVICES
6220	TUITION AND TRANSFER PAYMENTS
6230	EDUCATION SERVICE CENTER SERVICES
6240	CONTRACTED MAINTENANCE AND REPAIR SERVICES
6250	UTILITIES
6260	RENTALS - OPERATING LEASES
6290	MISCELLANEOUS CONTRACTED SERVICES
<b>6300 SUPPLIES AND MATERIALS</b>	
6310	SUPPLIES AND MATERIALS FOR MAINTENANCE AND/OR OPERATIONS
6320	TEXTBOOKS AND OTHER READING MATERIALS
6330	TESTING MATERIALS
6340	FOOD SERVICE AND OTHER RESALE ITEMS
6390	SUPPLIES AND MATERIALS - GENERAL
<b>6400 OTHER OPERATING EXPENSES</b>	
6410	TRAVEL, SUBSISTENCE AND STIPENDS
6420	INSURANCE AND BONDING COSTS
6430	ELECTION COSTS
6440	DEPRECIATION EXPENSE OF PROPRIETARY AND NONEXPENDABLE TRUST FUNDS
6490	MISCELLANEOUS OPERATING COSTS
<b>6500 DEBT SERVICE</b>	
6510	DEBT PRINCIPAL
6520	INTEREST EXPENDITURES/ EXPENSE
6590	OTHER DEBT SERVICE EXPENDITURES/EXPENSES
<b>6600 CAPITAL OUTLAY - LAND, BUILDINGS AND EQUIPMENT</b>	
6610	LAND PURCHASE AND IMPROVEMENT
6620	BUILDING PURCHASE, CONSTRUCTION OR IMPROVEMENTS
6630	FURNITURE AND EQUIPMENT
6640	FIXED ASSETS - DISTRICT DEFINED
6650	FIXED ASSETS UNDER CAPITAL LEASES
6660	LIBRARY BOOKS AND MEDIA

## **Expenditures (Governmental Fund Types and Expendable Trust Funds)**

Expenditures are debited in the accounting period in which a measurable fund liability is incurred, except for unmatured principal and interest on general long-term debt, prepaid items, and other long-term obligations which are recorded as a debit in the accounting period when due.

## **Expenses (Proprietary Fund Type, Nonexpendable Trust and Pension Trust Funds)**

Expenses are debited in the accounting period in which they are incurred.

Expenditure/expense codes are four digit object codes, and are the sixth through ninth digits in the code structure.

### **6000**

#### **EXPENDITURE/EXPENSE CONTROL ACCOUNTS**

These codes consist of accounts that summarize appropriated (budgeted) and actual (realized) expenditures/expenses. These are optional codes and accounts that may be used in financial accounting applications for school districts.

Districts using subsidiary ledgers may, at the local option, use control accounts as listed in the general ledger to reflect the summarized balances of the subsidiary ledgers.

### **6010**

#### **Appropriated Expenditures/Expenses - Control - Locally Defined**

This account code is credited at the beginning of the fiscal year for the amount of budgeted expenditures/expenses. The debit entry is to the object code 3700 - Budgetary Fund Balance. At the end of the fiscal year, this account is debited and closed to the appropriate fund equity account(s).



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6020 Encumbrances - Control - Locally Defined**

This account code is debited for the amounts encumbered and credited for encumbrances liquidated during the fiscal year. The amounts encumbered (debits) and liquidated (credits) in the subsidiary ledger detail must equal the total debits and credits to this Encumbrance - Control Account. At the end of the fiscal year, this account is closed to account 4210, Reserve for Encumbrances.

## **6030 Expenditures/Expenses - Control - Locally Defined**

This account is debited for the total actual expenditures/expenses (including any accrued amounts) during the fiscal year. The postings of the expenditures/expenses in the detail subsidiary ledger accounts for actual expenditures/expenses must be equal to this Expenditures/Expenses - Control Account. At the end of the fiscal year, this account is closed to the appropriate fund equity account(s).

## **6100 PAYROLL COSTS**

This major classification includes the gross salaries or wages and benefit costs for employee services. An employee is paid a salary or wage. The school district acts in a supervisory capacity over an employee and furnishes the working area and usually the equipment and materials necessary for the completion or performance of a task or service. Although an employee may work with more than one supervisor subsequent to, during, or after the normal employment period of hours, if the services or tasks performed are at the general direction of the school district, the amount paid to that employee is considered a payroll cost.

## **6110 Teachers and Other Professional Personnel**

These account codes are to be used to classify the salaries of teachers and other professional personnel. This includes any salary paid to a person who is considered by the school district to be a professional staff member. Substitute teachers and/or other professional personnel are also classified in these account codes.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6111 Reserved for Future State Definition**

This code is reserved for future state designation and is not to be used by the school district.

### **℞ 6112 Salaries or Wages for Substitute Teachers and Other Professionals**

This code is used to classify the gross salary and wage expenditures/expenses for substitute teachers and will primarily be used with Function 11 (Instruction). Substitutes for other professionals should be coded to the same function code as the payroll record of the professional being replaced.

### **6113-6115 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6116-6118 Salaries or Wages for Teachers and Other Professional Personnel - Locally Defined (Convert to Object Code 6119 for PEIMS)**

These codes are used, at the option of the school district, to classify salaries or wages not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6119.

### **℞ 6119 Salaries or Wages - Teachers and Other Professional Personnel**

This code is used to classify the gross salary and wage expenditures/expenses for teachers and other professional exempt personnel as defined by the Fair Labor Standards Act. This includes:

- Gross salary and wage expenditures/expenses

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

- Wages paid to employees for performing duties beyond the normal working day
- Amounts above the school district's standard pay for additional certification requirements, such as a Bilingual teacher
- Amounts for additional responsibilities such as coaching, UIL sponsorship, yearbook sponsorship, band directing, tutoring and department heads

Any local option codes that are used at the local option are to be converted to account 6119 for [PEIMS](#) reporting.

## **6120 Support Personnel**

This code is used to classify the gross salary and wage expenditures/expenses for support personnel.

### **℞ 6121 Extra Duty Pay/Overtime - Support Personnel**

This code is used to classify wages paid to support personnel for performing duties beyond the normal working day or for amounts above the school district's standard pay for additional qualifications.

### **℞ 6122 Salaries or Wages for Substitute Support Personnel (effective fiscal year 2008-09; September 1 or July 1 depending on fiscal year end)**

This code is used to classify the gross salary and wage expenditures/expenses for substitute support personnel and should be used with the function code being used for payroll record purposes.

## **6123-6124 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6125-6128 Salaries or Wages for Support Personnel - Locally Defined (Convert to Object Code 6129 for PEIMS)**

These codes are used, at the option of the school district, to classify salaries or wages not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6129.

#### **℞ 6129 Salaries or Wages for Support Personnel**

This code is used to classify salaries or wages for support personnel such as paraprofessional and support staff defined as non-exempt by the Fair Labor Standards Act. Any local option codes that are used at the local option are to be converted to account 6129 for [PEIMS](#) reporting.

#### **6130 Employee Allowances**

Employee allowances are amounts paid to employees for which the employee is not required to render a detailed accounting.

#### **℞ 6131 Contract Buyouts**

This code is used to identify expenditures/expenses for employee contract buyouts. Such expenditures may include direct payments made by a school district as severance and any other benefits extended as part of a contract buyout agreement. Such costs should be recorded in the function(s) in which the individual was classified. These payments are subject to federal withholding, social security (if applicable) and Medicare (if applicable). These payments are *not* subject to TRS.

#### **℞6132 Supplemental Compensation Under Article 3.50-8, Insurance Code (Deleted effective 8/31/07)**

This code was used to classify the gross TRS supplemental compensation distributed to eligible employees in accordance with provisions of the Active Employee Health Insurance Coverage or

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

Compensation Supplementation program. These payments were subject to federal withholding, social security, Medicare and other related payroll costs, if applicable. These payments were not subject to TRS.

HB 1 of the 79<sup>th</sup> Legislature, 3<sup>rd</sup> called session, converted this amount to salary; therefore, this code is no longer necessary.

**6133 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**6134-6138 Employee Allowances - Locally Defined (Convert to Object Code 6139 for PEIMS)**

These codes are used, at the option of the school district, to classify other employee allowances not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6139.

**℞ 6139 Employee Allowances**

This code is used to classify allowances paid to compensate employees for costs incurred for which the employee is not required to render a detailed accounting. Examples include:

Object 6139 Expenditures to Include:	Object 6139 Expenditures to Exclude:
<ul style="list-style-type: none"> <li>• Automobile allowances</li> <li>• Housing allowances</li> <li>• Cell phone allowance</li> <li>• Uniform and meal allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Mileage reimbursement for travel for actual miles driven (Object 641X)</li> </ul>

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

Object 6139 Expenditures to Include:	Object 6139 Expenditures to Exclude:
<ul style="list-style-type: none"> <li>In-kind payments unless exempted under Internal Revenue Service (IRS) Code</li> </ul>	

In-kind payments such as rent-free housing or employer-furnished automobiles are to be debited to this account and credited to the appropriate revenue account 5743, Rent or account 5749, Other Revenue from Local Sources.

Any local option codes that are used at the local option are to be converted to account 6139 for [PEIMS](#) reporting.

Questions regarding taxable income for the employee for these allowances should be directed to the Internal Revenue Service. See Other Tax Issues section for further guidance.

## **6140 Employee Benefits**

Employee benefits are those amounts paid by the school district to provide benefits to employees. This does not include the amount deducted from the employee's salary or wages, which are considered employee contributions toward a benefit.

### **℞ 6141 Social Security/Medicare**

This code is used to classify expenditures/expenses required to provide employee benefits under the Federal Social Security program. This excludes employee contributions.

### **℞ 6142 Group Health and Life Insurance**

This code is used to classify expenditures/expenses made to provide personnel with group health and life [insurance](#) benefits. This excludes employee contributions but includes benefit amounts transferred to an Internal Service Fund.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 6143      Workers' Compensation**

This code is used to classify expenditures/expenses made to provide personnel with workers' compensation benefits. This includes benefit amounts transferred to an Internal Service Fund. There are no employee contributions.

### **℞ 6144      Teacher Retirement/TRS Care - On-Behalf Payments**

This code is used to classify expenditures/expenses from "On-Behalf" payments of matching teacher retirement paid for active members of the school district in accordance with GASB Statement No. 24. A school district contributes matching funds for personnel funded from federal sources and, if applicable, statutory minimum funds for qualifying personnel. The school district also provides certain employer contributions for the retired teachers' health insurance plan (TRS Care). The state provides all other matching funds on behalf of members. The amount that the state provides in excess of school district contributions are to be recorded here. An equal revenue amount should be recorded in account 5831, Teacher Retirement - On-Behalf Payments.

Medicare Part D payments made by the federal government to TRS are also recorded to this account with an equal revenue amount to account 5831, Teacher Retirement – On-Behalf Payments. See sections 1.2.5.2 and 1.3.3 for additional information.

### **℞ 6145      Unemployment Compensation**

This code is used to classify expenditures/expenses made to provide personnel with unemployment compensation. This includes benefit amounts transferred to an Internal Service Fund. There are no employee contributions.

### **℞ 6146      Teacher Retirement/TRS Care**

This code is used to classify expenditures/expenses made from local, state and federal program funds and/or private grants to pay

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

state matching of teacher retirement on the above state minimum contribution or the required matching amount from federal funds. Also included in this account is any employer contribution for the retired teachers' health insurance plan.

### **6147 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6148 Employee Benefits - Locally Defined (Convert to Object Code 6149 for PEIMS)**

This code is used, at the option of the school district, to classify employee benefits not defined elsewhere. For [PEIMS](#) reporting, this account is converted to Object Code 6149.

### **℞ 6149 Employee Benefits**

This code is used to classify expenditures/expenses made to provide personnel with other employee benefits not detailed above. This excludes employee contributions but includes any benefit amounts transferred to an Internal Service Fund. Any local option codes that are used at the local option are to be converted to account 6149 for [PEIMS](#) reporting.

### **6150-6190 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **6200 PROFESSIONAL AND CONTRACTED SERVICES**

The major account classification is used to record expenditures/expenses for services rendered to the school district by firms, individuals and other organizations. This includes services provided by internal service funds unless the internal service fund is used to account for employee benefits. Internal



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

service fund expenditures/expenses for employee benefits, such as health [insurance](#), are to be classified to the appropriate code in the 6100 series of accounts. Normally, professional and contracted services represent a complete service that is rendered for the school district, and no attempt should be made to separate labor from supplies.

## **6210 Professional Services**

This code is used to classify expenditures/expenses for professional services rendered by personnel who are not on the payroll of the school district, including all related expenses covered by the professional services contract.

### **℞ 6211 Legal Services**

This code is used to classify fees, associated travel and other related costs for legal services. However, legal fees, associated travel and other costs related to the collection of taxes are to be classified in account 6213, Tax Appraisal and Collection. Delinquent tax collection fees that are charged as “costs” to the taxpayer and paid to an attorney are to be treated as a liability in account 2110, Accounts Payable, not as an expenditure. All expenditures/expenses coded to object code 6211 are to be coded to function 41, General Administration.

### **℞ 6212 Audit Services**

This code is used to classify fees, associated travel and other related costs for audit services. All expenditures/expenses coded to object code 6212 are to be coded to function 41, General Administration.

### **℞ 6213 Tax Appraisal and Collection**

This code is used to classify fees, associated travel, and other related costs for the appraisal of property and the collection of taxes, including attorney fees directly related to the collection of taxes. This account is also to be used by the school district to

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

record its pro rata share of the administrative cost of the Consolidated Taxing District. Delinquent tax collection fees that are charged as “costs” to the taxpayer and paid to an attorney are to be treated as a liability in account 2110, Accounts Payable, not as an expenditure. This code is only to be used in the General Fund.

Payments made to another governmental entity (for **appraisal costs** only) should be coded to function code 99 (Other Intergovernmental Charges); otherwise, function code 41 (General Administration) should be used for the collection of taxes.

**℞ 6214 Lobbying (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)**

This code is used to classify fees, associated travel and other related costs for lobbying services. Refer to the [Texas Ethics Commission](#) for guidelines regarding what is lobbying.

**6215 Reserved for Future State Definition**

This code is reserved for future state designation and is not to be used by the school district.

**6216-6218 Professional Services - Locally Defined (Convert to Object Code 6219 for PEIMS)**

These codes are used, at the option of the school district, to classify professional fees and related costs not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6219.

**℞ 6219 Professional Services**

This code is used to classify expenditures/expenses for professional services rendered by personnel who are not on the payroll of the school district. [Government Code 2254.002](#) defines professional services to be the following:

Architecture

Optometry

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

- Landscape architecture      Professional engineering
- Land surveying              Real estate appraising
- Medicine                      Professional nursing

Accounting (audit services belong in object code 6212)

These professionals are required to be licensed or registered with the state. Professional services are delivered by an independent contractor (individual, entity or firm) that offers its services to the public. Such services are paid on a fee basis for specialized services that are usually considered to be temporary or short-term in nature, normally in areas that supplement the expertise of the school district. This includes all related expenditures/expenses covered by a professional services contract, if the contracted service is not detailed in object codes 6211 through 6214.

This does not include any costs required to be capitalized as ancillary charges necessary to place the asset into service. Those costs should be recorded in the appropriate 6600 series capital outlay object codes.

**6220                      Tuition and Transfer Payments**

Tuition payments are made when the school district pays for tuition to institutions of higher education on behalf of a staff member or a student. Transfer payments are made when the school district pays for students to attend another school district, either private or public.

**℞ 6221                      Staff Tuition and Related Fees - Higher Education**

This code is used to classify expenditures/expenses for services rendered by institutions of higher learning for the benefit of school district personnel. Expenditures/expenses classified in this account are excluded from the calculation of indirect cost rates.

**℞ 6222                      Student Tuition - Public Schools**

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

This code is used to classify expenditures/expenses for tuition if a school district is under contract with public schools to provide instructional services to students. This includes payments made to school districts under Section 29.201, TEC, Public Education Grant Program, and transfer students under Section 21.082 of the TEC where one school district transfers entire grades of students to another school district.

### **℞ 6223 Student Tuition - Other than to Public Schools**

This code is used to classify expenditures/expenses for tuition if a school district is under contract with an institution of higher learning or with non-public schools to provide instructional services to students. This includes payments made to Juvenile Justice Alternative Education Programs (Function Code 95).

### **℞ 6224 Student Attendance Credits**

This code is used to classify expenditures/expenses for the purchase of tuition credits from the state or from other school districts under Subchapter 5 D and/or E, Chapter 41, [Texas Education Code](#) (TEC), including Career and Technology Education programs under TEC 41.125. This code may only be used with Function Code 91, Contracted Instructional Services Between Public Schools.

### **6225-6226 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6227-6228 Tuition - Locally Defined (Convert to Object Code 6229 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures/expenses for tuition not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6229.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **℞ 6229 Tuition and Transfer Payments**

This code is used to classify expenditures/expenses for tuition and transfer payments not detailed above. Any local option codes that are used at the local option are to be converted to account 6229 for [PEIMS](#) reporting.

## **6230 Education Service Center Services**

Each school district is a member of an education service center that provides various services to the school districts. The function code in conjunction with the expenditure object code defines the type of service provided.

### **6231-6233 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6234-6238 Education Service Center Services - Locally Defined (Convert to Object Code 6239 for PEIMS)**

These codes are used, at the option of the school district, to classify services provided by the education service center not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6239.

## **℞ 6239 Education Service Center Services**

This code is used to classify all contracted services provided by the education service center. Included in this account are:

- Data processing services
- Accounting services
- Media services

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

- Special education services
- Career and Technical education services
- Staff development
- Curriculum development
- Drug training
- Grant writing services, etc. that the education service center provides to school districts

This does not include supplies (which should be charged to the appropriate supply account) purchased under a purchasing agreement with an education service center, but does include a fee assessed for providing the service. Any local option codes that are used at the local option are to be converted to account 6239 for [PEIMS](#) reporting.

## **6240 Contracted Maintenance and Repair Services**

These expenditure object codes are used to classify expenditures/expenses for maintenance and repair services rendered by firms, individuals, or other organizations, other than the school district. Maintenance and repair services are for normal upkeep, repair and minor restorations, but do not include such costs as new building construction, renovating and remodeling of buildings, etc. When contracted maintenance and repair services are rendered, the total cost of the service, including labor and parts, is to be included in the appropriate contracted services account. Maintenance contracts are to be included in the appropriate expenditure object codes defined below.

### **6241-6243 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

**6244-6248 Contracted Maintenance and Repair - Locally Defined  
(Convert to Object Code 6249 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures/expenses for contracted maintenance and repair not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6249.

**℞ 6249 Contracted Maintenance and Repair**

This code is used to classify expenditures/expenses for normal contracted maintenance and repair of items.

<b>Object 6249 Expenditures to Include:</b>	<b>Object 6249 Expenditures to Exclude:</b>
<p>This includes expenditures/expenses for normal contracted upkeep, repairs, maintenance and renovation of:</p> <ul style="list-style-type: none"> <li>• Office equipment</li> <li>• Furniture</li> <li>• Computers</li> <li>• Copiers</li> <li>• District-owned telephone systems</li> <li>• Facsimile machines</li> <li>• Software upgrades</li> <li>• Maintenance agreement fees</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of furniture, technology equipment, software, and capital outlay items (Object 6399 or 66XX)</li> <li>• Purchase of site licenses, single user software, etc. (Object 6399, or 6659)</li> </ul>

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

Object 6249 Expenditures to Include:	Object 6249 Expenditures to Exclude:
<ul style="list-style-type: none"> <li>• Other equipment when the repairs are provided by an outside individual or firm</li> <li>• Buildings and grounds (janitorial/landscaping, etc.)</li> </ul>	

For vehicles, this includes expenditures/expenses for normal upkeep and contracted repair of vehicles, including buses, maintenance vehicles, driver education vehicles and any other vehicles used by school district staff or students.

For buildings and grounds, this includes expenditures/expenses for normal upkeep of buildings and grounds. This includes contracted costs of maintenance for buildings including heating, ventilation, air conditioning, and any related maintenance agreements.

Services may be provided on an on-call basis or within the terms of a maintenance agreement.

Any local option codes that are used at the local option are to be converted to account 6249 for [PEIMS](#) reporting.

## 6250

### Utilities

Utilities are comprised of water, electricity, gas for heat, cooking and cooling, ongoing telephone (including telecommunications and cellular telephones) and facsimile charges.

### 6251-6254 Reserved for Future State Definition

These codes are reserved for future state designation and are not to be used by the school district.



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6255-6258 Utilities - Locally Defined (Convert to Object Code 6259 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures/expenses for utilities not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6259.

#### **℞ 6259 Utilities**

This code is used to classify expenditures/expenses for utilities. All expenditures/expenses coded to object code 6259 are to be coded to either function 51, Facilities Maintenance and Operations or 81, Facilities Acquisition and Construction. This includes:

- Water, wastewater treatment, and sanitation (garbage disposal)
- Telephone services and telecommunication charges for cellular telephones, pagers, modem line charges, facsimile charges, etc.
- Electricity
- Natural gas, propane, coal and any other fuel used for the heating and cooling of buildings

Any local option codes that are used at the local option are to be converted to account 6259 for [PEIMS](#) reporting. A district may code a cellular telephone or pager to the function code of its user.

#### **6260 Rentals - Operating Leases**

These codes are used to record expenditures/expenses for renting or leasing either equipment or property under operating lease agreements. Refer to the Debt section (Other Types of Debt) for further guidance.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6261-6263 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6264-6268 Rentals - Operating Leases - Locally Defined (Convert to Object Code 6269 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures/expenses for rentals under operating leases not specifically defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6269.

### **℞ 6269 Rentals - Operating Leases**

This code is used to classify expenditures/expenses for other rentals - operating leases. This includes, but is not limited to, rental or lease of:

- Furniture
- Computers
- Telecommunications equipment
- Audio-visual equipment
- Vehicles (including buses)
- Land
- Buildings
- Space in buildings
- Grounds

Any local option codes that are used at the local option are to be converted to account 6269 for [PEIMS](#) reporting.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6270-6289      Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **6290              Miscellaneous Contracted Services**

These expenditure object codes are used to classify expenditures/expenses for miscellaneous contracted services not included above.

## **℞ 6291            Consulting Services (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)**

This code is used to classify expenditures/expenses for consulting services. Consulting services refer to the practice of helping districts to improve performance through analysis of existing problems and development of future plans. Consulting may involve the identification and cross-fertilization of best practices, analytical techniques, change management and coaching skills, technology implementations, strategy development, or operational improvement. Consultants often rely on their outsider's perspective to provide unbiased recommendations. They generally bring formal frameworks or methodologies to identify problems or suggest more effective or efficient ways of performing tasks. Consulting services cover all functional areas such as instruction, curriculum, and administration.

Consulting does not include a routine service/activity that is necessary to the functioning of a school district's programs, such as hiring additional people on contract to supplement present staff. It also does not apply to services provided to conduct organized activities (such as training or other similar educational activities.)

Professional services are coded to 6219.

Education Service Center services are coded to 6239.

Normal contracted maintenance and repair of items is coded to 6249.

Other miscellaneous services would be coded to 6299.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6292-6293 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6294-6298 Miscellaneous Contracted Services - Locally Defined (Convert to Object Code 6299 for PEIMS)**

These codes are used, at the option of the school district, to classify contracted services not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6299.

### **℞ 6299 Miscellaneous Contracted Services**

This code is used to classify expenditures/expenses for miscellaneous contracted services not specified elsewhere. Any local option codes that are used at the local option are to be converted to account 6299 for [PEIMS](#) reporting.

## **6300 SUPPLIES AND MATERIALS**

This major classification includes all expenditures/expenses for supplies and materials.

### **6310 Supplies and Materials for Maintenance and/or Operations**

This group of accounts is used to classify expenditures/expenses for supplies and materials necessary to maintain and/or operate furniture, computers, equipment (including telecommunications equipment), vehicles, grounds and facilities of the school district. Normally expenditures/expenses in this group of accounts arise when school district employees purchase supplies for use by the school district as opposed to supplies that are provided by a contractor as part of a contracted service.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 6311 Gasoline and Other Fuels for Vehicles (Including Buses)**

This code is used to classify expenditures/expenses for gasoline, motor oil and other fuels required for operating vehicles.

### **6312-6314 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6315-6318 Supplies for Maintenance and/or Operations - Locally Defined (Convert to Object Code 6319 for PEIMS)**

These codes are used, at the option of the school district, to classify supplies and materials for maintenance and/or operations not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to Object Code 6319.

### **℞ 6319 Supplies for Maintenance and/or Operations**

This code is used to classify expenditures/expenses for supplies and materials necessary for maintenance and/or operations not detailed above. Expenditures/expenses in this account include, but are not limited to:

- Janitorial or custodian supplies
- Building maintenance supplies for minor repairs and upkeep by maintenance staff
- Supplies for upkeep of furniture and equipment

Any local option codes that are used at the local option are to be converted to account 6319 for [PEIMS](#) reporting.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6320 Textbooks and Other Reading Materials**

This group of accounts is used to classify expenditures/expenses for textbooks purchased by the school district and magazines, periodicals, newspapers and reference books that are placed in the classroom or in an office. Expenditures/expenses in this group of accounts do not meet the capitalization criteria.

### **℞ 6321 Textbooks**

This code is used to classify expenditures/expenses for textbooks purchased by the school district and furnished free to students, certain classes or grades.

### **6322-6324 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6325-6328 Reading Materials - Locally Defined (Convert to Object Code 6329 for PEIMS)**

These codes are used, at the option of the school district, to classify reading materials that do not meet the capitalization criteria. For [PEIMS](#), these accounts are converted to Object Code 6329.

### **℞ 6329 Reading Materials**

This code is used to classify all expenditures/expenses for magazine subscriptions and newspaper subscriptions that are placed in classrooms, offices or libraries whether in print or electronic format. Also included are reference books and other reading materials placed in a classroom or office that are not cataloged and controlled by the library. Additionally, this code also includes library books and media that do not meet the capitalization criteria of the school and have a per unit value of less than \$5,000 and/or a useful life of one year or less (Effective September 1, 2001). Any local option codes that are used at the

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

local option are to be converted to account 6329 for [PEIMS](#) reporting.

## **6330 Testing Materials**

This group of accounts is used to classify expenditures/expenses for testing materials such as test booklets. Test scoring is not to be classified here, but rather, in the 6200 series of accounts, Professional and Contracted Services.

### **6331-6333 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6334-6338 Testing Materials - Locally Defined (Convert to Object Code 6339 for PEIMS)**

These codes are used, at the option of the school district, to classify testing materials. For [PEIMS](#), these accounts are converted to Object Code 6339.

## **℞ 6339 Testing Materials**

This code is used to classify expenditures/expenses for testing materials including test booklets and study materials related to those tests. Any local option codes that are used at the local option are to be converted to account 6339 for [PEIMS](#) reporting.

## **6340 Food Service and Other Resale Items**

These expenditure object codes are used to classify supplies and materials for the operation of the food service program of the school district. Also included are items for sale through vending machines, school stores, etc., that are not related to the regular food service program. These items for resale are classified in Function 36, Cocurricular/Extracurricular Activities.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 6341 Food**

This code is used to classify expenditures/expenses for food, including related costs such as transportation, handling, processing, etc.

### **℞ 6342 Non-Food**

This code is used to classify expenditures/expenses for non-food items such as napkins, straws, brooms, etc.

### **℞ 6343 Items for Sale**

This code is used to classify expenditures/expenses for such items as soft drinks, food, or other goods to be sold through vending machines, school stores, etc., not related to the regular food service program.

### **℞ 6344 USDA Commodities**

This code is used to classify the costs of commodities. The portion of expenditures/expenses attributed to the USDA value of commodities in this account should agree with the revenue realized in account 5923, USDA commodities for school districts that utilize the General Fund or Special Revenue Fund. For school districts utilizing an Enterprise Fund, non-operating revenue account 7954, USDA commodities is to be used.

- Purchased products for which you receive no USDA commodity equivalent. An example of products that a school would purchase commercially but would not receive as a USDA commodity would be condiments such as catsup and mustard. It is suggested that you base the inventory value for such items on the net purchase price for that item.



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

- USDA commodity products for which you purchase no commercial equivalent. Examples of USDA commodities that schools receive but usually do not purchase commercially include pouched salmon, frozen diced chicken and prune puree. TDHS will continue to provide you with the value of USDA commodities, which is based on the actual cost per pound.
- Products that you purchase as well as receive as commodities. Canned fruits and vegetables are examples of such products. You may base the value of these products on the net cost to purchase such products, on the commodity value provided by TDHS, or you could also use an average of weighted average of the two values.

### **6345-6347 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6348 Food Supplies - Locally Defined (Convert to Object Code 6349 for PEIMS)**

This code is used, at the option of the school district, to classify food supplies not defined above. For [PEIMS](#), this account is converted to Object Code 6349.

### **℞ 6349 Food Service Supplies**

This code is used to classify miscellaneous food service supplies not specifically defined elsewhere. Any local option codes that are used at the local option are to be converted to account 6349 for [PEIMS](#) reporting.

### **6350-6380 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## 6390 Supplies and Materials - General

These expenditure object codes are used to classify general supplies and materials not specified in other supplies and materials accounts.

### 6391-6394 Reserved for Future State Definition

These codes are reserved for future state designation and are not to be used by the school district.

### 6395-6398 Supplies and Materials - Locally Defined (Convert to Object Code 6399 for PEIMS)

These codes are used, at the option of the school district, to classify supplies and materials. For [PEIMS](#), these accounts are converted to Object Code 6399.

## **R** 6399 General Supplies

This code is used to classify expenditures/expenses for those items of relatively low unit cost (even though used in large quantities) necessary for the instruction process and/or for administration.

Object 6399 Expenditures to Include:	Object 6399 Expenditures to Exclude:
<p>These items include:</p> <ul style="list-style-type: none"> <li>Consumable teaching and office items such as paper, pencils, forms, postage, etc.</li> <li>Workbooks</li> <li>Audio-visual aids such as</li> </ul>	<ul style="list-style-type: none"> <li>Purchase of furniture, technology equipment, software, and capital outlay items having a per-unit cost of \$5,000 or more (Object 6639)</li> <li>Items that don't meet the individual \$5,000 capital asset criteria, but by school district policy are defined to be a capital asset or aggregated items equal or exceed \$5,000 (example: library books) (Object 6649 or 6669)</li> </ul>

**Expenditure/Expense Object Codes**

<u>Class</u>	<u>Major</u>	<u>Detail</u>
X	X	XX

<b>Object 6399 Expenditures to Include:</b>	<b>Object 6399 Expenditures to Exclude:</b>
filmstrips, VCR tapes, CD/DVD disks, diskettes, computer tapes, software  <ul style="list-style-type: none"> <li>• Site licenses, single use software that has a per-unit cost of less than \$5,000</li> <li>• Supplies for a satellite dish and other supplies for technology</li> </ul>	

Certain items, such as software, mentioned in this definition may be recorded under the 666X account series according to local policies for capitalization. See Capital Assets section for additional clarification. Any local option codes that are used at the local option are to be converted to account 6399 for [PEIMS](#) reporting.

**6400****OTHER OPERATING COSTS**

This major classification is used to classify expenditures/expenses for items other than Payroll Costs, Professional and Contracted Services, Supplies and Materials, Debt Service and Capital Outlay that are necessary for the operation of the school district.

**6410****Travel, Subsistence and Stipends**

These expenditure object codes are to be used to classify travel, subsistence and stipends to both employees and non-employees.

**℞ 6411****Travel and Subsistence - Employee Only**

This code is used to classify the cost of transportation, meals, room, and other expenses associated with traveling on official school business. Travel expenses must conform to IRS and 2 CFR Part 225 (OMB Circular A-87) regulations. Any travel reimbursed from state funds and federal funds that are received from the Texas

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

Education Agency must comply with the general appropriations act.

The cost of employee travel also includes any registration fees associated with attending conferences, including seminars, inservice training, etc. Membership dues are classified in account 6495, Dues.

### **℞ 6412 Travel and Subsistence - Students**

This code is used to classify the cost of transportation (rental of vans, buses and other vehicles), meals, participation fees, room, and other expenses associated with students traveling for school sponsored events. (Do not use function 34)

### **℞ 6413 Stipends - Non-Employees**

This code is used to classify stipends paid to individuals not employed by the paying agency for allowances related to and/or for participation in organizational controlled or directed activities. Expenditures/expenses relating to travel for individuals not employed by the school district should be classified in account 6419, Travel and Subsistence. Expenditures/expenses classified in this account are excluded from the calculation of indirect cost.

### **6414-6416 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6417-6418 Travel and Subsistence - Locally Defined (Convert to Object Code 6419 for PEIMS)**

These codes are used, at the option of the school district, to classify travel and subsistence not specifically defined elsewhere. For [PEIMS](#), these accounts are converted to Object Code 6419.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6419 Travel and Subsistence - Non-Employees**

This code is used to classify the cost of transportation, meals, room and other expenses associated with traveling on official school business not specified elsewhere. This includes expenditures/expenses for the following groups:

- Travel for individuals not employed by the school district

This includes travel expenses incurred while traveling to school district authorized activities, including transportation expenditures/expenses paid:

- To parents
- For board member travel
- For individuals not employed by the paying agency for allowances related to and/or for participation in organizational controlled or directed activities

Registration fees associated with attending conferences, including seminars, inservice training, etc. are also classified in this account.

Travel expenses must conform to IRS and 2 CFR Part 225 (OMB Circular A-87) regulations and any travel reimbursed from state funds and federal funds that are received from the Texas Education Agency must comply with the general appropriations act. Any local option codes that are used at the local option are to be converted to account 6419 for [PEIMS](#) reporting.

## **6420 Insurance and Bonding Costs**

This code is used to classify expenditures/expenses for [insurance](#) and bonding costs. Property insurance should be classified in Function 51, Facilities Maintenance and Operations, including building insurance and property insurance for band and athletic/UIIL equipment. Other types of insurance are to be classified in the appropriate function. For example, insurance to

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

cover student injuries that take place while participating in athletics are classified in Function 36, Cocurricular/Extracurricular Activities. Textbook custodian and administrative bonding expenses are classified in Function 41, General Administration. School bus driver bonding and liability insurance are classified in Function 34, Student (Pupil) Transportation.

### **6421-6424 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6425-6428 Insurance and Bonding Costs - Locally Defined (Convert to Object Code 6429 for PEIMS)**

These codes are used, at the option of the school district, to classify [insurance](#) and bonding costs. For [PEIMS](#), these accounts are converted to Object Code 6429.

### **℞ 6429 Insurance and Bonding Costs**

This code is used to classify costs for [insurance](#), including property insurance, liability insurance, bonding costs, athletic insurance, etc. Any local option codes that are used at the local option are to be converted to account 6429 for [PEIMS](#) reporting.

### **6430 Election Costs**

This code is used to classify expenditures/expenses for conducting an election. The costs of printing ballots, election officials who are not school district employees and legal notices, etc., are to be charged to this classification.

### **6431-6433 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6434-6438 Election Costs - Locally Defined (Convert to Object Code 6439 for PEIMS)**

These codes are used, at the option of the school district, to classify election costs. For [PEIMS](#), these accounts are converted to Object Code 6439.

### **℞ 6439 Election Costs**

This code is used to classify expenditures/expenses to cover costs incurred in connection with elections, including election officials who are not school district employees, legal notices, etc. Any local option codes that are used at the local option are to be converted to account 6439 for [PEIMS](#) reporting.

### **6440 Depreciation Expense of Proprietary and Nonexpendable Trust Funds**

This code is used to classify depreciation expense of capital assets in the Proprietary Fund Types or Nonexpendable Trust Funds of a school district. Capital assets of the Governmental Fund Types and Expendable Trust Funds are not depreciated.

### **6441-6443 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6444-6448 Depreciation Expense - Locally Defined (Convert to Object Code 6449 for PEIMS)**

These codes are used, at the option of the school district, to classify depreciation expense. For [PEIMS](#), these accounts are converted to Object Code 6449.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

**℞ 6449 Depreciation Expense**

This code is used to classify depreciation expense of capital assets owned by Proprietary Fund Types or Nonexpendable Trust Funds. Any local option codes that are used at the local option are to be converted to account 6449 for [PEIMS](#) reporting.

**6450-6480 Reserved for Future State Definition**

These code classifications are reserved for future state designation and are not to be used by the school district.

**6490 Miscellaneous Operating Costs**

This code is used to classify expenditures/expenses for operating costs not mentioned above.

**6491 Reserved for Future State Definition**

This code is reserved for future state designation and is not to be used by the school district.

**℞ 6492 Payments to Fiscal Agents of Shared Services Arrangements**

This code is used to classify expenditures/expenses for amounts paid to a fiscal agent of a shared services arrangement in which the school district is a participant. The expenditure is to be classified in Function 93, Payments to Fiscal Agent/Member Districts of Shared Services Arrangements.

**℞ 6493 Payments to Member Districts of Shared Services Arrangements**

This code is used to classify expenditures/expenses for amounts paid to a member district of a shared services arrangement in which the school district is a participant. The expenditure is to be



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

classified in Function 93, Payments to Fiscal Agent/Member Districts of Shared Services Arrangements.

### **℞ 6494      Reclassified Transportation Expenditures/Expenses**

This code can be used as an option to identify expenditures/expenses for transportation costs other than those incurred for the purpose of transporting students to and from school. Expenses from various expenditure object codes for salaries, fuel, etc., in Function 34 (Student Transportation) should be reclassified to this expenditure object code with the appropriate function assigned. Examples of such costs include those associated with field trips (Function 11) and cocurricular/extracurricular activities (Function 36). Identification of the costs of transporting students for any purpose other than to and from school is required under Section 34.010, TEC.

### **℞ 6495      Dues (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)**

This code is used to identify expenditures/expenses for dues paid to clubs, committees, or other organizations. Examples of organizations are TASA, TASP, TASB, Lions Club, Rotary Club, local chambers of commerce and other associations. This does not include any registration fees associated with attending conferences or seminars, which are coded to account 6411. Dues paid on behalf of an employee should be coded to that employee's function code; dues paid on behalf of the district should be coded to function 41. Prior to this change, dues were included in object code 6499.

### **6496      Reserved for Future State Definition**

This code is reserved for future state designation and is not to be used by the school district.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6497-6498 Miscellaneous Operating Costs - Locally Defined (Convert to Object Code 6499 for PEIMS)**

These codes are used, at the option of the school district, to classify miscellaneous operating costs. For [PEIMS](#), these accounts are converted to Object Code 6499.

#### **℞ 6499 Miscellaneous Operating Costs**

This code is used to classify expenditures/expenses for all other operating costs not mentioned above. This account includes:

- Fees (not associated with travel)
- Awards
- Bid notices
- Graduation expenses
- Food/refreshments for school-related meetings
- Newspaper advertisements, etc.

Dues are to be coded to object code 6495 effective for the 2008/09 fiscal year (September 1 or July 1 depending on the fiscal year end).

Any local option codes that are used at the local option are to be converted to account 6499 for [PEIMS](#) reporting.

#### **6500 DEBT SERVICE**

This major classification includes all expenditures for debt service. All debt service object codes must be used only with Function 71, Debt Service.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6510 Debt Principal**

These expenditure object codes are used to classify all expenditures to retire debt principal in Function 71, Debt Service.

### **℞ 6511 Bond Principal**

This code is used to classify expenditures to retire the principal of bonds.

### **℞ 6512 Capital Lease Principal**

This code is used to classify expenditures to retire the principal of long-term capital leases.

### **℞ 6513 Long-Term Debt Principal**

This code is used to classify expenditures to retire the principal of long-term debt (except bond and capital lease principal), using dedicated tax proceeds and other revenue. This includes non-voter approved debt repaid using tax proceeds dedicated to debt repayment. Long-term debt is defined as any debt that will not be paid with current available financial resources.

## **6514-6516 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **6517-6518 Debt Service - Locally Defined (Convert to Object Code 6519 for PEIMS)**

These codes are used, at the option of the school district, to classify principal on debt service not defined above. For [PEIMS](#), these accounts are converted to Object Code 6519.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 6519 Debt Principal**

This code is used to classify expenditures to retire the principal of debt not specified elsewhere. Any local option codes that are used at the local option are to be converted to account 6519 for [PEIMS](#) reporting.

## **6520 Interest Expenditures/Expenses**

These expenditure object codes are used to classify all interest expenditures/expenses in Function 71, Debt Service.

### **℞ 6521 Interest on Bonds**

This code is used to classify expenditures/expenses to pay interest on bonds.

### **℞ 6522 Capital Lease Interest**

This code is used to classify expenditures/expenses to pay interest on capital leases.

### **℞ 6523 Interest on Debt**

This code is used to classify expenditures/expenses to pay interest on debt.

### **℞ 6524 Amortization of Bond and Other Debt Related Costs**

This code is used to classify expenses in connection with the amortization of bond and other debt issuance costs, including lease-purchase debt issuance costs. Included are amortized deferred gain and loss amounts in connection with the defeasance of bonds.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

**℞ 6525 Amortization of Premium and Discount on Issuance of Bonds**

This code is used to classify expenses amortized as debt premium and/or discount in connection with the issuance of debt.

**6526 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**6527-6528 Interest Expenditures/Expenses - Locally Defined (Convert to Object Code 6529 for PEIMS)**

These codes are used, at the option of the school district, to classify interest expenditures/expenses not specified elsewhere. For [PEIMS](#), these accounts are converted to Object Code 6529.

**℞ 6529 Interest Expenditures/Expenses**

This code is used to classify expenditures/expenses to pay interest not specified elsewhere. Any local option codes that are used at the local option are to be converted to account 6529 for [PEIMS](#) reporting.

**6530-6580 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**6590 Other Debt Service Expenditures/Expenses**

These object codes are used to classify all debt service expenditures/expenses other than debt principal and interest in Function 71, Debt Service.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6591-6593 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6594-6598 Other Debt Service Expenditures/Expenses - Locally Defined (Convert to Object Code 6599 for PEIMS)**

These codes are used, at the option of the school district, to record debt service expenditures/expenses, excluding principal and interest. For [PEIMS](#), these accounts are converted to Object Code 6599.

#### **℞ 6599 Other Debt Service Fees**

This code is used to classify expenditures/expenses for issuance costs, and/or any allowable fees related to debt service activity, including fiscal agent fees and payment to an escrow agent from sources other than proceeds from the new debt. Any local option codes that are used at the local option are to be converted to account 6599 for PEIMS reporting.

## **6600 CAPITAL OUTLAY - LAND, BUILDINGS AND EQUIPMENT**

This major classification is used to classify expenditures for capital assets. See Capital Assets section 1.2.4 for capital asset requirements.

### **6610 Land Purchase and Improvement**

These expenditure object codes are used to classify the acquisition or major improvement of a school district's land.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

### **6611-6613 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6614-6618 Land Purchase and Improvements - Locally Defined (Convert to Object Code 6619 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures for land purchases and improvements. For [PEIMS](#), these accounts are converted to Object Code 6619.

### **℞ 6619 Land Purchase and Improvement**

This code is used to classify expenditures for the purchase of land, land improvements other than buildings and any associated fees. This includes any other costs necessary to alter the land for its intended purpose. Any local option codes that are used at the local option are to be converted to account 6619 for [PEIMS](#) reporting.

### **6620 Building Purchase, Construction or Improvements**

These expenditure object codes are used to classify the purchase, construction, or substantial improvement of buildings, and any related fees, including architect fees.

### **6621-6623 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6624-6628 Building Purchase, Construction or Improvements - Locally Defined (Convert to Object Code 6629 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures for building purchases, construction, or

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

improvements. For [PEIMS](#), these accounts are converted to Object Code 6629.

### **℞ 6629 Building Purchase, Construction or Improvements**

This code is used to classify expenditures to purchase buildings or for materials, labor, etc., to construct new buildings. This account also includes expenditures for substantial alteration or remodeling of existing buildings that materially increase building life and/or usefulness. All associated fees are included in this account. Any local option codes that are used at the local option are to be converted to account 6629 for [PEIMS](#) reporting.

### **6630 Furniture and Equipment**

This code is used to classify expenditures for the purchase of furniture and equipment having a per-unit cost of \$5,000 or more and a useful life of more than one year as listed below. If the per-unit cost is less than \$5,000 and the district, by policy, elects to capitalize the expenditure, the 6640 series of accounts, Capital Assets - District Defined, should be used.

### **℞ 6631 Vehicles per unit cost of \$5,000 or more**

This code is used to classify expenditures for the purchase of vehicles having a per-unit cost of \$5,000 or more and a useful life of more than one year. If the per-unit cost is less than \$5,000 and the district, by policy, elects to capitalize the expenditure, the 6640 series of accounts, Capital Assets - District Defined, should be used.

### **6632-6634 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6635-6638 Furniture and Equipment - Locally Defined (Convert to Object Code 6639 for PEIMS)**



Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

These codes are used, at the option of the school district, to classify expenditures for furniture and equipment. For [PEIMS](#), these accounts are converted to Object Code 6639.

**℞ 6639 Furniture, Equipment and Software**

This code is used to classify expenditures for all equipment, furniture, technology equipment and capital outlay items having a per-unit cost of \$5,000 or more and a useful life of more than one year not classified elsewhere. Any local option codes that are used at the local option are to be converted to account 6639 for [PEIMS](#) reporting.

Object 6639 Expenditures to Include:	Object 6639 Expenditures to Exclude:
<ul style="list-style-type: none"> <li>• Telephone systems</li> <li>• Intercommunication and telecommunication systems</li> <li>• Mainframe and mini-computers</li> <li>• High-capacity copy machines</li> <li>• Purchase of site licenses, single use software, etc., if more than \$5,000 or more per unit costs</li> </ul>	<ul style="list-style-type: none"> <li>• Contract programming non-ownership (Object 6219)</li> <li>• Lease purchases with \$5,000 or more per unit costs (Object 6659)</li> <li>• Maintenance fees and/or upgrades (Object 6249)</li> <li>• Purchase of site licenses, single use software, network fees, etc. (Object 6399 or 6659)</li> <li>• Items that don't meet the individual \$5,000 capital asset criteria, but by school district policy are defined to be a capital asset or aggregated items equal or exceed \$5,000 (example: library books) (Object 6649 or 6669)</li> </ul>

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **6640 Capital Assets - District Defined**

These expenditure object codes are used to classify any items that do not meet the individual \$5,000 capital asset criteria, but by school district policy, are required to be recorded as capital assets either (1) when the school district policy requires an item costing less than \$5,000 to be defined as a capital asset; or, (2) when aggregate amounts purchased equal or exceed \$5,000.

### **℞ 6641 Vehicles per-unit cost of less than \$5,000**

This code is used to classify expenditures for the purchase of vehicles having a per-unit cost of less than \$5,000 and a useful life of more than one year.

### **6642-6643 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **6644-6648 Capital Assets - Locally Defined (Convert to Object Code 6649 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures for capital assets groupings. For [PEIMS](#), these accounts are converted to Object Code 6649.

### **℞ 6649 Capital Assets - Other - Locally Defined Groupings**

This code is used at the discretion of the school district if the school district policy requires the capitalization of items that individually or, as a group, are less than the \$5,000 criterion identified in the 6630 series of accounts. If a school district does not account for these items under object code 6649, then the items are to be classified under object code 6399, General Supplies. Any local option codes that are used at the local option are to be converted to account 6649 for [PEIMS](#) reporting.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

**6650 Capital Assets Under Capital Leases**

These expenditure object codes are used to classify capital assets under capital leases.

**℞ 6651 Capital Lease of Buildings**

This code is used to classify capitalization of movable buildings and major repairs to buildings under a capital lease arrangement. The contra entry is to other resources.

**6652-6653 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**6654-6658 Capital Assets Under Capital Lease - Locally Defined (Convert to Object Code 6659 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures for capital assets under capital lease. For [PEIMS](#), these accounts are converted to Object Code 6659.

**℞ 6659 Capital Lease of Furniture, Equipment and Software**

This code is used to classify capitalization of furniture, equipment and software under a capital lease arrangement. The contra entry is to other resources. Any local option codes that are used at the local option are to be converted to account 6659 for [PEIMS](#) reporting.

Object 6659 Expenditures to Include:	Object 6659 Expenditures to Exclude:
Lease purchase of:	<ul style="list-style-type: none"> <li>Contract programming non-ownership (Object 6219)</li> </ul>

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

Object 6659 Expenditures to Include:	Object 6659 Expenditures to Exclude:
<ul style="list-style-type: none"> <li>• Telephone systems</li> <li>• Intercommunication and telecommunication systems</li> <li>• Mainframe and mini-computers</li> <li>• High-capacity copy machines</li> <li>• Site licenses and single use software purchase etc., if a lease purchase for \$5,000 or more per unit</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance fees and/or upgrades (Object 6249)</li> <li>• Purchase of site licenses, single use software, network fees, etc. (Object 6399 if less than \$5,000, or 6669, if in the library)</li> </ul>

**6660 Library Books and Media**

This account classification is used to account for the acquisition of library books and media that meet the capitalization criteria of the school. Library books and media such as CDs/DVDs, software, learning diskettes and film may be recorded in a capital assets system as a block of items purchased; however, the library should maintain an acquisition ledger that records the detailed cost of each book.

**6661-6664 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**6665-6668 Library Books and Media - Locally Defined (Convert to Object Code 6669 for PEIMS)**

These codes are used, at the option of the school district, to classify expenditures for library books and media. For [PEIMS](#), these accounts are converted to Object Code 6669.

Expenditure/Expense Object Codes		
Class	Major	Detail
X	X	XX

## **℞ 6669 Library Books and Media**

This code is used to classify expenditures for books and film that meet the one year or more useful life criteria; and meets the capitalization criteria of the school or have a per unit value of equal to or greater than \$5,000 whichever is less; (Effective September 1, 2001); and are to be catalogued and controlled by the library. All expenditures/expenses coded to object code 6669 are to be coded to function 12, Instructional Resources and Media Services. Any local option codes that are used at the local option are to be converted to account 6669 for [PEIMS](#) reporting.

### **1.4.10 Other Resources/Non-Operating Revenue Object Codes**

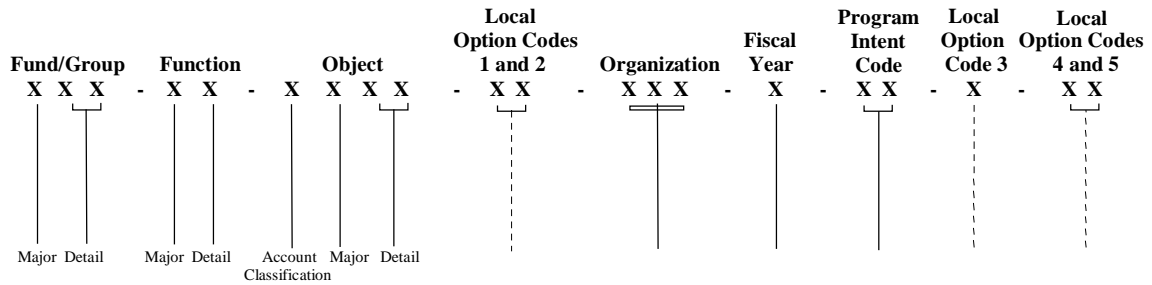
The school district's accounting records are to reflect other resources/non-operating revenue at the most detail level, as depicted in the chart of accounts (4 digits) for accounting and Public Education Information Management System ([PEIMS](#)) reporting (budgeted and actual data) purposes. If a school district needs to use codes in addition to the mandatory codes for managerial purposes, the optional codes provided for local use in the code structure should be used.

These codes are distinguished from other types of object codes as they always begin with the digit "7."

The **℞** by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 38. Other Resource/Non-Operating Revenue Object Code Structure**

**The Code Structure**



**Object Codes:**  
Other Resources/Non-Operating Revenues(7XXX)

----- Indicates a mandatory code for State reporting purposes  
----- Indicates a code that may be used at local option

**7000**

**OTHER RESOURCES/NON-OPERATING REVENUES**

These detail accounts reflect estimated (budgeted) and incurred (actual) other resources or non-operating revenues. School districts using subsidiary ledgers may, at the local option, use control accounts as listed in the general ledger to reflect the summarized balances of the subsidiary ledgers.

**7010**

**Estimated Other Resources/Non-Operating Revenues - Control - Local Option**

This account is debited at the beginning of the period for the amount of other resources or non-operating revenues anticipated (i.e., National School Lunch Program and earnings from temporary investments for Proprietary Fund Types and similar trust funds).

<b>Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes</b>		
<u>Class</u>	<u>Major</u>	<u>Detail</u>
X	X	XX

**7020****Realized Other Resources/Non-Operating Revenues - Control - Local Option**

This account is credited for the total actual other resources or non-operating revenues received or receivable (i.e., National School Lunch Programs and earnings from temporary investments for Proprietary Fund Types and similar trust funds) during the period. The postings to the subsidiary ledger detail accounts must be equal to this total other resources/non-operating revenues control account. The debit entry is to cash or an accounts receivable account. At the end of the period this account is closed to fund balance. This control account is to be used at the option of the school district.

**7900****Other Resources/Non-Operating Revenues****7910****Other Resources**

Other resources (accounts 7911-7949) includes sale of bonds, sale of real and personal property, proceeds from capital leases, operating transfers in, etc. Such amounts are classified separately from revenues on the statement and revenues and expenditures and changes of fund balance of Governmental Fund Types and Expendable Trust Funds.

**℞ 7911****Issuance of Bonds**

This code is used to record the face amount of bonds that are issued.

Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes		
Class	Major	Detail
X	X	XX

**℞ 7912 Sale of Real and Personal Property**

This code is used to classify amounts received from the sale of land, buildings, equipment, furniture, vehicles, etc., accounted for through Governmental Fund Types and Expendable Trust Funds.

**℞ 7913 Proceeds from Capital Leases**

This code is used to classify amounts (net of initial or down payments) on contracts for capital leases. This represents the remaining balance to be paid at the time the capital lease is entered into. Such amounts are classified as Other Resources, not as revenue.

**℞ 7914 Loan Proceeds - Governmental Fund Types and Expendable Trust Funds Only (Non-Current)**

This code is used to classify amounts of proceeds from long-term loans that will not be repaid during the current year. The entire amount of loan proceeds is recorded in this code at the time of receipt. Such receipts are classified as Other Resources, and not as revenue.

**℞ 7915 Operating Transfers In**

This code is used to classify operating transfers from other funds of the school district.

**℞ 7916 Premium or Discount on Issuance of Bonds**

This code is used to classify the premium or discount on the issuance of bonds.



Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes		
Class	Major	Detail
X	X	XX

### ℞ 7917      **Prepaid Interest**

This code is used to classify prepaid interest in connection with the issuance and/or defeasance of bonds.

### ℞ 7918      **Special Items**

This code is used to classify special items in accordance with GASB Statement No. 34. Included are transactions or events within the control of school district administration that are either unusual in nature or infrequent in occurrence, including sale of certain general governmental capital assets; sale or lease of mineral rights, including oil and gas; sale of infrastructure assets; or significant forgiveness of debt by a financial institution.

### ℞ 7919      **Extraordinary Items**

This code is used to classify extraordinary items in accordance with GASB Statement No. 34. Included are transactions or events that are both unusual in nature and infrequent in occurrence, including insurance proceeds to cover significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; insurance proceeds to cover costs related to an environmental disaster; or a large bequest to a small government by a private citizen.

### **7920-7939 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **7940-7948 Other Resources - Locally Defined (Convert to Object Code 7949 for PEIMS)**

These codes are used, at the option of the school district, to classify other resources not defined elsewhere. For PEIMS reporting, these accounts are converted to account 7949.

Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes		
Class	Major	Detail
X	X	XX

### **℞ 7949 Other Resources**

This code is used to record other resources not classified above.

## **7950 Non-Operating Revenues (Proprietary Fund Types and Similar Trust Funds Only)**

Non-operating revenues (accounts 7951-7989) consist of non-operating revenues that are recorded as credits in the accounting period in which they are earned and become measurable. These accounts are closed to fund balance at the end of the accounting period.

### **℞ 7951 Gain on Sale of Real and Personal Property**

This code is used to classify the net gains from the sale of land, buildings, equipment, furniture, vehicles, etc., accounted for through Proprietary Fund Types and similar trust Funds.

### **℞ 7952 National School Breakfast Program**

This code is used to record non-operating revenues in the enterprise fund for federally funded breakfast program administered by Texas Education Agency. For school districts that utilize the general or special revenue fund to account for the school breakfast program, National School Breakfast Program funds are to be recorded in the revenue code 5921. (10.553)

### **℞ 7953 National School Lunch Program**

This code is used to record non-operating revenues in the enterprise fund for federally-funded lunch program administered by the Texas Education Agency. For school districts that utilize the general or special revenue fund to account for the food service program, National School Lunch Program funds are to be recorded in the revenue code 5922. (10.555)

<b>Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes</b>		
<u>Class</u>	<u>Major</u>	<u>Detail</u>
X	X	XX

## **℞ 7954 United States Department of Agriculture (USDA) Commodities**

This code is used to record non-operating revenues in the enterprise fund for USDA commodities used in the school lunch program. Under the consumption method, revenue is realized as commodities are used whereas under the purchase method revenues are realized when commodities are received. Since actual cash is not received, a debit entry is made simultaneously either to expenditure object code 6344, USDA Commodities (purchase method), or an asset code 1310, Inventory - Supplies and Materials (consumption method). For school districts that utilize the general or special revenue fund to account for the food service program, commodities are to be recorded in the revenue code 5923. (10.555)

- Purchased products for which you receive no USDA commodity equivalent. An example of products that a school would purchase commercially but would not receive as a USDA commodity would be condiments such as catsup and mustard. It is suggested that you base the inventory value for such items on the net purchase price for that item.
- USDA commodity products for which you purchase no commercial equivalent. Examples of USDA commodities that schools receive but usually do not purchase commercially include pouched salmon, frozen diced chicken and prune puree. TDHS will continue to provide you with the value of USDA commodities, which is based on the actual cost per pound.
- Products that you purchase as well as receive as commodities. Canned fruits and vegetables are examples of such products. You may base the value of these products on the net cost to purchase such products, on the commodity value provided by TDHS, or you could also use an average of weighted average of the two values.

## **℞ 7955 Earnings from Temporary Deposits and Investments**

This code is used to record non-operating revenues in the enterprise fund for earnings from temporary deposits and

Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes		
Class	Major	Detail
X	X	XX

[investments](#). Earnings from investments in the general or special revenue fund are to be recorded in the revenue code 5742.

### **℞ 7956 Insurance Recovery**

This code is used to record amounts received from [insurance](#) companies for the repair or replacement of the insured property for assets of Proprietary Fund Types and similar trust funds.

### **℞ 7957 Contributed Capital**

This code is used to record amounts in connection with transactions involving the “invested in capital assets, net of related debt” component of net assets, including transactions to record additional capital assets that are transferred to an enterprise fund.

### **7958-7979 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **7980-7988 Non-Operating Revenues - Locally Defined (Convert to 7989 for PEIMS)**

These codes are used, at the option of the school district, to classify non-operating revenues not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 7989.

### **℞ 7989 Other Non-Operating Revenues**

This code is used to classify amounts received from other non-operating revenue sources.

### **7990 Reserved for Future State Definition**

Other Resources/Non-Operating Revenue/ Residual Equity Transfers In Object Codes		
Class	Major	Detail
X	X	XX

### 7991-7999 Reserved for Future State Definition

These codes are reserved for future state designation and are not to be used by the school district.

## 1.4.11 Other Uses/Non-Operating Expenses Object Codes

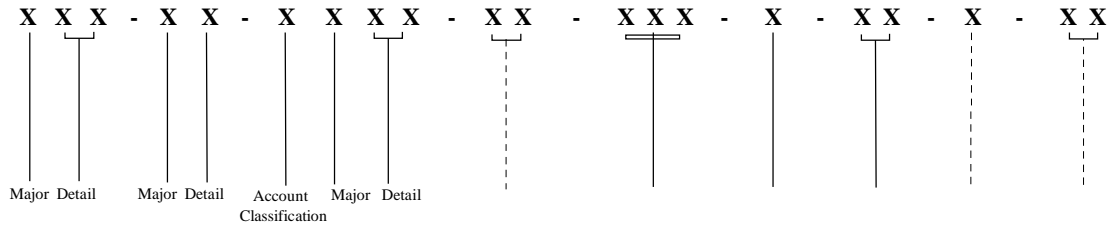
The school district's accounting records are to reflect other uses/non-operating expenses at the most detail level, as depicted in the chart of accounts (4 digits) for accounting and Public Education Information Management System ([PEIMS](#)) reporting (actual data) purposes. For PEIMS budget reporting purposes, other uses/non-operating expenses are reported to the fourth digit of detail (89XX). If a school district needs to use codes in addition to the mandatory codes for managerial purposes, the optional codes provided for local use in the code structure should be used.

These codes are distinguished from other types of object codes as they always begin with the digit "8."

The **R** by a code indicates that the code is required for reporting purposes (PEIMS and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 39. Other Uses/Non-Operating Expenses Object Code Structure**

**The Code Structure**



**Other Uses/Non-Operating Expenses/Residual Equity Transfers Out (8XXX)**

————— Indicates a mandatory code for State reporting purposes  
 ----- Indicates a code that may be used at local option

**8000**

**OTHER USES/NON-OPERATING EXPENSES**

**8010**

**Appropriated Other Uses/Non-Operating Expenses - Control - Locally Defined**

This account is credited at the beginning of the fiscal year for the amounts of budgeted other uses or non-operating expenses and the fund balance is credited. The debit entry is to the object code 3700 - Budgetary Fund Balance. At the end of the fiscal year fund balance is credited when this account is debited. This control account is to be used at the option of the school district.

Other Uses/Non-Operating Expenses/ Residual Equity Transfers Out Object Codes		
Class	Major	Detail
X	X	XX

**8020 Encumbered Other Uses/Non-Operating Expenses - Control - Locally Defined**

This account code is debited for the amounts encumbered and credited for encumbrances liquidated during the fiscal year. The amounts encumbered (debits) and liquidated (credits) in the subsidiary ledger detail must equal the total debits and credits to

this Encumbered Other Uses/Non-Operating Expenses - Control account. At the end of the fiscal year, this account is closed to account 4210, Reserve for Encumbrances.

**8030 Actual Other Uses/Non-Operating Expenses - Control - Locally Defined**

This account is debited for the total actual other uses/non-operating expenses during the fiscal year with the contra-entry being to cash or liabilities. The postings to the detail subsidiary ledger Other Uses/Non-Operating Expenses accounts must be equal to this actual Encumbered Other Uses/Non-Operating Expenses - Control account. At the end of the fiscal year, this account is closed to fund balance. This control account is to be used at the option of the school district.

**8900 Other Uses/Special Items/Extraordinary Items/Non-Operating Expenses**

**8910 Other Uses**

Other uses (8911-8949) are debited in the accounting period in which a measurable fund liability is incurred. Credit entries are to a liability or an asset account.

**℞ 8911 Operating Transfers Out**

This code is used to classify operating transfers to other funds of the school district.

Other Uses/Non-Operating Expenses/ Residual Equity Transfers Out Object Codes		
Class	Major	Detail
X	X	XX

## **℞ 8912 Special Items**

This code is used to classify special items in accordance with GASB Statement No. 34. Included are transactions or events within the control of school district administration that are either unusual in nature or infrequent in occurrence, including special termination benefits resulting from workforce reductions; or costs in connection with an early-retirement program offered to all employees represented in one or more classes of employees.

## **℞ 8913 Extraordinary Items**

This code is used to classify extraordinary items in accordance with GASB Statement No. 34. Included are transactions or events that are both unusual in nature and infrequent in occurrence, including significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; or costs related to an environmental disaster.

## **8914-8939 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

## **8940-8948 Other Uses - Locally Defined (Convert to Account 8949 for PEIMS)**

These codes are used, at the option of the school district, to classify other uses not defined elsewhere. For PEIMS reporting, these accounts are converted to account 8949.

## **℞ 8949 Other Uses**

This other uses object code is used to record other uses not provided for above. This object code is also used to record amounts refunded to taxpayers as a result of court decisions



Other Uses/Non-Operating Expenses/ Residual Equity Transfers Out Object Codes		
Class	Major	Detail
X	X	XX

involving tax rate(s), taxable value(s) and/or levy(ies), if such decisions are rendered after the fiscal year of disputed property tax collection(s), including related penalties and/or interest (refunds occurring during the same fiscal year that disputed property taxes, including related penalties and/or interest, were collected are to be recorded as a debit to the appropriate property tax-related revenue object code, 5711, 5712 and/or 5719, and as a credit to a cash and temporary investments object code and/or an accounts payable object code).

## 8950 Non-Operating Expenses

Non-operating expenses (accounts 8951-8989) are debited in the accounting period in which a measurable fund liability is incurred. Credit entries are to a liability or an asset account.

### **℞ 8951 Loss on Sale of Real and Personal Property**

This code is used to classify the net loss from the sale of land, buildings, equipment, furniture, vehicles, etc., accounted for through Proprietary Fund Types and similar trust funds.

### **8952-8959 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

### **8960-8988 Non-Operating Expenses - Locally Defined (Convert to Account 8989 for PEIMS)**

These codes are used, at the option of the school district, to classify non-operating expenses not defined elsewhere. For [PEIMS](#) reporting, these accounts are converted to account 8989.

Other Uses/Non-Operating Expenses/ Residual Equity Transfers Out Object Codes		
<u>Class</u>	<u>Major</u>	<u>Detail</u>
X	X	XX

### **8989 Non-Operating Expenses**

This non-operating expenses object code is used to record non-operating expenses not provided for above.

### **8990 Reserved for Future State Definition**

#### **8991-8999 Reserved for Future State Definition**

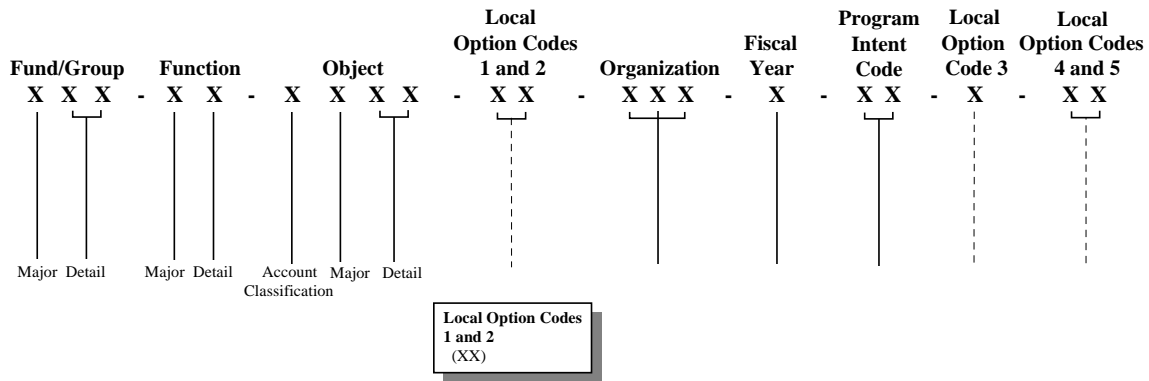
These codes are reserved for future state designation and are not to be used by the school district.

Other Uses/Non-Operating Expenses/ Residual Equity Transfers Out Object Codes		
Class	Major	Detail
X	X	XX

## 1.4.12 Optional Codes 1 and 2

A school district may use the optional codes 1 and 2 if there is a need to account for information not otherwise provided in the mandatory chart of accounts. If a school district uses these optional codes, a locally devised chart of accounts is to be uniformly used in the accounting system. The local chart of accounts should be made part of the district's copy of Resource Guide, and should be made available for auditing and other purposes.

**Exhibit 40. Optional Codes 1 and 2 Structure**



————— Indicates a mandatory code for State reporting purposes

----- Indicates a code that may be used at local option

The following is an illustration of how optional codes 1 and 2 maybe used to account for start-up cost attributed to a virtual school pilot (VSP) program. This model may be used

for modification or improvements to the VSP system between school years or other intermittent periods. The account codes that may be used to track these cost are as follows:

<u>CODE</u>	<u>DESCRIPTION</u>
01	Planning component one – Determine project goals and implementation timeline
02	Planning component two – Define the implementation team staffing, roles, and responsibilities
03	Planning component three – Design the technical architecture
04	Planning component four - Plan initial training
05	Planning component five – Other
06	Requirements gathering component one – Develop narrative documents
07	Requirements gathering component two – Develop process flow diagrams
08	Requirements gathering component three - Other
09	System configuration component one – Purchase and installation of hardware
10	System configuration component two – Purchase, development and installation of software
11	System configuration component three – Establish the network infrastructure to allow connectivity
12	System configuration component four – Other
13	Fit analysis component one – Customize the VSP system and subcomponents
14	Fit analysis component two – Modify the technical requirements, specifications, functionality of the VSP system and subcomponents
15	Fit analysis component three – Create workarounds
16	Fit analysis component four – Other
17	Setup component one – Write documentation for VSP instructional delivery system
18	Setup component two – Write documentation for VSP technology requirements, maintenance and operations
19	Setup component three – Other
20	Testing component one – Test installation of VSP instructional delivery system and subcomponents
21	Testing component two – Other
22	Transition component one – Prepare teacher and student-level procedure and training manuals
23	Transition component two – Set up help desk infrastructure and documentation
24	Transition component three – Evaluate VSP system readiness
25	Transition component four – Other

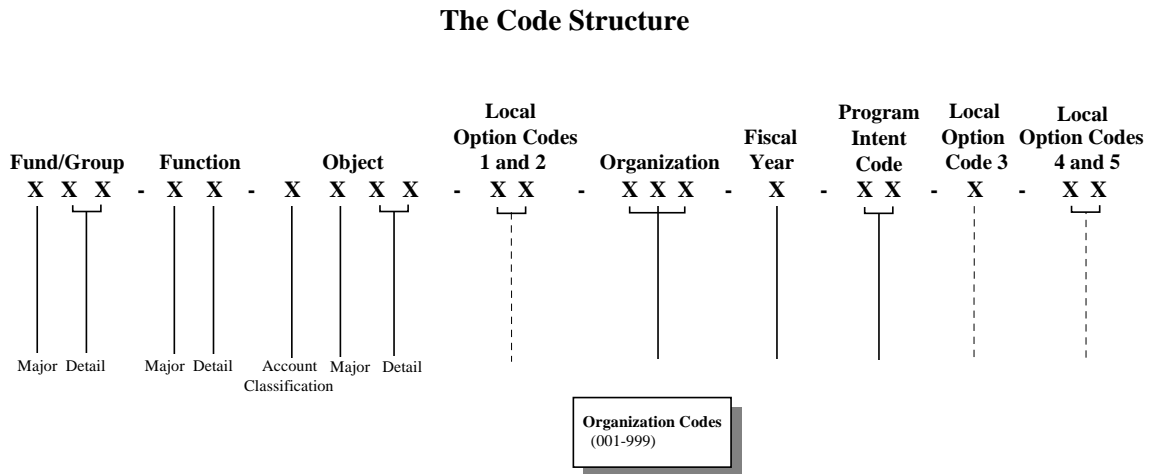
- 26 Operational component one – Instructional related cost of VSP system during school year
- 27 Operational component two – Other VSP operational cost (Administrative, maintenance, etc.)

The illustration above was adapted from the Christopher Allen’s and Vivian Chow’s reference book, *Oracle Certified Professional Financial Applications Consultant Exam Guide*.

### 1.4.13 Organization Codes

An organization is a group of employees who are obligated to complete a specific responsibility. Usually, an organization has an identifiable leader or an individual who is accountable for the overall completion of the responsibility. The **R** by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district.

**Exhibit 41. Organization Code Structure**



————— Indicates a mandatory code for State reporting purposes

- - - - - Indicates a code that may be used at local option

There are two distinct types of organization units: (1) a *campus* organization unit, which usually is a group of employees who are obligated to complete the responsibilities of the teaching of, supporting the teaching of and providing the necessary services (such as social services and health services) to a set of students; and (2) an *administrative or other* organization unit which is a group of people who perform a specific responsibility such as those in the superintendent's office, the school board or those who perform the business functions for the school district. An organization does not necessarily correspond with a physical location. The activity, not the location, defines the organization. For example, a high school computer science class might be taught at the central administration office, in which case, the appropriate high school organization code would be assigned.

- *Organization Codes:*

- Campus organization codes as defined in the Texas School Directory are to be used for all other costs clearly attributable to a specific organization. Other costs may be coded to a specific organization or school districts may utilize the TEA-provided cost allocation formula for cost charged to organization code 999 (Undistributed).
- Administrative organization unit codes (701-750) are mandated for all Function 41, General Administration, costs and with Function 53, Data Processing for those expenditures that are attributable to the business office of the school district.

Accurate use of organization codes is essential for payroll under function 11, Instruction. School districts are to use organization codes in all functions when a cost is *clearly attributable* to a specific organization. For those costs that are not clearly attributable to specific organization codes, districts will use organization codes 998 (Unallocated, at the local option) or 999 (Undistributed). Refer to Appendix 6 for a chart depicting required organization accounting by expenditure object code and function. Guidance is provided on other methods of allocating costs other than direct recording in the Cost Accounting section of this module.

### **1.4.13.1 Campus Accounting/Coding**

With the advent of site-based decision-making and campus accountability, it has become necessary for school districts to provide financial information at all levels of the decision making process. Specifically, a new emphasis is being placed upon providing information on the use of public resources at the campus and program to facilitate legislative budgetary decisions. An impact of the development of the financial accountability system is the reorganization of the system of certain information and collection processes and the redefinition of some of the basic data elements to ensure that campus level payroll costs are appropriately identified.

School districts are mandated to record payroll costs by campus level for educational personnel including professional and paraprofessional personnel where the cost is clearly attributable to a specific organization. The criteria to determine if the payroll costs of such personnel should be recorded to a particular campus/organization is as follows:

- The individual must be dedicated to the day-to-day operations of the campus (partially or fully) and be under the direct or indirect supervision of the campus principal. Personnel that would be recorded to a campus would generally include:
  - Classroom teachers
  - Teacher aides
  - Classroom assistants
  - Librarians
  - Principals
  - Counselors
  - Social workers

However the above is not an all inclusive list of personnel.

- Payroll costs of substitute teachers may be coded to a campus or to the Undistributed Organization Unit (999)
- On-Behalf Teacher Retirement Payments may be coded to a campus or to the Undistributed Organization Unit (999)

### **1.4.13.2 Compliance Monitoring - Organization Codes**

TEA provides software in EDIT+ containing a formula to allocate costs recorded in Organization Code 999, Undistributed, according to instructional FTEs (as reported in [PEIMS](#)) assigned to organization codes. The formula will allocate costs in Organization Code 999, Undistributed, to campus organizations for functions specified in State Board of Education rules relating to indirect costs. The allocation process is a report type of template and does not change transaction information within the general ledger system.

The allocation process uses payroll and staff data for instructional FTEs, as recorded under function 11, Instruction, as a basis to allocate costs. Accordingly, full use of specific organization codes in function 11 is essential for the optimum functionality of the allocation process. The formula-based allocation will be used for state and federal compliance monitoring purposes, such as monitoring indirect costs, maintenance of effort and comparability requirements. Costs which are classified in Organization Code 998, Unallocated, will not be allocated by the formula; therefore, such costs will not be considered for compliance purposes unless charged to a specific Enhanced Program Intent Code.

## **001-699      Organization Units - Campuses**

Use the campus numbers defined in the Texas School Directory for the school district. As new campuses are opened, TEA is to be notified and a new campus number will be assigned.

Note:

### JJAEP Campuses

There are two types of Juvenile Justice Alternative Education Programs (JJAEP). Texas Education Code Chapter 37 authorizes assignment of students to a JJAEP approved by the Texas Juvenile Probation Commission if the school district is located in a county with a population of 72,000 or more. The second type of arrangement is any JJAEP arrangement that is not approved by the Texas Juvenile Probation Commission relating to placement of students that are expelled under Texas Education Code subsection 37.007(a),(b),(d),(c),(e), or (f).

All discretionary or mandatory JJAEP campuses must be registered in the Texas Education Directory (ASKTED). The campus number assigned to the discretionary or mandatory JJAEP is to be used to account for all expenditures that are attributed to JJAEP-related activities (including costs attributed to resources provided by school districts, such as special education teachers employed by school districts that are assigned to work in a discretionary or mandatory JJAEP).

### JJAEP Reported as a Discrete Component Unit in the Annual Financial Report

In a few instances, a memorandum of understanding between a county government and a school district authorizes a school district to administer and operate the mandatory JJAEP operations on-behalf of the county government and provide services to school



districts located in the county. When this is this case, the school district that has primary responsibility under the memorandum of understanding to administer the mandatory JJAEP operations will report the JJAEP as a discrete component unit of the school district in its annual financial report. Financial accounting records must provide a separate accounting for all transactions that are attributable to the mandatory JJAEP operations administered by a school district.

**℞ 001-040 High School Campuses**

Use the campus numbers assigned to high school campuses for the school district in the [Texas School Directory](#).

**℞ 041-100 Junior High/Middle School Campuses**

Use the campus numbers assigned to junior high/middle school campuses for the school district in the [Texas School Directory](#).

**℞ 101-698 Elementary School Campuses**

Use the campus numbers assigned to elementary school campuses for the school district in the [Texas School Directory](#).

**℞ 699 Summer School Organization**

Use this organization code for any summer school and intersession that is provided by the school district.

**700 Organization Units - Administrative**

Use this organization code series for all expenditures related to general administration (Function 41). Organization units 701 through 749 are to be used in Function 41 only. Organization unit 750 is to be used only in Functions 41 and 53 (for those data processing costs that are related to the business functions of the school district).

Administrative personnel (principals, assistant principals, etc.) classified in Function 23 are to be charged to the appropriate campus number, 001-699.

**℞ 701      Organization Unit - Superintendent's Office**

Use this organization code for all expenditures related to the superintendent's office (Function 41 only).

**℞ 702      Organization Unit - School Board**

Use this organization code for all expenditures related to the school board (Function 41 only).

**℞ 703      Organization Unit - Tax Costs**

Use this organization code for all expenditures related to the cost of levying and collecting taxes (Functions 41 and 99 only).

**704-708    Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**709-719    Organization Unit - Direct Costs - Locally Defined (Convert to Organization Code 720 for PEIMS)**

These codes are used, at the option of the school district, to define administrative organizational units that are considered direct costs when calculating indirect cost rates. For [PEIMS](#), these accounts convert to 720.

**℞ 720      Organization Unit - Direct Costs in Function 41 (General Administration)**

Use this organization code for all expenditures related to direct costs not attributed to the superintendent, school board or tax

office organization units. Direct costs, for the purposes of this organization unit, are defined in the Calculation of Indirect Cost Rate section.

**721-725 Reserved for Future State Definition**

These codes are reserved for future state designation and are not to be used by the school district.

**726-749 Organization Unit - Indirect Costs - Locally Defined (Convert to Organization Code 750 for PEIMS)**

These codes are used, at the option of the school district, to define administrative organizational units that are considered indirect costs when calculating indirect cost rates. For [PEIMS](#), these accounts convert to 750.

**℞ 750 Organization Units - Indirect Costs in Function 41 (General Administration), including Business Office/Personnel/Payroll/Human Resources/Purchasing**

Use this organization code for all expenditures related to costs attributed to business office, personnel, payroll, human resources and purchasing functions in General Administration (Function 41) of the school district.

These costs are considered indirect costs when calculating the indirect cost rates. School districts may, at the local option, use codes 726-749 to account for these areas separately.

Those data processing charges that relate to administrative applications and are classified in Function 53 (Data Processing) should use this organization unit as well. See the Calculation of Indirect Cost Rate section for further guidance.

**℞ 751 Fiscal Agent Shared Services Arrangements**

This organization unit code may be used to account for fiscal agent expenditures in a Shared Services arrangement at the school district's option.

**752-799 Organization Units - Reserved for Future State Definition**

These organization units are reserved for future state definition and are not to be used by the school district.

**800-997 Organization Units - Locally Defined (Convert to Organization Code 999 for PEIMS)**

These organization units may be used, at the option of the school district, to provide further accountability for organization units. For [PEIMS](#), these accounts are converted to Organization Code 999.

**℞ 998 Unallocated Organization Unit**

This organization unit may be used, at the option of the school district, for any costs which the district does not wish to be allocated according to the formula developed by TEA, i.e., costs that should not be allocated to various campus organizations and program intents based upon instructional FTEs. Such costs may be charged to a specific program intent; however, if they are charged to the Undistributed Program Intent Code (99), they will not be allocated. *Since these costs will not be distributed to campus organizations or program intents, they will not be considered in monitoring compliance for indirect costs, maintenance of effort, and comparability requirements, unless charged to a specific Enhanced Program Intent Code.*

**℞ 999 Undistributed Organization Unit**

Use this organization code for any undistributed costs, i.e., costs that are not a campus or summer school or an administrative unit (Function 41).

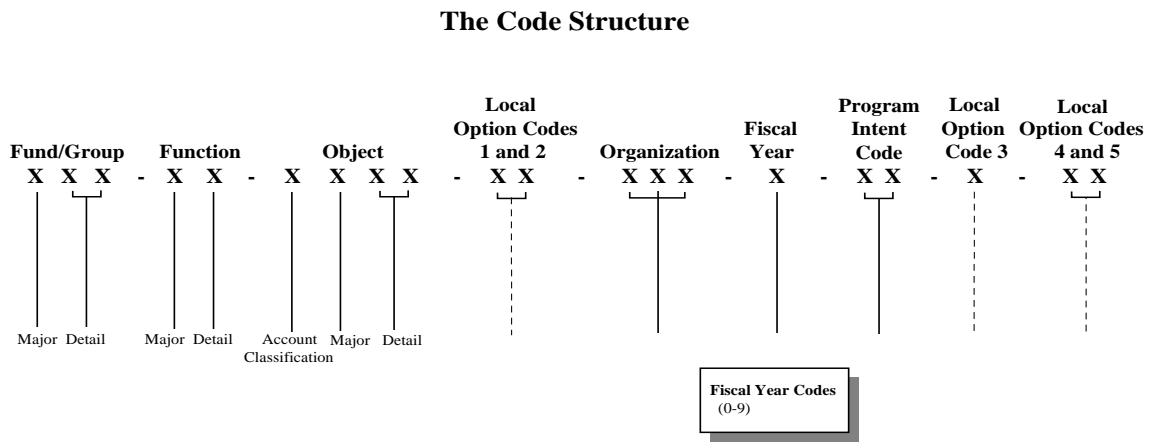
### 1.4.14 Fiscal Year Code

The fiscal year code is a mandatory code to be used by all school districts. For the school district's fiscal year, the last digit of the school year is to be used (e.g., 2008-09 fiscal year is represented by a "9.") For projects such as local grants, state grants accounted for as special revenue funds, debt service funds, or construction funds, the current fiscal year code should be used.

Fiscal year code determination is unique for federally funded projects accounted for as special revenue funds. For example, if funding for a federal project begins on July 1, 2007 and ends June 30, 2008, then the fiscal year code used would be "8". This is done so that the fiscal year code used corresponds with the federal fiscal year in which the funding originated.

Once the fiscal year is assigned to a project, revenues and expenditures/expenses should reflect that number for the duration of the project, even though it may span multiple school district fiscal years.

**Exhibit 42. Fiscal Year Code Structure**



————— Indicates a mandatory code for State reporting purposes

----- Indicates a code that may be used at local option

The following are examples of fiscal year codes:

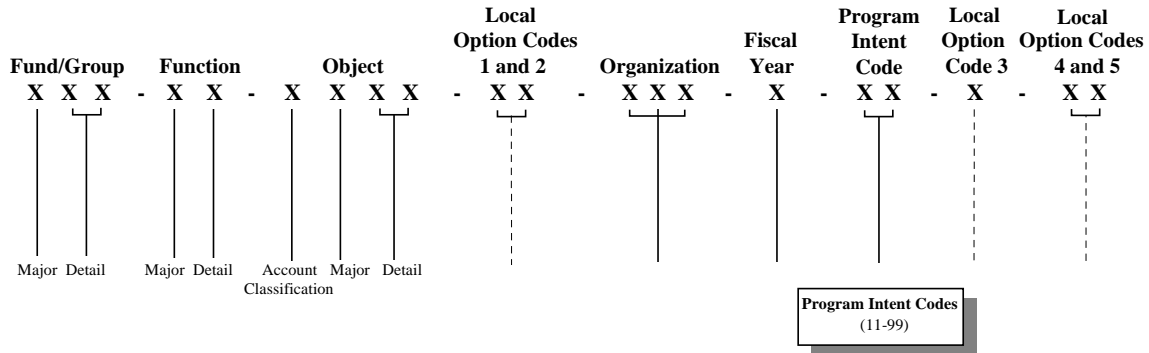
<u>CODE</u>	<u>DESCRIPTION</u>	<u>CODE</u>	<u>DESCRIPTION</u>
6	2005-06	1	2010-11
7	2006-07	2	2011-12
8	2007-08	3	2012-13
9	2008-09	4	2013-14
0	2009-10	5	2014-15

### 1.4.15 Program Intent Codes

These codes 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 (the student group toward which the instructional or other service is directed) determines the program intent code, not the demographic makeup of the students served. In the case of state programs, state law may determine the intent and the permissible use of allotments. For state programs, the limitations on the amount of allotments that may be used for indirect costs will need to be considered. Districts are encouraged to monitor expenditures to assure that the limitation on indirect costs is observed, and steps should be taken if necessary to meet these requirements. For additional guidance in the areas of direct and indirect costs, please consult the State Board of Education rules. Consistent with legislative intent, it is the policy of TEA to provide maximum flexibility to school districts by averaging costs up to three years. As state special program expenditures are reviewed, school districts will be afforded the opportunity to address any issues which may arise. School districts should consider the implications of some federal requirements (e.g., maintenance of effort and comparability) when determining local policies on the minimum level of coding expenditures.

**Exhibit 43. Program Intent Code Structure**

**The Code Structure**



————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

**1.4.15.1 Basic and Enhanced Program Intent Codes**

School districts are encouraged to use program intent codes with any transaction that is directly attributable to the program intent code.

School districts are to use program intent codes in all functions when a cost is *clearly attributable* to a specific program intent. Refer to Appendix 6 for additional guidance on program intent accounting. Guidance is provided on other methods of allocating costs other than direct recording in the Cost Accounting section in this module.

**1.4.15.2 Athletics and Related Activities Program Intent Code**

The following overviews the Program Intent Code 91 (Athletics and Related Activities) accounting requirements:

- *Payroll Costs:*

The Athletics and Related Activities Program Intent Code is mandated for payroll costs (except Expenditure Object Codes 6112 and 6144 use program intent code 99) for Function 36 (Cocurricular/Extracurricular Activities) and other functions if applicable. See chart below.

<b>Funds</b>	General	(Fund 1XX)
<b>Functions</b>	Cocurricular/Extracurricular Activities	(Function 36)
	Other functions if applicable	(Function XX)
<b>Class Object</b>	Payroll Costs, except Teacher Retirement On-Behalf Payments	Object codes 6100 XX (except object code 6112 and 6144 use program intent code 99)

- *Other Costs:*

For the General Fund for Function 36 (Cocurricular/Extracurricular Activities) and other functions if applicable, all other expenditures are to be classified to the Athletics and Related Activities Program Intent Code when the expenditure is clearly attributable to this code. Coding of costs other than payroll to the Athletics and Related Activities Program Intent Code is optional.

### 1.4.15.3 Undistributed Program Intent Code

A Basic or Enhanced Program Intent Code is to be charged with costs directly attributable to it. In some cases, this may require the allocation of costs among several program intent codes. However, the allocation of costs should be performed only when, in the judgment of school district management, there would be a material effect on the financial records of either an individual transaction or the total amount of a certain type of transaction. Consideration should also be given to the effort involved in gathering the information necessary to perform the allocation compared to the benefit derived from the allocation of costs.



If a school district elects not to allocate costs to Basic or Enhanced Program Intent Codes or the Athletics and Related Activities Program Intent Code, the Undistributed Program Intent Code 99 is to be used.

#### 1.4.15.4 Compliance Monitoring - Program Intent Codes

TEA provides software in [PEIMS](#) EDIT+ containing a formula to allocate costs recorded in Program Intent Code 99, Undistributed, according to instructional FTEs (as reported in [PEIMS](#)) assigned to Basic and Enhanced Program Intent Codes. The formula-based allocation will be used for state and federal compliance monitoring purposes, such as monitoring indirect costs, maintenance of effort and comparability requirements. Compliance with indirect cost requirements in state law will be monitored by TEA using allocated cost information in [PEIMS](#). This information will include costs assigned to specific program intent codes and those costs which are allocated by the formula to specific program intent codes for functions specified in State Board of Education rules relating to indirect costs. The allocation process is a report type of template and does not change transaction information within the general ledger system. The allocation process uses payroll and staff data for instructional FTEs, as recorded under function 11, Instruction, as a basis to allocate costs. Accordingly, full use of specific program intent codes in function 11 is essential for the optimum functionality of the allocation process. The  $\mathcal{R}$  by a code indicates that the code is required for reporting purposes ([PEIMS](#) and/or Annual Financial and Compliance Report) if such codes are applicable to the school district. Shared Services Arrangements cost information which is submitted on a special [PEIMS](#) record will also be included in the compliance monitoring calculations. The total costs which will be considered for compliance monitoring purposes are represented by the following formula.

$$\begin{array}{l}
 \text{Expenditures} \\
 \text{coded by the} \\
 \text{school district} \\
 \text{to specific} \\
 \text{Enhanced PICs}
 \end{array}
 +
 \begin{array}{l}
 \text{Allocations of} \\
 \text{expenditures to} \\
 \text{Enhanced PICs from} \\
 \text{the Undistributed PIC} \\
 \text{(99) based upon} \\
 \text{instructional FTEs}
 \end{array}
 +
 \begin{array}{l}
 \text{Expenditures associated} \\
 \text{with a school district as a} \\
 \text{member of a shared} \\
 \text{services arrangement} \\
 \text{which are coded to} \\
 \text{specific Enhanced PICs}
 \end{array}
 =
 \begin{array}{l}
 \text{Total expenditures used} \\
 \text{for monitoring purposes} \\
 \text{such as maintenance of} \\
 \text{effort, comparability and} \\
 \text{compliance with State} \\
 \text{Board of Education rules} \\
 \text{on indirect costs}
 \end{array}$$

### 1X BASIC SERVICES

#### $\mathcal{R}$ 11 Basic Educational Services

The costs incurred to provide the basic services for education/instruction to students in grades PK-12 prescribed by state law as well as adult basic and secondary education services. Basic is defined as the curriculum provided for those students that are not in special education. Basic educational services include the

costs to evaluate, place, and provide educational services to students in honors, college preparatory and advanced placement courses.

Program Intent Code 11 Costs to Include:	Program Intent Code 11 Costs to Exclude (with Correct Program Intent Code):
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Basic services for education/ instruction (PK-12) prescribed by Texas law, including:                             <ul style="list-style-type: none"> <li>- Regular education program for limited English proficiency students</li> </ul> </li> <li>• PK funded from basic education allotment during one-half of full-day program</li> <li>• District/campus improvement plan</li> <li>• Honors, college preparatory courses</li> <li>• Advanced placement courses not designated as part of a gifted and talented program</li> <li>• Adult basic and secondary education services</li> <li>• Section 504 students</li> <li>• Physical education (P.E.) classes when athletic activities take place, but P.E. or P.E. equivalent credit is issued</li> <li>• Foreign language courses</li> <li>• TEKS for foundation curriculum and electives in</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Gifted and talented services (PIC 21)</li> <li>• Advanced placement services designated as part of a gifted and talented program (PIC 21)</li> <li>• Additional salaries and related expenditures/ expenses associated with band, UIL speech, debate, science competition, class sponsors, student organizations social clubs, (i.e., NHS, Beta Club, Letterman’s Club) (PIC 99)</li> <li>• Additional salaries and related expenditures/ expenses associated with serving as coaches, athletic directors, drill team sponsors, cheerleader sponsors, pep squad sponsors, or other organized activity to support athletics (i.e., additional days employed reduction of class load, length of day, etc.) (PIC 91)</li> <li>• Basic services for DAEPs (PIC 28)</li> <li>• Services for alternative education programs (nondisciplinary) that do <b>not</b> represent costs for providing services to students at risk of</li> </ul>

Program Intent Code 11 Costs to Include:	Program Intent Code 11 Costs to Exclude (with Correct Program Intent Code):
<p>enrichment curriculum as needed for high school graduation</p> <ul style="list-style-type: none"> <li>• Day Care Cost</li> <li>• In School Suspension Program</li> <li>• Parenting Classes</li> <li>• Services for an elective alternative education program for students not at risk of dropping out of school</li> </ul>	<p>dropping out of school, as defined under Section 29.081 TEC (PIC 31)</p> <ul style="list-style-type: none"> <li>• Costs for nondisciplinary alternative education programs (PIC 26)</li> <li>• AEP costs (Basic and Supplemental)</li> <li>• SCE costs incurred in support of Title I, Part A schoolwide campuses with 40% or greater educationally disadvantaged students (PIC 30)</li> <li>• SCE costs incurred to provide supplemental services in support of a Title I, Part A targeted assistance program. (PIC 24)</li> <li>• Title I, Part A services</li> </ul>

**2X ENHANCED SERVICES**

**℞ 21 Gifted and Talented**

The costs incurred to assess students for program placement and provide instructional services (which are guided by the state plan) beyond the basic educational program and that are designed to meet the needs of students in gifted and talented programs.

<b>Program Intent Code 21 Costs to Include:</b>	<b>Program Intent Code 21 Costs to Exclude (with Correct Program Intent Code):</b>
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Gifted and talented programs</li> <li>• Advanced placement courses designated as part of a gifted and talented program</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Honors, college preparatory courses (PIC 11)</li> <li>• Advanced placement courses not designated as part of a gifted and talented program (PIC 11)</li> <li>• Summer camps, summer schools, field trips or other summer enrichment programs (PIC 11)</li> <li>• All DAEP related cost</li> </ul>

## **℞ 22**

### **Career and Technical**

The costs incurred to evaluate, place and provide educational and/or other services to prepare students for gainful employment, advanced technical training or for homemaking. This may include apprenticeship and job training activities.

<b>Program Intent Code 22 Costs to Include :</b>	<b>Program Intent Code 22 Costs to Exclude (with Correct Program Intent Code):</b>
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Career and Technical for Handicapped (VEH)</li> <li>• Employment preparation services</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Vocational adjustment classes - VAC (PIC 23)</li> <li>• Quasi - Vocational classes in Middle School and Junior High (PIC 11)</li> </ul>

Program Intent Code 22 Costs to Include :	Program Intent Code 22 Costs to Exclude (with Correct Program Intent Code):
<ul style="list-style-type: none"> <li>• Apprenticeship and job training activities</li> <li>• All career and technical courses (grades 9-12 and VEH for grades 7 - 8)</li> <li>• Career and Technical Supervisor or Director</li> <li>• Career and Technical Counselors</li> <li>• Programs which follow the State Plan for Career and Technical Education</li> </ul>	<ul style="list-style-type: none"> <li>• Career and Technical courses that do not meet the state guidelines (PIC 11)</li> <li>• All DAEP related cost</li> </ul>

**℞ 23 Services to Students with Disabilities (Special Education)**

The costs incurred to evaluate, place and provide educational and/or other services to students who have Individual Educational Plans (IEP) approved by Admission, Review and Dismissal (ARD) committees. These plans are based on students’ disabilities and/or learning needs.

Program Intent Code 23 Costs to Include:	Program Intent Code 23 Costs to Exclude (with Correct Program Intent Code):
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Students who are served in the special education program under identified instructional settings such as:</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Services to Section 504 students (PIC 11)</li> <li>• Career and Technical for Handicapped (VEH) (PIC</li> </ul>

<b>Program Intent Code 23 Costs to Include:</b>	<b>Program Intent Code 23 Costs to Exclude (with Correct Program Intent Code):</b>
<ul style="list-style-type: none"> <li>- Homebound</li> <li>- Hospital class</li> <li>- Speech therapy</li> <li>- Resource room</li> <li>- “Self-contained, mild, moderate or severe” classroom</li> <li>- Off home campus setting (multi-district, community class and self-contained separate campus)</li> <li>- Residential Care and treatment facility</li> <li>- Residential facility</li> <li>- Nonpublic contract</li> <li>- Vocational adjustment class (VAC)</li> <li>- Mainstream (support for students in inclusive setting)</li> <li>• Students with identified disabilities under the Individuals with Disabilities Education Act and TEC</li> <li>• Special Education directors, coordinators or supervisors</li> </ul>	<p>22)</p> <ul style="list-style-type: none"> <li>• Regular education services in the basic educational program, including the salaries of regular education personnel (PIC 11)</li> <li>• All DAEP related cost</li> </ul>

Program Intent Code 23 Costs to Include:	Program Intent Code 23 Costs to Exclude (with Correct Program Intent Code):
<ul style="list-style-type: none"> <li>• State funded special education extended year program</li> <li>• Services to preschool students with disabilities (ages below 5)</li> </ul>	

**℞ 24 Accelerated Education**

The costs incurred to use instructional strategies in accordance with campus/district improvement plans to provide services in addition to those allocated for basic services for instruction, thereby increasing the amount and quality of instructional time for students at risk of dropping out of school.

FSP compensatory education expenditures are attributable to program intent code 24, Accelerated Education, only if the expenditures are supplemental. Activities reflected in expenditures attributable to FSP compensatory education are those activities that supplement the regular education program for students at risk of dropping out of school.

As a goal, accelerated education seeks to provide a challenging and meaningful instructional program to close the achievement gap between children at risk of dropping out of school and their peers.

Program Intent Code 24 Costs to Include:	Program Intent Code 24 Costs to Exclude (with Correct Program Intent Code):
<p><b>Supplemental costs to the Regular Education Program for additional instructional programs and instructional related services specifically designed to benefit students at risk of dropping out of school,</b></p>	<p><b>Costs incurred relating to:</b></p> <ul style="list-style-type: none"> <li>• Basic services (PIC 11)</li> <li>• Services for nondisciplinary</li> </ul>

Program Intent Code 24 Costs to Include:	Program Intent Code 24 Costs to Exclude (with Correct Program Intent Code):
<p><b>as defined by Section 29.081, Texas Education Code:</b></p> <ul style="list-style-type: none"> <li>• Intensive instructional programs</li> <li>• State Compensatory Education (SCE) supplemental instructional activities for students at risk of dropping out of school</li> <li>• Concentrated instructional staff resources</li> <li>• Reduction of class size</li> <li>• Teacher assistants</li> <li>• Staff development activities for teachers and teacher assistants to add new competencies specifically geared to the needs of students at risk of dropping out of school</li> <li>• Extension of the instructional day, week and/or year</li> <li>• Implementation of individual and small group tutorials</li> <li>• Purchase of specialized computer-assisted instruction</li> <li>• Purchase of specialized instructional supplies and materials</li> <li>• Specialized instructional</li> </ul>	<ul style="list-style-type: none"> <li>• alternative education programs (Basic and Supplemental Costs)</li> <li>• Services for disciplinary alternative education programs (Basic and Supplemental Costs)</li> <li>• SCE costs incurred to provide services in support of <b>Title I, Part A schoolwide campuses with 40% or greater educationally disadvantaged students (PIC 30)</b></li> <li>• Day Care Cost (PIC 11)</li> <li>• In School Suspension Program (PIC 11)</li> <li>• Parenting Classes (PIC 11)</li> </ul>



Program Intent Code 24 Costs to Include:	Program Intent Code 24 Costs to Exclude (with Correct Program Intent Code):
<p>equipment</p> <ul style="list-style-type: none"> <li>• TAKS remediation</li> <li>• Dropout recovery/dropout intervention services at high school/middle school campuses/centers</li> <li>• School Reform programs</li> <li>• Individualized instruction programs</li> <li>• Summer/intersession programs</li> <li>• Local programs to "close the gap"</li> <li>• Visiting teachers</li> <li>• Improvements and enhancements to programs for limited English proficiency (LEP) students</li> <li>• Mentorship programs</li> <li>• Residential placement programs</li> <li>• Costs for modified curriculum for instructional services provided to migrant students</li> <li>• Costs incurred to provide supplemental services in support of Title I, Part A</li> </ul>	

Program Intent Code 24 Costs to Include:	Program Intent Code 24 Costs to Exclude (with Correct Program Intent Code):
<ul style="list-style-type: none"> <li>• Supplemental instructional services in support of a Title I, Part A Targeted Assistance Program</li>   <li>• Cost of services for a modified curriculum program specifically designed to improve the academic performance of students at risk of dropping out of school, as defined under Section 29.081, Texas Education Code</li>   <li>• Mentoring services program for students at risk of dropping out of school</li>   <li>• Cost of a program for treatment of students who have dyslexia or a related disorder as required by Section 38.003 in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li>   <li>• An accelerated reading instruction program under Section 28.006(g) in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> </ul>	

## **℞ 25**

### **Bilingual Education and Special Language Programs**

The costs incurred to evaluate, place and provide educational and/or other services that are intended to make the students proficient in the English language, primary language literacy, composition and academic language related to required courses.

These services include the bilingual basic program of instruction and special assistance to increase cognitive academic language proficiencies in English.

Program Intent Code 25 Costs to Include:	Program Intent Code 25 - Costs to Exclude (with Correct Program Intent Code):
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Services intended to make students proficient in English</li> <li>• Provision of a bilingual program</li> <li>• Provision of ESL instruction</li> <li>• Instruction in primary language</li> <li>• Increase in cognitive academic language proficiencies</li> <li>• Bilingual services to immigrant students</li> <li>• Program and student evaluation</li> <li>• Instructional materials and equipment</li> <li>• Staff development</li> <li>• Supplemental staff expenses</li> <li>• Salary supplements for teachers</li> <li>• Supplies required for quality instruction and smaller class size</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Foreign language courses (PIC 11)</li> <li>• All DAEP related cost</li> <li>• Full salary of bilingual/ESL instructors</li> </ul>

## ℞ 26 Nondisciplinary Alternative Education Programs - AEP Services (Effective September 1, 2004)

All costs incurred services to students who are separated from the regular classroom to a nondisciplinary alternative education program and are at risk of dropping out of school. Services must be described in the campus improvement plan.

Program Intent Code 26 Costs to Include:	Program Intent Code 26 Costs to Exclude (with Correct Program Intent Code):
<p>Nondisciplinary AEP education program costs:</p> <ul style="list-style-type: none"> <li>• A program specifically designed to serve students at risk of dropping out of school, as defined by TEC, Section 29.081</li> <li>• English language arts, mathematics, science, history, and self-discipline</li> <li>• Educational and behavioral needs</li> <li>• Supervision</li> <li>• Counseling</li> <li>• Parental involvement</li> <li>• Security</li> <li>• Mentoring services program for students at risk of dropping out of school</li> <li>• Cost of a program for treatment of students who have dyslexia or a related disorder as required by Section 38.003 in proportion</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• State Compensatory Education (SCE) costs to provide services in support of Title I, Part A schoolwide campuses with 40% or greater educationally disadvantaged students (PIC 30)</li> <li>• Costs incurred to provide supplemental services in support of Title I, Part A targeted assistance program. (PIC 24)</li> <li>• Services under Title I, Part A</li> <li>• Services for an elective alternative education program for students not at risk of dropping out of school (PIC 11)</li> <li>• Day Care Cost (PIC 11)</li> <li>• In School Suspension Program (PIC 11)</li> <li>• Parenting Classes (PIC 11)</li> </ul>

Program Intent Code 26 Costs to Include:	Program Intent Code 26 Costs to Exclude (with Correct Program Intent Code):
<p>to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</p> <ul style="list-style-type: none"> <li>An accelerated reading instruction program under Section 28.006(g) in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> </ul>	

**℞ 28 Disciplinary Alternative Education Program – DAEP Basic Services**

All costs incurred to provide the base line program (nonsupplemental) services to students who are separated from the regular classroom to a disciplinary alternative education program. For the purpose of analyzing compliance with the 85% minimum expenditure rule for the FSP compensatory education allotment for each fiscal year (beginning with fiscal year 2003 or beginning with the twelve month period ended on June 30, 2003 or August 31, 2003), the Texas Education Agency will include in its analysis base level costs recorded under this program intent code in an amount up to 18% of the FSP compensatory education allotment. (See Section 9.3.7, Module Nine for methodology) Services must be described in the campus improvement plan.

Program Intent Code 28 Costs to Include:	Program Intent Code 28 Costs to Exclude (with Correct Program Intent Code):
<p>DAEP base level education program costs:</p> <ul style="list-style-type: none"> <li>English language arts, mathematics, science, history, and self-discipline</li> <li>Educational and behavioral</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>Nondisciplinary AEPs (Basic and supplemental costs)</li> <li><b>Supplemental</b> costs for disciplinary alternative education program services</li> </ul>

Program Intent Code 28 Costs to Include:	Program Intent Code 28 Costs to Exclude (with Correct Program Intent Code):
<p>needs</p> <ul style="list-style-type: none"> <li>• Supervision</li> <li>• Counseling</li> <li>• Parental involvement</li> <li>• Security</li> <li>• Mentoring services program for students at risk of dropping out of school</li> <li>• Cost of a program for treatment of students who have dyslexia or a related disorder as required by Section 38.003 in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> <li>• An accelerated reading instruction program under Section 28.006(g) in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> </ul>	<p>(PIC 29)</p> <ul style="list-style-type: none"> <li>• SCE costs incurred in support of Title I, Part A schoolwide campuses with 40% or greater educationally disadvantaged students (PIC 30)</li> <li>• SCE costs incurred to provide supplemental services in support of a Title I, Part A targeted assistance program. (PIC 24)</li> <li>• Services under Title I, Part A</li> <li>• Day Care Cost (PIC 11)</li> <li>• In School Suspension Program (PIC 11)</li> <li>• Parenting Classes (PIC 11)</li> </ul>

**℞ 29      Disciplinary Alternative Education Program – DAEP State Compensatory Education Supplemental Costs**

The supplemental costs incurred to provide services to students who are separated from the regular classroom to a disciplinary alternative education program. These costs **are supplemental costs** in relation to standards for base level education resource allocations and must be described in the campus improvement plan.

Program Intent Code 29 Costs to Include:	Program Intent Code 29 Costs to Exclude (with Correct Program Intent Code):
<p>DAEP supplemental SCE costs:</p> <ul style="list-style-type: none"> <li>• English language arts, mathematics, science, history, and self-discipline</li> <li>• Educational and behavioral needs</li> <li>• Supervision</li> <li>• Counseling</li> <li>• Parental involvement</li> <li>• Security</li> <li>• Mentoring services program for students at risk of dropping out of school</li> <li>• Cost of a program for treatment of students who have dyslexia or a related disorder as required by Section 38.003 in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> <li>• An accelerated reading instruction program under Section 28.006(g) in proportion to the percentage of students served by the program that meet the criteria in Section 29.081(d) or (g)</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Basic services for DAEPs (PIC 28)</li> <li>• Nondisciplinary AEPs (Basic and supplemental costs)</li> <li>• AEP costs (Basic and Supplemental)</li> <li>• SCE costs incurred in support of Title I, Part A schoolwide campuses with 40% or greater educationally disadvantaged students (PIC 30)</li> <li>• SCE costs incurred to provide supplemental services in support of a Title I, Part A targeted assistance program. (PIC 24)</li> <li>• Title I, Part A services</li> <li>• Day Care Cost (PIC 11)</li> <li>• In School Suspension Program (PIC 11)</li> <li>• Parenting Classes (PIC 11)</li> </ul>

**§ 30 Title I, Part A Schoolwide Activities Related to State Compensatory Education (SCE) and Other Costs on Campuses with 40% or More Educationally Disadvantaged Students**

The SCE costs incurred to supplement federal awards for use on Title I, Part A schoolwide campuses with at least 40% educationally disadvantaged students (including fund code 211) in the amount of the SCE allotment used to supplement federal awards. This program intent code is also used in the Special Revenue Fund for fiscal budgets approved in notice of grant awards (NOGA) for schoolwide federal projects benefiting Title I, Part A schoolwide campuses with at least 40% educationally disadvantaged students.

State law provides flexibility with the use of SCE funds on Title I, Part A campuses at which at least 40% of the students are educationally disadvantaged. SCE funds used to support a Title I, Part A program must be part of the campus budget and all SCE expenditures must be tracked back to the SCE fund code, and all generally accepted accounting principles must be followed. As with Title I funds, SCE funds used to upgrade the educational program must also meet the same guidelines required of NCLB in that SCE funds may only be used to incorporate instructional strategies that scientifically-based research has shown are effective with teaching low-achieving students.

SCE funds may be used on a Title I, Part A Schoolwide campus to upgrade the educational program where the actual poverty percentage of the campus is 40% or greater as long as the SCE funds allocated to the campus are supplemental to the costs of the regular education program. To determine a campus' poverty percentage, school districts will use the same auditable poverty data used for Title I, Part A for identifying Title I campuses in the NCLB Consolidated Application for Federal Funding, located on the Title I Campus Selection Schedule. The use of these funds just be described and evaluated in the schoolwide campus improvement plan.

Although activities conducted with SCE funds may be used to support the Title I program., the campus must continue to receive its fair share of state and local funds for conducting the regular education program, and the intent and purpose of the SCE Program must still be met.



Program Intent Code 30 Costs to Include:	Program Intent Code 30 Costs to Exclude (with Correct Program Intent Code):
<p>SCE costs incurred to supplement the following eight components of a Title I, Part A schoolwide program:</p> <p>(1) <b>A comprehensive needs assessment</b> of the entire school, including the needs of any migratory children in attendance. This assessment is based on information about the achievement of children in relation to the Texas state Academic Standards (TAKS). It should identify gaps between the current status of the school and its vision of where it wants to be, relative to key indicators or focus areas.</p> <p>Data obtained from the needs assessment provide the foundation for the goals of the comprehensive schoolwide plan.</p> <p>(2) <b>Schoolwide reform strategies that provide opportunities for all children to meet the state’s academic standards, particularly low-achieving children.</b> The schoolwide plan also should address how the school will determine if student needs have been met.</p> <p>-</p> <p>(3) <b>Instruction by highly qualified teachers</b> (refer to the NCLB Program Coordination web page for additional information:  <a href="http://www.tea.state.tx.us/nclb/">http://www.tea.state.tx.us/nclb/</a>)</p> <p>(4) <b>High quality and ongoing professional development</b> for teachers, principals, and paraprofessionals, and if</p>	<p>SCE costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Basic and supplemental services at AEPs and DAEPs</li> <li>• SCE costs incurred to provide supplemental services in support of a Title I, Part A targeted assistance program. (PIC 24)</li> <li>• Day Care Cost (PIC 11)</li> <li>• In School Suspension Program (PIC 11)</li> <li>• Parenting Classes (PIC 11)</li> </ul>

Program Intent Code 30 Costs to Include:	Program Intent Code 30 Costs to Exclude (with Correct Program Intent Code):
<p>appropriate, pupil services personnel, parents, and other staff.</p> <p>(5) <b>Strategies to attract high-quality highly qualified teachers.</b></p> <p>(6) <b>Increased parental involvement activities.</b></p> <p>(7) <b>Assistance for preschool children in the transition from early childhood programs</b>, such as Head Start, Even Start, Early Reading First, or a state-run preschool program, to local elementary school programs.</p> <p>- ;</p> <p>(8) <b>Inclusion of teachers in the decisions regarding the use of academic assessments</b> in order to provide information on, and to improve, the achievement of individual students and the overall instructional program.</p> <p>(9) Provision of <b>effective, timely additional assistance and activities to students who experience difficulty mastering the proficient or advanced levels of academic achievement standards.</b> This shall include measures to ensure that students' difficulties are identified on a timely basis and provide sufficient information on which to base effective assistance.</p> <p>(10) <b>Coordination and integration of federal, state, and local services and programs.</b></p>	

Program Intent Code 30 Costs to Include:	Program Intent Code 30 Costs to Exclude (with Correct Program Intent Code):

### **℞ 31 High School Allotment (effective fiscal year 2009/10)**

This program intent code is to be used to account for the \$275 per high school student to prepare students to go on to higher education, encourage students to take advanced academic course work, increase the rigor of academic course work, align secondary and postsecondary curriculum and support promising high school completion and success initiatives in grades 6 through 12. If the district meets certain college readiness and completion rate standards, there are less restrictions on how the funds are spent—see TEC 39.234.

This amount is not paid separately, but is combined with other Foundation School Program funds. The breakdown of the amount is provided on the Summary of Finance for journal entry purposes.

See the [High School Allotment](#) section of the HB1 implementation page for general information and a link to TAC 61 for rules on high school allotment.

This PIC is to be used beginning in fiscal year 2009/10 with fund 199 to align with the movement to Tier I funding; however, before that time it may be coded to fund 428 to record any remaining fund balance at the end of fiscal year 2008/09.

### **32-6X Reserved for Future State Definition**

These program intent codes are reserved for future state definition and are not to be used by school districts.

### **71-8X Reserved for use by Education Service Centers**

This group of program intent codes is reserved for use by education service centers to provide special accountability in areas such as bus driver training and driver education. These codes are not to be used by school districts.

<b>Program Intent Code 71-8X - Costs to Include:</b>	<b>Program Intent Code 71-8X - Costs to Exclude (with Correct Program Intent Code):</b>
Costs incurred relating to: <ul style="list-style-type: none"> <li>• Bus driver training and driver education provided by education service centers</li> <li>• Other services as designated by education service centers</li> </ul>	Costs incurred relating to: <ul style="list-style-type: none"> <li>• Services specifically defined in other program intent codes (appropriate PIC)</li> </ul>

**9X****OTHER****91****Athletics and Related Activities**

The costs incurred to provide for participation in competitive athletic activities such as football, basketball, golf, swimming, wrestling, gymnastics, baseball, tennis, track, volleyball, etc. This includes costs associated with coaching as well as sponsors for drill team, cheerleaders, pep squad or any other organized activity to support athletics. However, this does not include band.

<b>Program Intent Code 91 Costs to Include:</b>	<b>Program Intent Code 91 Costs to Exclude (with Correct Program Intent Code):</b>
Costs incurred relating to: <p>Additional salaries associated with serving as coaches, athletic directors drill team sponsors, cheerleader sponsors, pep squad sponsors, or other organized activity to support athletics (i.e., additional days employed, reduction of class load, length of day, etc.)</p>	Costs incurred relating to: <ul style="list-style-type: none"> <li>• Additional salaries and related expenditures/ expenses associated with band, UIL speech, debate, science competition, class sponsors, student organizations, social clubs (i.e., NHS, Beta club, Letterman's Club) (PIC 99)</li> </ul>

**℞ 99      Undistributed**

All charges which are not readily distributed to program intent codes are classified here. Program intent code 99 may be used when recording substitute teachers and on-behalf teacher retirement payments in all function codes. This code may be used for costs not clearly attributable to a specific program intent.

<b>Program Intent Code 99 Costs to Include:</b>	<b>Program Intent Code 99 Costs to Exclude (with Correct Program Intent Code):</b>
<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Substitute teachers (if not allocated to specific PICs)</li> <li>• Teacher retirement on-behalf payment (if not allocated to specific PICs)</li> <li>• Additional salaries and related expenditures/expenses associated with band, UIL speech, debate, science competition, class sponsors, student organizations, social clubs (i.e., NHS, Beta club, Letterman’s Club)</li> </ul>	<p>Costs incurred relating to:</p> <ul style="list-style-type: none"> <li>• Additional salaries associated with serving as coaches, athletic directors, drill team sponsors, cheerleader sponsors, pep squad sponsors, or other organized activity to support athletics (i.e., additional days employed, reduction of class load, length of day, etc.) (PIC 91)</li> </ul>

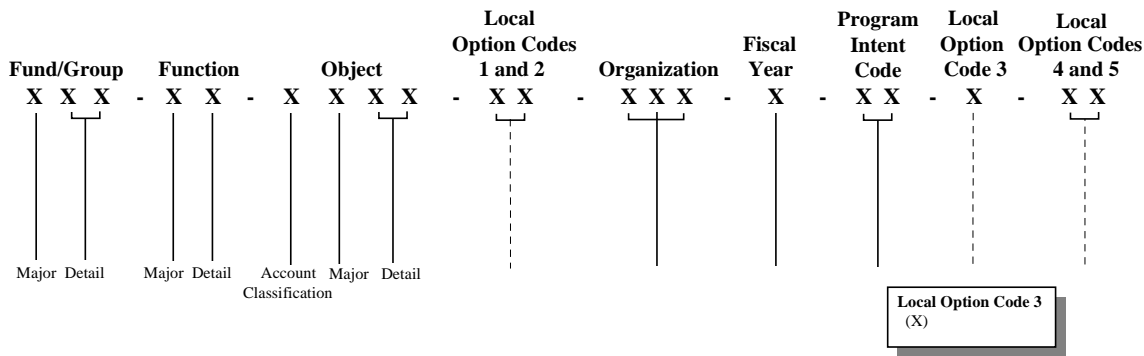
**1.4.16 Optional Code 3**

This account group/category code is used, at the option of the school district, to provide more detailed accountability at the local level, if needed for management purposes. This code is not reported through [PEIMS](#) and may be used for any purpose that the school district chooses. The following page suggests a use for the code; however the suggested use should not be construed as mandatory. The school district may use the code in any manner.

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**Exhibit 44. Optional Code 3 Structure**


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**The Code Structure**


-----	Indicates a mandatory code for State reporting purposes
-----	Indicates a code that may be used at local option

This code was previously used, at the local option, to account for the educational span. The school district may choose to use the optional codes listed below for that purpose.

**A**            **Pre-Kindergarten**

A beginning group or class that is organized to provide educational experiences for children during the year or years preceding kindergarten. These educational experiences are a part of the sequential program of the elementary school and are under the direction of a qualified teacher.

**B**            **Kindergarten**

A group or class that is organized to provide educational experiences for children during the year immediately preceding the

first grade. These educational experiences are a part of the sequential program of the elementary school and are under the direction of a qualified teacher.

C	Grade 1
D	Grade 2
E	Grade 3
F	Grade 4
G	Grade 5
H	Grade 6
I	Grade 7
J	Grade 8
K	Grade 9
L	Grade 10
M	Grade 11
N	Grade 12
O	Post 12th Grade

Day or evening education programs of instruction designed to meet the needs of youth who have completed their formal secondary education.

P	Elementary
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Local Option Code 3 X
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Education in a school classified as “elementary” and composed of any span of grades not above 6, including special schools and institutions. Elementary is normally reported as grades 1 through 6.

Q Secondary

Education in a school classified as “secondary” and composed of any span of grades beginning with the next grade following elementary school and ending with grade 12, including junior high schools, different types of high schools, and special schools and institutions. Secondary is normally reported as grades 7 through 12.

R Middle

A class designated as lying between elementary and secondary education.

S Non-Graded Elementary

An elementary class which is not organized on the basis of grade and has no standard grade designation. Such classes may contain pupils of different ages who are identified according to level of performance rather than grade or age level.

T Non-Graded Secondary

A secondary class which is not organized on the basis of grade and has no standard grade designation. Such classes may contain pupils of different ages who are identified according to level of performance rather than grade or age level.

U Non-Graded, Other

Other education conducted on a non-graded basis.

V Additional local option codes



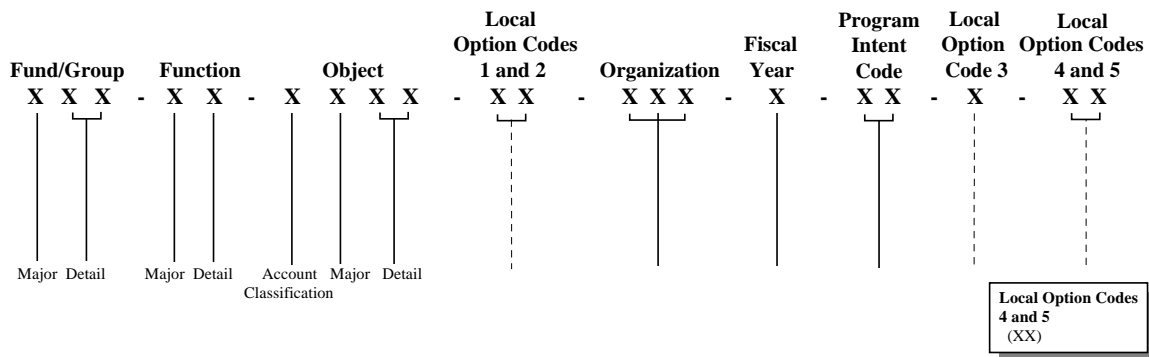
- W Additional local option codes
- X Additional local option codes
- Y Additional local option codes
- Z Additional local option codes

### 1.4.17 Optional Codes 4 and 5

These codes are used, at the option of the school district to provide local option coding as needed or desired. A chart of locally assigned accounts should be kept for managerial, auditing and other purposes.

**Exhibit 45. Optional Codes 4 and 5 Structure**

#### The Code Structure



————— Indicates a mandatory code for State reporting purposes  
 - - - - - Indicates a code that may be used at local option

Some suggested uses for these codes include:

- Tracking multiple projects within one fund
- Providing instructional costs by grade level
- Providing detail instructional costs by subject area such as Algebra I, Algebra II, etc.
- Providing major groupings by subject area such as mathematics, science and English

### **1.4.18 Data Control Codes**

These codes refer to the account code structure prescribed by the TEA in the Annual Financial Audit GASB Data Feed. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

The standards for the GASB Data Feed are found on the Financial Audits website under [\*Instructions for Electronic Report Submission\*](#).

## 1.5 Internal Control

A strong system of internal control enables the school district to ensure that resources are properly handled, properly used and are available for management's and the board's designation. In addition, the various agencies of the federal and state governments, including such agencies as the Office of Management and Budget, the Government Accountability Office, Texas Education Agency and others, require school district auditors to report on the internal control structure as a whole and as it relates to the federal financial assistance area.

This section provides both general and specific guidance on the fundamental principles of an effective system of internal control and addresses the following topics:

- Internal control defined
- Common types of control procedures
- Internal control check list
- Suggested areas for consideration of the internal control

Of particular interest to school district business officials is the Internal Control Check List and a listing of suggested areas for consideration relating to the internal control structure. These resources can be used to aid in assessing and improving the internal controls in place in a school district.

### 1.5.1 Internal Control - Defined

The extent of internal control that a school district should establish is a judgment that must be made by management. Management's judgment regarding the extent of internal control necessary is affected by circumstances such as the size of the organization and the number of personnel available. Consideration must be given to the relationship between costs and benefits. In addition, the nature of internal control is such that even appropriate internal control methods and systems will not guarantee that a school district's objectives will be achieved, nor will they ensure its success.

*Internal control* is defined as “a process - effected by an entity’s board of trustees, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations”

Internal control consists of five interrelated components:

- Control environment
- Risk Assessment
- Control activities
- Information and communication systems
- Monitoring

### **1.5.1.1 Control Environment**

The control environment establishes the school district management’s attitude toward internal control. It is the basis for all other elements of the system of internal control. AU 314.67 states that the control environment “sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.”

The collective effort of various factors affects the control environment, including the following:

- Integrity and ethical values

- Commitment to competence
- Participation of those charged with governance
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of controls is more important than their form because the controls may not be effectively implemented and maintained. An auditor should weigh the collective effect on the control environment of strengths and weaknesses of the organization’s internal control. It may be that a particular weakness may have a significant effect on the control environment.

### **1.5.1.2 Risk Assessment**

Risk assessment is defined as the “entity’s identification, analysis, and management of risks” relevant to the preparation of GAAP financial statements.

Risks can arise or change as a result of the following factors:

- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology

- New grant activities, building projects and other activities
- Organizational restructuring
- Accounting pronouncements
- Federal regulations
- School finance statutes

### **1.5.1.3 Control Activities**

Control activities are “the policies and procedures that help ensure that management directives are carried out.” Control activities can be divided into four categories:

- Authorization
- Asset accountability
- Safeguarding
- Segregation of duties

The application of control activities, such as segregation of duties, is affected to some degree by the size of the school district. In smaller school districts, control activities will be less formal than in larger school districts. Additionally, certain types of control activities may not be relevant in a smaller entity.

### **1.5.1.4 Information and Communication**

Information and communication are “the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.” Information systems encompass procedures and documents that:

- Identify and record all valid transactions

- Describe, on a timely basis, the transactions in sufficient detail to permit proper classification of transactions for financial reporting
- Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements
- Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period
- Present properly the transactions and related disclosures in the financial statements.

Top management should deliver a clear message to school district personnel that control responsibilities must be taken seriously. School district personnel must understand their own role in the internal control system, as well as how individual activities relate to the work of others. In addition, school district personnel must have a means of communicating significant information to upper levels of management. In addition to internal communication, effective communication with external parties such as parents, TEA and various agencies of the federal government when necessary should be made available. Communication also includes policy manuals as well as accounting and financial reporting manuals.

### 1.5.1.5 Monitoring

Monitoring is “a process that assesses the quality of internal control performance over time.”

*Ongoing activities* include regular management and supervisory activities and other actions taken during the normal performance of an individual’s daily responsibilities.

The nature and timing of *separate evaluations* depend on the effectiveness of ongoing activities and the risk that the internal controls are not performing as intended by school district management.

Deficiencies in the system of internal controls should be reported to management at the appropriate level.

One type of monitoring activity that management may perform is to examine certain ratios or financial indicators. These ratios and indicators are measures of performance reflecting key variables of the organization that normally lead to or indicate the current or future effectiveness of the school district.

The extent to which a manager is held accountable for the effectiveness of control procedures will probably determine the extent to which the manager monitors their performance. Management of a school district should assign responsibility and delegate authority with sufficient care to ensure that:

- Persons who perform control procedures are held accountable for their performance by those who monitor their activities
- Persons who monitor the performance of control procedures are held accountable by senior management, the board of trustees or the audit committee

If management routinely uses accounting information in making operating decisions, it is likely to establish effective controls and hold lower-level managers and employees accountable for their performance. In addition, if management routinely uses accounting information in measuring progress and operating results, it is likely to investigate significant variances between planned and actual results. This investigation may detect the causes of significant variances and affect the steps necessary to correct control procedures that failed to prevent misstatements.

## **1.5.2 Common Types of Control Procedures**

Numerous control procedures and monitoring activities are performed by individuals in various organizations to accomplish particular objectives. All of these controls, however, can be categorized as a variation of one of the basic types of controls described below. Detailed control procedures or monitoring activities may be included within each of the categories below, depending on the size of the school district and the sophistication of the particular control environment.

### **1.5.2.1 Controls over Unauthorized Access or Obligations**

Certain controls are designed to prevent access to assets by persons not authorized by management to have access. Often these controls are physical in nature, for example, storing inventories of supplies and commodities in locked storage areas, storing currency in



a vault or locked drawer and using alarm systems to discourage vandals. If controls relating to unauthorized access to assets are not effective, assets may be lost or stolen. However, if detective control procedures such as physical inventory counts are appropriately performed, shortages should be discovered in a timely manner. Changes in Federal banking laws in recent years have potentially increased risk of loss to ISDs from authorized access to bank accounts.

In some cases, unauthorized access to assets may be gained through access to records – especially those records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals are kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method).

Monitoring of control procedures that address unauthorized access includes activities such as observing physical control procedures, reviewing established access privileges with the manager of information systems or reviewing reports of attempted computer access violations. Internal auditors often perform such activities.

### 1.5.2.2 Controls over Authorized Access or Obligations

Access controls do not necessarily prevent persons who have authorized access to assets from misappropriating them. Persons who have authorized access to both assets and related accounting records may be in a position to conceal shortages of the assets in the records. If duties are properly segregated, persons who have authorized access to assets will not also have access to related accounting records in which they might conceal shortages. In some cases, access to assets may be authorized only for two or more persons acting jointly. This access restriction is referred to as “dual control.” For example, management may require that two people open the mail and list cash receipts to prevent one of them from pilfering cash receipts before they are initially recorded.

Controls over authorized access to assets are important to a business, not only to prevent thefts, but to ensure that assets of the school district are committed only after proper consideration by persons who are knowledgeable and experienced. Authorization and approval are types of controls over access to assets that are designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to assure that disbursements are made only when authorized orders for goods and services have been received. In many computerized systems, access to computerized records (e.g., shipping requests) can result in access to assets; therefore, controls over authorized *access to assets* need to consider controls over *access to such records*.

### **1.5.2.3 Reconciliations and Comparison of Assets with Records**

The purpose of reconciliations and comparisons of assets with records is to ensure that independent checks cover the output of a system, either by maintenance of a separate independent control record with which the processed data are reconciled or by direct comparison of the output with the related assets. Monitoring is usually accomplished by reviewing reconciliations or by participating in comparisons of assets. Examples of reconciliations of assets with records are reconciliation of physical inventory to accounting records and reconciliation of bank balance to general ledger balance

### **1.5.2.4 Analytical Reviews**

The purpose of analytical reviews is to evaluate summary information, usually resulting from a series of transactions or processes, by comparing it with expected results. Analytical reviews are often performed by management to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budget to actual, with investigation of variances. Often, analytical reviews serve as monitoring of various other underlying control procedures.

### **1.5.2.5 Authorization and Approval**

The purpose of authorization and approval is to prevent invalid transactions from occurring. The effectiveness of these controls is often dependent on general computer controls over information security.

### **1.5.2.6 Reviews of Output**

Reviews of output should be performed by personnel who have the knowledge and experience to identify errors. Such reviews could be performed in both computer and manual systems. The purpose of such reviews is to check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

### 1.5.2.7 Transactional Reviews

The purpose of transactional reviews is to check the validity and accuracy of output by comparing it in detail with expected results. Reviews of output are often performed with the use of exception reports, which are reports (usually computer-generated) listing items for which processing was rejected because the items did not match specified criteria. For example, a computer-generated check may be rejected if it is for an amount large enough to require manual signing. Monitoring of these types of control procedures is often performed by reviewing results at various levels of management.

### 1.5.2.8 General Computer Controls

Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within one computer processing environment. General computer controls include all the usual elements of effective internal control, which includes a person or group responsible for control, control procedures and monitoring activities. Monitoring of the performance of general computer controls is usually performed by managers of the information systems department. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program changes, oversight by information system steering committees and the monitoring of user complaints. For example, the effectiveness of programmed control procedures such as edit checks and approvals depends on general computer controls that ensure that program changes are not made improperly. General computer controls include controls over computer operations, systems acquisition development and maintenance, information security and information systems support.

*Computer Operations* - The computer operations staff is responsible for the day-to-day processing activities of the school district's system. It ensures that jobs are scheduled and processed as planned. It is also responsible for physical control of data stored on the system or tapes, as well as timely and accurate distribution of reports.

*Systems Acquisition, Development and Maintenance* - The systems acquisition, development and maintenance staff is responsible for the planning, acquisition or programming, testing and implementation of new application systems and changes to existing application systems. Such controls are usually important in larger processing environments where there is more development and maintenance activity. The systems are more complex and there is less reliance on purchased software.

*Information Security* - The information security function is responsible for the administration and maintenance of a school district's information security program,

including both physical and logical security. The primary goal of such a program is to ensure that access to program data, on-line transactions and other computing resources is restricted to authorized users.

*Information Systems Support* - Information systems support includes functions such as system software maintenance, data base administration, communications and network management, end user computing and other groups with technical and administrative support responsibilities.

Certain school districts may use service organizations for executing and recording certain transactions. In such situations, the school district needs to ensure that the service organization has adequate controls over processing the transactions.

### 1.5.3 Internal Control Check List

Presented in Exhibit 46 is a check list that may provide assistance to management in determining if a school district has areas where internal control procedures should be enhanced. The questionnaire below should be completed by placing a “√” in the appropriate column. Any “NO” responses could indicate that there is an internal control weakness and that further review should be performed to determine if there are other control procedures in place to mitigate potential risk.

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**Exhibit 46. Internal Control Check List**

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#### INTERNAL CONTROL CHECK LIST

		YES	NO	COMMENTS
1.	Are the following functions performed by someone other than the accounts receivable bookkeeper(s):			
	(a) Handling cash and maintaining cash records?			

		YES	NO	COMMENTS
	(b) Opening incoming mail?			
	(c) Credit collection, if applicable?			
	(d) Review and mailing of tax statements?			
	(e) Approval of and adjustments of uncollectible delinquent taxes?			
2.	Are accounts receivable ledgers unavailable to the cashiers?			
3.	Are subsidiary ledgers regularly balanced with control accounts?			
4.	Are subsidiary ledgers occasionally balanced with control accounts by someone other than the accounts receivable bookkeeper(s)?			
5.	Are tax statements sent at regular intervals to all taxpayers?			
6.	Are securities, insurance policies and similar instruments under the control of a responsible official?			
7.	Are all persons having access to securities properly bonded?			
8.	Are securities kept in a safe-deposit box and does access to the safe-deposit box require the presence of two or more employees?			

		YES	NO	COMMENTS
9.	Does the accounting department maintain a record of each security, its cost, description and certificate number, and are all securities periodically accounted for and reconciled to the records?			
10.	Are inventory records maintained for supplies and capital assets?			
11.	Are inventory records verified by physical inventories at least once each year?			
12.	Are discrepancies between inventory records and the physical count promptly investigated and appropriate adjustments of the records made?			
13.	Are trial balances of inventory records taken at regular intervals and balanced with the general ledger control account?			
14.	Are inventory records maintained by persons who have no access to the supplies stored?			
15.	Are prenumbered receiving reports used, and are copies thereof forwarded to the accounting department for use in verifying invoices?			
16.	Are materials and supplies held in a central location and issued only on properly approved requisitions?			
17.	Are stolen goods promptly reported to a local law enforcement officer?			

		YES	NO	COMMENTS
18.	Are accounts payable personnel independent of purchasing and of the cashier or persons signing checks?			
19.	Are prenumbered purchase orders used, and are copies transmitted to the accounts payable department?			
20.	Are prices established at the time of placing orders?			
21.	Do the procedures for verification of invoices in the accounts payable department require a signature to ensure that:			
	(a) Quantities billed on the invoice agree with those called for on the purchase order and shown by the receiving report?			
	(b) Prices, discounts, credit period and terms of shipment per the invoice match with those specified on the purchase order?			
	(c) Extensions, footings and deduction of discounts are correct?			
22.	Are accounts payable balanced monthly to the general ledger control account?			
23.	Are monthly statements from vendors regularly reconciled to accounts payable ledgers?			

		YES	NO	COMMENTS
24.	Are returned purchases controlled in a manner to ensure that the school district receives proper credit against charges?			
25.	Are there established procedures to call attention to invoices not paid within the discount period?			
26.	Are all loans approved by the board and signed by the president or vice president and secretary?			
27.	Are invoices and supporting documents marked when approved for payment in a manner which precludes the possibility of submission a second time (duplicate payments)?			
28.	Are employees paid by prenumbered payroll checks?			
29.	Are spoiled payroll checks voided in a manner which prevents reuse, and filed in a numerical sequence with paid checks?			
30.	Is a check protector used?			
31.	Are various phases of payroll work, such as timekeeping, compilation of payroll, writing paychecks, filling envelopes and distribution of employees, divided among a sufficient number of persons?			
32.	Is there a reasonable rotation of duties, when possible, among timekeepers, paymasters and persons preparing payrolls?			



		YES	NO	COMMENTS
33.	Are undelivered payroll checks forwarded to an appropriate official for deposit after a specified period of time?			
34.	Is the payroll bank account reconciled monthly by employees having no other connection with payroll work?			
35.	Does the reconciliation of the payroll bank account include examination of endorsements on paid checks, accounting for numerical sequence of checks, and comparison of checks with payroll records?			

### 1.5.4 Suggested Areas for Consideration of the Internal Control Structure

Presented below is an extensive listing of areas that could require internal control procedures. The areas addressed are:

- Budgets and Planning
- Cash
- Investments and Investment-Related Activity
- Revenues and Receivables
- Capital Assets
- Expenses/Expenditures and Liabilities

- Employee Compensation
- Information Technology
- Financial Reporting

This listing should not be considered all-inclusive. Also, procedures in all of these areas would not necessarily be desirable or required for all circumstances.

### **1.5.4.1 Budgets and Planning**

#### ***Segregation of Duties***

1. Segregation of responsibilities for budget preparation, adoption, execution and reporting

#### ***Procedural Controls***

##### *Preparation*

2. Awareness of budgets and budgetary procedures required by law
3. Preparation of budgets for all significant activities regardless of whether mandated by law
4. Preparation of budget calendar to make orderly submission and approval of the budget
5. Development and preparation of initial budget submissions by major departments and activity centers
6. Review of departmental budgets by the finance or budget officer and corrections by departments of oversight or integration of the executive's goals and objectives

7. Compatibility of the type of budgeting performed (traditional, program, performance) with the accounting system
8. Preparation of the budget in sufficient detail (responsibility level) to provide a meaningful tool with which to monitor subsequent performance
9. Budget of interfund and interdepartmental transfers, if appropriate

### *Adoption*

10. Budget hearings to obtain citizen input
11. Submission of the budget to the legislative body for approval; clear communication to operating departments or agencies of the effects of legislatively mandated budget modifications, either increases or decreases
12. Coincident with adoption of the budget, action of the legislative body, as appropriate, to:
  - Adopt legislation to implement the raising of budgeted revenues
  - Initiate expenditure appropriations
13. Recording in the accounting records of estimated revenues and appropriations for later comparison to actual amounts realized or incurred
14. Recording in the accounting system of budgets that have been approved by grantors in connection with grant activity
15. Publication of budgets if required by law

### *Execution*

16. Formal adoption and communication of procedures establishing authority and responsibility for transfers between budget categories

17. Use of an allotment system to control the flow of expenditures or commitments
18. Approval as to availability of funds by the accounting department before issuance of a purchase order or expenditure commitment
19. Processing and approval of requests for supplemental appropriations or budget changes the same way as the original budget is processed and approved (or as required by law)
20. Controls to ensure knowledge of outstanding commitments if liabilities and expenditures are recorded on an encumbrance or obligation basis

### *Reporting*

21. Comparison of actual expenditures to budget with reasonable (monthly) frequency and on a timely basis
22. Discussion of reports with departmental personnel and receiving explanations for significant variations from budget
23. Timely notification of both the executive and legislative branches of expenditures in excess of appropriations or budget
24. Publication of actual results of operations against the budget

## **1.5.4.2 Cash**

### ***Segregation of Duties***

1. Segregation of responsibilities for collection and deposit preparation functions from those for recording cash receipts and general ledger entries
2. Segregation of responsibilities for cash receipts functions from those for cash disbursements

3. Segregation of responsibilities for disbursement preparation and disbursement approval functions from those for recording or entering cash disbursements information on the general ledger
4. Segregation of responsibilities for the disbursement approval function from those for the disbursement, voucher preparation and purchasing functions
5. Segregation of responsibilities for entries in the cash receipt and disbursement records from those for general ledger entries
6. Segregation of responsibilities for preparing and approving bank account reconciliations from those for other cash receipt or disbursement functions
7. If EDP is used, maintenance of the principle of segregation of duties within processing activities

### ***Procedural Controls***

#### *Collections*

8. Timely deposit (preferably daily) of all receipts
9. Controls over the collection, timely deposit and recording of collections in the accounting records in each collection location
10. Timely notice of cash receipts from separate collection locations to general accounting department
11. Comparison of daily reported receipts on a test basis to bank statements to verify timeliness of deposits
12. Placing a restrictive endorsement on incoming checks as soon as received
13. Delivery of "not sufficient funds" checks to someone independent of processing and recording of cash receipts

14. Procedures for follow-up of "not sufficient funds" checks
15. Receipts controlled by cash register, prenumbered receipts or other equivalent means if payments are made in person (over the counter)
16. Accounting for such receipts and balancing them to collections daily
17. Facilities for protecting undeposited cash receipts

### *Disbursements*

18. Control over warrant or check signing machines as to signature plates and usage
19. Procedures providing for immediate notification to banks when warrant or check signers leave the unit or are otherwise no longer authorized to sign
20. Furnishing invoices and supporting documents to the signer prior to signing the warrant or check
21. Setting reasonable limits on amounts that can be paid by facsimile signatures
22. Requiring two signatures on warrants or checks over a stated amount
23. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
24. Using plates only under the signer's control and recording machine reading by the signer or an appropriate designee to ascertain that all checks or warrants signed are properly accounted for by comparison to document control totals
25. Direct delivery to the mail room of signed warrants or checks, making them inaccessible to persons who requested, prepared or recorded them
26. Prohibiting the drawing of warrants or checks to cash or bearer
27. Use of positive-pay procedures for check-clearing purposes

### *Custody*

28. Maintenance of control over supply of unused and voided warrants or checks
29. Proper authorization of bank accounts
30. Periodically reviewing and formally reauthorizing depositories
31. Controls and physical safeguards surrounding working (petty cash) funds
32. Maintenance of adequate fidelity insurance
33. Maintenance of separate bank accounts for each fund, or if not, adequate fund control over pooled cash

### *Detail Accounting*

34. Procedures ensuring that collections and disbursements are recorded accurately and promptly
35. Procedures for authorizing and recording interbank and interfund transfers providing for proper accounting for those transactions

### *General Ledger*

36. General ledger control over all bank accounts
37. Delivery of bank statements and paid warrants or checks in unopened envelopes directly to the employee preparing the reconciliation
38. Procedures for steps essential to an effective reconciliation, particularly:
  - Comparison of warrants or checks in appropriate detail with disbursement records

- Examination of signature and endorsements, at least on a test basis
  - Accounting for numerical sequence of warrants or checks used
  - Comparison of book balances used in reconciliations with general ledger accounts
  - Comparison of deposit amounts and dates with cash receipt entries
  - Footing of cash books
39. Review and approval of all reconciliations and investigation of unusual reconciling items by an official who is not responsible for receipts and disbursements, including recording evidence of the review and approval by signing the reconciliation
40. Periodic investigation of checks outstanding for a considerable time

### **1.5.4.3 Investments and Investment-Related Activity**

#### ***Segregation of Duties***

1. Segregation of responsibilities for initiating, evaluating and approving transactions from those for detail accounting, general ledger and other related functions
2. Segregation of responsibilities for initiating transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for monitoring investment market values and performance from those for investment acquisition
4. Segregation of responsibilities for maintaining detail accounting records from those for general ledger entries
5. Assignment of custodial responsibilities for [securities](#) or other documents evidencing ownership or other rights to an official who has no accounting duties



6. If EDP is used, maintaining the principle of segregation of duties within processing activities

### ***Procedural Controls***

#### *Approval*

7. If applicable, procedures adequate to ensure that only [investments](#) that are permitted by law are acquired
8. Formal establishment and periodic review of investment policy guidelines
9. Integration of the investment program with cash management program and expenditure requirements
10. Established authority and responsibility for investment opportunity evaluation and purchase
11. Periodic evaluation of the performance of the investment portfolio by persons independent of investment portfolio management activities
12. Formal establishment of procedures governing the level and nature of approvals required to purchase or sell an investment
13. Use of competitive bidding for certificate of deposit purchases

#### *Custody*

14. Adequate physical safeguards and custodial procedures over:
  - Negotiable and nonnegotiable [securities](#) owned
  - Legal documents or agreements evidencing ownership or other rights

15. Dual signatures or authorizations to obtain release of [securities](#) from safekeeping or to obtain access to the government unit's safe-deposit box
16. Authorization by the legislative body of persons with access to securities
17. Registering all securities in the name of the government unit
18. Periodic inspection or confirmation of securities from safekeeping agents
19. Bonding of individuals with access to securities

### *Detail Accounting*

20. Maintenance of detail accounting records for [investments](#)
21. Procedures to ensure that transactions arising from investments are properly processed, including income and amortization entries
22. Controls to ensure that investment earnings are credited to the fund from which resources were provided for the investment
23. A periodic comparison between income received at the account specified by the terms of the security or publicly available investment information
24. Controls to ensure that transactions are recorded on a timely basis

### *General Ledger*

25. Procedures for reconciling the detail accounting records with the general ledger control
26. Periodic review of the nature of investments included in general ledger balances

## 1.5.4.4 Revenues and Receivables

### ***Segregation of Duties***

1. Segregation of the responsibilities for billing property taxes and services from collection and accounting
2. Segregation of the responsibilities for maintaining detail accounts receivable records from collections and general ledger posting
3. Segregation of collection, control and deposit of funds activities from maintaining accounting records
4. Maintenance of the property tax assessment rolls by individuals not engaged in any accounting or collection function
5. Segregation of the responsibilities for entries in the cash receipts records from those for general ledger entries
6. If EDP is used, maintenance of the principle of segregation of duties within processing activities

### ***Procedural Controls***

#### *Data and File Maintenance*

#### *Property taxes*

7. Controls to ensure that additions, deletions, transfers and abatements are properly and timely reflected in property tax records
8. Procedures to make property assessments in accordance with the law or legislative intent with prompt adjustment of records

### *Fees and permits*

9. If annual payments are involved, procedures to ensure that previous years' records are properly updated for new registrants and withdrawals
10. Use of the updated records as the basis for billing persons subject to payment

### *Fines, forfeitures and court fees*

11. Maintaining and using court and other records of payments due as a basis for collections
12. Procedures surrounding the control, issuance and disposition of traffic violations to ensure that amounts due are assessed and collected

### *Enterprise and other service revenues*

13. Maintaining controls that provide assurances that customer data base and, where appropriate, usage records are accurately maintained to ensure that amounts due are billed

### *Billing Remittance Verification*

### *Property taxes*

14. Controls within the billing system to ensure that eligible property owners are billed
15. Controls to ensure that tax assessments are being properly applied against tax rates and special charges are being considered in the preparation of billing amounts
16. Controls to ensure that tax exemptions are within the law and properly approved

### *Fees and permits*

17. Comparison of current-year receipts to those for prior years and review of explanations of variations by senior officials

### *Fines, forfeitures and court fees*

18. Procedures providing for correlation of amounts collected with records of court proceedings
19. Sequentially numbering and satisfactorily accounting for tickets for fines and so forth

### *Enterprise and other service revenues*

20. If billing is based on usage, performing billings in a timely fashion
21. Billing procedures providing for identification and investigation of unusual patterns of use

### *General*

22. Billing of taxes and fees in a timely fashion
23. Procedures designed for other revenue areas ensuring timely payment of amounts due
24. Periodic review and approval by the legislative body of the rates of taxes, fines, fees and services
25. Periodic review and approval by the legislative body of programs of tax exemption or relief
26. Procedures providing for timely notification of the accounting department at the time tax, service, or other billings or claims are prepared and rendered
27. Numerical or batch-processing controls over tax, fee, service or other billings
28. Controls over the billing of miscellaneous revenues

29. Procedures to prevent the interception or alteration by unauthorized persons of billings or statements after preparation but before they are mailed
30. Prompt investigation of disputes with billing amount that are reported by taxpayers or service recipients by an individual independent of receivables recordkeeping
31. Controls providing reasonable assurances that restricted revenues are expended only for restricted purposes

### *Collection*

32. Placing a restrictive endorsement on incoming checks as soon as received
33. Procedures providing reasonable assurances that interest and penalties are properly charged on delinquent taxes, fees or charges for service
34. Procedures providing for the timely filing of liens on property for nonpayment in all cases permitted by law
35. Controls surrounding the collection, timely deposit and recording of collections in the accounting records at each collection location
36. Timely notice of cash receipts from separate collection centers to general accounting department
37. If payments are made in person, use of receipts for payment and accounting for and balancing of such receipts to collections
38. Segregation and timely remittance of amounts collected on behalf of other governments
39. Monitoring taxes and fees collected by another unit of government to assure timely receipt and subjecting amounts received to reviews for reasonableness
40. Reviewing delinquent accounts and considering them for charge-off on a timely basis

41. Formally approved write-offs or other reductions of receivables by senior officials not involved in the collection function
42. Procedures providing for execution of all legal remedies to collect charged-off or uncollectible accounts, including tax sale of property, liens and so forth

### *Accounts Receivable Recordkeeping*

43. Controls in the system that provide assurances that individual receivable records are posted only from authorized source documents
44. Reconciling the aggregate collections on accounts receivable against postings to individual receivable accounts
45. Where appropriate (for example, in proprietary funds), mailing statements of account balance on a timely basis

### *General Ledger*

46. Regular preparation of trial balances of individual receivable accounts
47. Reconciliation of trial balances with general ledger control accounts and investigation of reconciling items by other than accounts receivable clerks
48. Periodic review of aged accounts receivable balances by supervisory personnel
49. Procedures providing for timely and direct notification of the accounting department of billings and collection activity

### *Grant and Entitlement Monitoring*

#### *Grants*

50. Properly fixed responsibility for monitoring grant activities

51. A central grants monitoring activity
52. Procedures to monitor compliance with:
  - Financial reporting requirements
  - Use of funds and other conditions in accordance with grant terms
  - Timely billing of amounts due under grants
53. Accounting for grant activity so that it can be separated from the accounting for locally funded activities
54. System for obtaining grantor approval before incurring expenditures in excess of budgeted amounts or for unbudgeted expenditures
55. Processing grant revenues and disbursements under the same degree of controls applicable to the organization's other transactions (budget, procurement, etc.)
56. Including requirements in subgrantee agreements that the subgrantee comply with primary grant agreement conditions as well as grantee's standards
57. Reasonable procedures and controls to provide assurances of compliance with recipient eligibility requirements established by grants
58. Establishing an indirect cost allocation plan

### *Entitlements*

59. Comparison of the amount of funds received with the amount anticipated by a responsible official and investigation of unusual variances
60. Procedures to ensure that funds received are spent in accordance with legal requirements and spending restrictions



61. Review of any statistical or data reports that form the basis for revenue distribution by a responsible official before submission

### **1.5.4.5 Capital Assets**

#### ***Segregation of Duties***

1. Segregation of responsibilities for initiating, evaluating and approving capital expenditures, leases, and maintenance or repair projects from those for project accounting, property records and general ledger functions
2. Segregation of responsibilities for initiating capital asset transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for the project accounting and property records functions from the general ledger function
4. Segregation of responsibilities for the project accounting and property records functions from the custodial function
5. Assigning the responsibilities for the periodic physical inventories of capital assets to responsible officials who have no custodial or recordkeeping responsibilities
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

#### ***Procedural Controls***

##### ***Authorization***

7. Identification of those individuals authorized to initiate capital asset transactions and clear definition of the limits of their authority

8. Establishing guidelines with respect to key considerations such as prices to be paid, acceptable vendors and terms, asset quality standards, and the provisions of grants or bonds that may finance the expenditures
9. Preparation of a separate capital projects budget

### *Management or Board Approval*

10. Requiring written management or board approval for all significant capital asset projects or acquisitions
11. Procedures for authorizing, approving and documenting sales or other dispositions of capital assets
12. Procedures for approving decisions regarding financing alternatives and accounting principles, practices and methods
13. Procedures providing for obtaining grantor (federal/state) approval, if required, for the use of grant funds for capital asset acquisitions
14. Subjecting grant-funded acquisitions to the same controls as internally funded acquisitions
15. Requiring supplemental authorizations, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts

### *Project Accounting*

16. Engaging a qualified employee or independent firm to inspect and monitor technically complex projects
17. Establishing and maintaining project cost records for capital expenditure and repair projects
18. Reporting procedures for in-progress and completed projects

19. Procedures to identify completed projects so that timely transfers to the appropriate accounts can be made
20. Review of the accounting distribution to ensure proper allocation of charges to capital asset and expenditure projects
21. If construction work is performed by contractors, procedures to provide for and maintain control over construction projects and progress billings
22. The district having the right to audit contractors' records
23. Exercising the right to audit contractor records during project performance
24. Audits of contractor compliance with EEOC, Davis Bacon, and other regulations and contract terms, in addition to costs

### *Asset Accountability*

25. Maintaining detail property records for all significant self-constructed, donated, purchased or leased assets
26. Establishing the accountability for each asset
27. Procedures for periodic inventory of documents evidencing property rights (for example, deeds, leases and the like)
28. Physical safeguards over assets
29. Procedures ensuring that purchased materials and services for capital expenditure and repair projects are subjected to the same levels of controls as exist for all other procurements (for example, receiving, approval, checking)
30. Periodically comparing detail property records with existing assets
31. Investigating differences between records and physical counts and adjusting the records to reflect shortages

32. Procedures ensuring that capital assets are adequately insured
33. Subjecting lease transactions to control procedures similar to those required for other capital expenditures
34. Properly identifying equipment by metal numbered tags or other means of positive identification
35. Carrying fully depreciated assets in the accounting records as a means of providing accounting control
36. Procedures for monitoring the appropriate disposition of property acquired with grant funds

### *General Ledger*

37. Periodic reconciliation of the detail property records with the general ledger control accounts
38. Procedures and policies to:
  - Distinguish between capital projects fund expenditures and operating budget expenditures
    - Identify operating budget expenditures to be capitalized in capital asset fund
  - Distinguish between capital and operating leases
    - Govern depreciation methods and practices
39. If costs are expected to be charged against federal grants, depreciation policies or methods of computing allowances in accord with the standards outlined in OMB circulars or grantor agency regulations; if not, adjusting depreciation charged to grants accordingly
40. The accounting records should be adjusted promptly both the asset and related allowance for depreciation when items of facilities and equipment are retired, sold or transferred

## 1.5.4.6 Expenses/Expenditures and Liabilities

### ***Segregation of Duties***

1. Segregation of responsibilities for the requisitioning, purchasing and receiving functions from the invoice processing, accounts payable and general ledger functions
2. Segregation of responsibilities for the purchasing function from the requisitioning and receiving functions
3. Segregation of responsibilities for the invoice processing and accounts payable functions from the general ledger functions
4. Segregation of responsibilities for the disbursement preparation and disbursement approval functions from those for recording cash disbursements and general ledger entries
5. Segregation of responsibilities for the disbursement approval function from those for the disbursement preparation function
6. Segregation of responsibilities for entries in the cash disbursement records from those for general ledger entries
7. If EDP is used, maintaining the principle of segregation of duties within processing activities

### ***Procedural Controls***

#### ***Requisitioning***

8. Initiation of purchases of goods and services by properly authorized requisitions bearing the approval of officials designated to authorize requisitions

9. Using and accounting for prenumbered requisitions
10. Indicating the appropriation to be charged on the purchase requisition by the person requesting the purchase
11. Before commitment, verification by the accounting or budget department that there are sufficient unobligated funds remaining under the appropriation to meet the proposed expenditure
12. Having technical specifications accompanying requests for special purpose (nonshelf items) materials or personal services

### *Purchasing*

13. Structuring purchasing authorizations to give appropriate recognition to the nature and size of purchases and the experience of purchasing personnel
14. Purchase order and contract issuance and approval procedures
15. Periodic review of purchase prices by a responsible employee independent of the purchasing department
16. Use of competitive procurement procedures
17. If practicable, rotation on a regular basis of contract or purchasing officer's areas of responsibility
18. Provisions in contracts for materials, services or facilities acquired on other than a fixed-price basis that provide for an audit of contractors' costs, with payments subject to audit results
19. Procedures for public advertisement of nonshelf item procurements in accordance with legal requirements
20. Periodic review of recurring purchases and documentation of the justification for informal rather than competitive bids

21. Establishing, documenting and distributing policies regarding conflicts of interest and business practice policies
22. Issuing purchase orders and contracts under numerical or some other suitable control
23. Obtaining an adequate number of price quotations before placing orders not subject to competitive bidding
24. Prohibiting splitting orders to avoid higher levels of approval
25. Maintenance of price lists and other appropriate records of price quotations by the purchasing department
26. Maintenance of a record of suppliers who have not met quality or other performance standards by the purchasing department
27. Modification of procedures when funds disbursed under grant or loan agreements and related regulations impose requirements that differ from the organization's normal policies
28. Institution of procedures to identify, before order entry, costs and expenditures not allowable under grant (federal/state) programs
29. Maintenance of an adequate record of open purchase orders and agreements
30. Prohibiting or adequately controlling purchases made for the accommodation of employees
31. Considering bid and performance bonds if construction contracts are to be awarded
32. Predetermining selection criteria for awarding personal service or construction contracts and requiring adequate documentation of the award process
33. Subjecting changes to contracts or purchase orders to the same controls and approvals as the original agreement

### *Receiving*

34. Preparation of receiving reports for all purchased goods
35. Procedures for the filing of claims against carriers or vendors for shortages or damaged materials
36. Taking steps to ensure that goods received are accurately counted and examined to see that they meet quality standards
37. Maintaining a permanent record of material received by the receiving department
38. Numerically accounting for or otherwise controlling receiving reports to ensure that all receipts are reported to the accounting department
39. Sending copies of receiving reports directly to purchasing, accounting and, if appropriate, inventory record keeping
40. With respect to procurements of special purpose materials, services or facilities, assigning a district technical representative to monitor and evaluate contractor performance and approve receipt of services
41. If a receiving department is not used, adequate procedures to ensure that goods for which payment is made have been received; verification by someone other than the individual approving payment that goods have been received and meet quality standards

### *Invoice Processing*

42. Invoice processing procedures providing for:
  - Obtainment directly from issuing departments of copies of purchase orders and receiving reports
  - Comparison of invoice quantities, prices and terms with those indicated on purchase order
  - Comparison of invoice quantities with those indicated on receiving reports



- As appropriate, checking accuracy of calculations
  
- 43. Receiving all invoices from vendors in a central location, such as the accounting department
  
- 44. Procedures ensuring that the accounts payable system is properly accounting for unmatched receiving reports and invoices
  
- 45. Relating requests for progress payments under long-term contracts to contractors' efforts and formally approving them
  
- 46. Procedures for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)
  
- 47. Procedures ensuring accurate account distribution of all entries resulting from invoice processing
  
- 48. If applicable, limiting access to EDP master vendor file to employees authorized to make changes
  
- 49. Maintenance by the accounting department of a current list of those authorized to approve expenditures
  
- 50. Procedures for submission and approval of reimbursement to employees for travel and other expenses
  
- 51. Establishment of control by the accounting department over invoices received before releasing them for departmental approval and other processing
  
- 52. Review of the distribution of charges in the accounting department by a person competent to pass on the propriety of the distribution
  
- 53. Review and approval of invoices (vouchers) for completeness of supporting documents and required clerical checking by a senior employee
  
- 54. If an invoice is received from a supplier not previously dealt with, taking steps to ascertain that the supplier actually exists

55. Making payments only on the basis of original invoices
56. Fixing responsibility for seeing that all cash discounts are taken and, if applicable, that exemptions from sales, federal excise and other taxes are claimed
57. Referring differences in invoice and purchase order price, terms, shipping arrangements or quantities to purchasing for review and approval
58. Recording and following up partial deliveries by the accounting department
59. Promptly notifying the accounting and purchasing departments of returned purchases, and correlating such purchases with vendor credit advices
60. Reviewing the program and expenditure account to be charged for propriety and budget conformity
61. Having check signers or other responsible officials determine that restricted revenues are expended only for restricted purposes
62. If applicable, procedures to ensure adjustment of the reserve for encumbrances (obligations) when invoices are prepared for payment

### *Disbursements*

63. Disbursement approval and warrant or check signing procedures
64. Control over warrant or check signing machines as to signature plates and usage
65. Procedures to notify banks when a new signer is authorized or a previous signer leaves the employ of the government
66. Furnishing and having the signer review invoices and supporting data before signing the warrant or check
67. Setting reasonable limits on amounts that can be paid by facsimile signatures

68. Requiring two signatures on all warrants or checks over a stated amount
69. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
70. Using plates only under the signer's control and having that person or an appropriate designee record machine readings to ascertain that all checks or warrants signed are properly accounted for
71. Cancellation of invoices and supporting documents by or in the presence of the signer at time of signing
72. Delivery of signed warrants or checks directly to the mail room, making them inaccessible to persons who requested, prepared or recorded them
73. Cross-referencing warrants or checks to vouchers
74. Control of and accounting for warrants or checks with safeguards over those unused and voided
75. Prohibiting the drawing of warrants or checks to cash or bearer
76. Procedures ensuring that warrants or checks that have been signed and issued are recorded promptly

### *Accounts Payable Encumbrances or Obligations*

77. Regular comparison of statements from vendors with recorded amounts payable
78. If an encumbrance (obligation) system is used, monthly reconciliation of outstanding purchase orders to the reserve for encumbrances (obligations)
79. Recording encumbrance (obligation) entries based only on approved purchase orders
80. Procedures ensuring that accounts payable and encumbrances (obligations) are applied against the appropriate account

81. Procedures ensuring that department heads are notified of payments made against accounts payable and encumbrances (obligations)

### *General Ledger*

82. Regular preparation of trial balances of reserve for encumbrances (obligations) and accounts payable
83. Checking the footing and testing the trial balances to the individual items as well as comparing the total to the general ledger balance by an employee other than the accounts payable clerk
84. Posting transactions between funds in all affected funds in the same accounting period and on a timely basis

### *Grant and Entitlement Monitoring*

85. Disbursing grants only on the basis of approved applications
86. Defining (for example, in regulations) and communicating to grantees their reporting and compliance requirements
87. Procedures to monitor grantee compliance with grant terms
88. Subjecting financial operations of grantees to periodic and timely audit
89. Sufficiently timely monitoring of recipients to permit curtailment of any abuse before complete funds disbursement
90. Disbursing funds to grantees only on an as-needed basis
91. A level of grant approval authority that appears appropriate
92. Investigation of failure by grantees to meet financial reporting requirements on a timely basis

93. Requiring grantees to evidence correction of previously detected deficiencies before approval of an extension or renewal of a grant
94. Entitlement procedures ensuring that statistics or data used to allocate funds are accurately accumulated (for example, census bureau forms)
95. Requiring statements of recipient compliance with entitlement conditions (for example, statement of assurances) to be filed and having a responsible official review them
96. Review of audited financial statements or other compliance requirements of entitlement recipients on a timely basis and investigation of unusual items

### **1.5.4.7 Employee Compensation**

#### ***Segregation of Duties***

1. Segregation of responsibilities for supervision and time-keeping functions from personnel, payroll processing, disbursement and general ledger functions
2. Segregation of responsibilities for the payroll processing function from the general ledger function
3. Supervision of payroll distribution by employees:
  - Who are not responsible for hiring or firing employees
  - Who do not approve time reports
  - Who take no part in payroll preparation
4. Segregation of responsibilities for initiating payments under employee benefit plans from accounting and general ledger functions
5. Reconciliation of the payroll bank account regularly by employees independent of all other payroll transaction processing activities
6. If EDP is used, maintaining the principle of segregation of duties in processing activities

## ***Procedural Controls***

### *Personnel*

7. Properly authorizing, approving and documenting all changes in employment (additions and terminations), salary and wage rates, and payroll deductions
8. Promptly reporting notices of additions, separations and changes in salaries, wages and deductions to the payroll-processing function
9. Maintaining appropriate payroll records for accumulated employee benefits (vacation, pension data, etc.)
10. Interviewing terminating employees as a check on departure and as a final review of any termination settlement by the personnel department
11. Written personnel policies
12. Establishing controls to ensure that payroll costs charged to grants are in compliance with grant agreements
13. Payroll and personnel policies governing compensation that are in accordance with the requirements of grant agreements
14. Determining that wages are at or above the federal minimum wage

### *Supervision/Time-keeping*

15. Review and approval of hours worked, overtime hours and other special benefits by the employee's supervisor
16. Time-keeping and attendance records and procedures
17. Review for completeness and approval of timecards or other time reports by the employee's supervisor

18. Punching of timecards, if used, only by the employees to whom they are issued
19. Placing the time clock in a position where it can be observed by a supervisor
20. Procedures for authorizing, approving and recording vacations, holidays and sick leave, and approving and controlling compensatory time

### *Payroll Processing*

21. Controls over payroll preparation
22. Approval and documentation of changes to the EDP master payroll file
23. Limiting access to the EDP master payroll file to employees who are authorized to make changes
24. Review and approval of completed payroll registers before disbursements are made
25. Review of documents supporting employee benefit payments (such as accumulated vacation or sick leave) before disbursements are made
26. Review for reasonableness of comparisons (reconciliations) of gross pay of current to prior-period payrolls by a knowledgeable person not otherwise involved in payroll processing
27. Review of the payroll (examination of authorizations for changes noted on reconciliations) by an employee not involved in its preparation
28. Balancing the distribution of dollars and hours of gross pay with payroll registers, and review by someone independent but knowledgeable of this area
29. Including in the review a comparison to amounts appropriated and budgeted
30. Prohibiting payroll advances to officials and employees or subjecting them to appropriate review

### *Disbursement*

31. Keeping the signature plates and use of the payroll check signing machines under control of the official whose name appears on the signature plate or an employee to whom he has delegated that responsibility
32. Maintaining a log that reconciles the counter on the check signing machine with the number of checks issued in each payroll
33. Maintaining a separate, imprest-basis, payroll bank account
34. Regularly reconciling the payroll bank account
35. Comparing payroll check endorsements, on a test basis, with signatures on file by someone independent of the payroll department
36. If payment is made in cash, requiring signed receipts, having someone independent of the payroll department compare them, on a test basis, with signatures on file
37. Controlling the supply of unused payroll checks
38. Requiring employees to provide identification before being given checks or pay envelopes
39. Prohibiting employees from accepting another employee's pay
40. Returning unclaimed wages to a custodian independent of the payroll department
41. Having employees who distributed checks or pay envelopes make a report of unclaimed wages directly to the accounting department
42. Making payments of unclaimed wages at a later date only upon presentation of appropriate evidence of employment and approval by an officer or employee who is not responsible for payroll preparation or time reporting
43. Comparing W-2 forms to payroll records and mailing by employees not otherwise involved in the payroll process



44. Procedures for investigating returned W-2s
45. Periodic distribution of payroll checks by the internal auditors to ascertain that employees exist for all checks prepared

### *General Ledger*

46. Adequate account coding procedures for classification of employee compensation and benefit costs so that such costs are recorded in the proper general ledger account
47. Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs

## **1.5.4.8 Information Technology**

### ***Segregation of Duties***

1. Independence of the EDP department from the accounting and operating departments for which it processes data
2. Appropriate segregation of duties within the data processing function for (a) systems development (design and programming), (b) technical support (maintenance of systems software) and (c) operations
3. In smaller and minicomputer installations with limited opportunities for segregation of duties, procedures for user departments to:
  - Utilize batch or other input controls
  - Control master file changes
  - Balance master files between processing cycles
4. Having the personnel policies of the EDP function include such procedures as reference checks, security statements, rotation of duties and terminated employee security measures that enhance segregation of duties and otherwise improve controls

## ***Procedural Controls***

### *User Controls*

5. Controls over preparation and approval of input transactions outside the EDP department and prohibiting the department from initiating transactions
6. Having the user exercise control procedures over input to ensure that all approved input is processed correctly through the system and only once
7. Having controls over entry of data in on-line systems to restrict access to terminals and data entry to authorized employees
8. On-line systems controls that prevent documents from being keyed into the system more than once and that permit tracing from computer output to data source and vice versa
9. Controls over changes to master files, such as requiring preparation of specific forms indicating data to be changed, approval by a supervisor in the user department, and verifying against a printout of changes
10. User controls over rejected transactions through the use of a computerized suspense file of rejected transactions or an auxiliary manual system
11. User department management reconciliation of output totals to input totals for all data submitted, reconciliation of the overall file balances, and review of outputs for reasonableness

### *Application Controls*

12. Procedures within the data processing control function that provide that data is properly controlled between the user and EDP department
13. Controls over data entry, for example, that include adequate supervision, up-to-date instructions, key verification of important fields and self-checking digits
14. Program controls over entry of data into on-line systems

15. Editing and validation of input data
16. Data processing controls over rejected transactions
17. Controls for balancing transaction and master files
18. Procedures within the data processing control function concerning review and distribution of output

### *General Controls*

19. Controls over changes to system software
20. Controls over use and retention of tape and disk files, including provisions for retention of adequate records to provide backup capabilities
21. Controls that limit access to data processing equipment, tapes, disks, system documentation and application program documentation to authorized employees
22. Use of a job accounting system (or console logs) to ensure that scheduled programs are processed and proper procedures followed and that supervisory personnel know that only required programs have been processed
23. Supervision of EDP department employees for all shifts
24. Documentation of procedures to be followed by computer operators
25. Documentation of the data processing system such that the organization could continue to operate if important data processing employees leave
26. Procedures to protect against a loss of important files, programs or equipment
27. Insurance to cover equipment, programs and data files

28. User-approved written specifications for new systems and modifications to existing application systems
29. Procedures to test and implement new systems and modifications to existing application systems

#### **1.5.4.9 Financial Reporting**

##### ***Segregation of Duties***

1. Segregation of the final review and approval of financial reports from the responsibility for preparation of the reports
2. Segregation of the responsibilities for maintaining the general ledger from those for maintaining subsidiary ledgers
3. Segregation of the responsibilities for maintaining the general ledger and custody of assets
4. Segregation of the preparation and approval functions for journal entries
5. Segregation of principal accounting, treasury and custody functions
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

##### ***Procedural Controls***

##### ***General Ledger***

7. A formal plan of organization for the unit of government under which reporting responsibilities are clearly defined and reasonably aligned

8. Supervision of a principal accounting officer over accounting records and accounting employees at all locations
9. General ledger control over all assets and transactions of all departments of the organization
10. Bonding employees in positions of trust in amounts required by statutes or organization policy
11. Written accounting, policy and procedural manuals that are distributed to appropriate personnel
12. Updating the accounting, policy and procedural manuals as necessary
13. Procedures to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the organization
14. Security for accounting records
15. A formal policy regarding conflicts of interest
16. Requiring written representations from appropriate personnel as to compliance with accounting policies and procedures and ethics policies
17. Prohibiting or closely controlling loans to officials or employees
18. Periodically evaluating the adequacy and effectiveness of the internal accounting controls related to the organization's transaction systems (procurement, revenues and receivable, etc.)
19. Implementing measures to correct weaknesses

### *Closing*

20. Procedures and policies for closing the accounts for a reporting period sufficient to ensure that accounts are closed, adjusted and reviewed on a timely basis

21. Procedures to ensure that all accounting systems have included all transactions applicable to the reporting period
22. Review and approval of valuation reserves or other account balances based on estimates
23. Having all journal entries reviewed, approved and supported by adequate descriptions or documentation
24. Controls that ensure that only authorized individuals can initiate entries

### *Combining*

25. Procedures to ensure the orderly and effective accumulation of financial data
26. Procedures for the orderly processing of financial data received from departments and other accounting units
27. Procedures to permit the recording and review of special entries generated in the combining process

### *Preparation, Review and Approval*

28. Procedures to ensure that financial reports are supported by either underlying account records or other documentation
29. Procedures providing reasonable assurances that all data required to be included in legal as well as public reports are properly disclosed
30. Procedures to ensure that financial reports are prepared on a consistent basis
31. Review and approval of financial reports at appropriate levels of management and, if appropriate, the board before public release

32. Procedures to ensure that all requirements for filing of financial reports are met (for example, senior levels of government, bondholders and public)

## 1.6 Cost Accounting

The state of Texas and the federal government both impose certain cost accounting requirements on Texas school districts. The federal government allows an *indirect cost rate* to be established to help defray certain expenditures of a school district when those expenditures are ineligible under grant provisions. The rate is applied to eligible expenditures in the grant to determine an amount that may be transferred to the general fund of the school district to offset costs not allowed in the grant.

In House Bill 72, passed in 1984, the Texas legislature mandated that school districts provide *cost accounting* for certain expenditures by campus and by program. School districts, as a local option, may elect to apply cost accounting on a more comprehensive basis.

This discussion of cost accounting addresses the two distinct and separate requirements:

- Calculation and use of an *indirect cost rate and resulting revenues*
- State-required and local option *cost accounting methodology* including:
  - Minimum requirements for state reporting
  - Administrative costs, as used in the administrative cost formula
  - Allocations of salary and fringe benefits, including Teacher Retirement System of Texas matching expenditures
  - Suggested methodology for cost allocation

### 1.6.1 Indirect Cost Rates

For most federally funded grants, a school district can receive indirect cost revenues if indirect cost rates are established and approved by appropriate entities. The indirect cost rates topics addressed in this section are:

- Purpose of indirect cost rates
- Types of indirect cost rates
- Calculation of indirect cost rates

2 CFR 225 (OMB Circular A-87), which establishes cost principles and standards for federally funded grants, is a key resource for indirect cost information. The circular includes provisions for determining indirect cost rates for grantees and subgrantees of federal grants and contracts.

### 1.6.1.1 Purpose of Indirect Cost Rates

2 CFR 225 (OMB Circular A-87) sets forth the cost principles and standards for determining the allowable costs of federally funded grants and contracts administered by state and local governments and contains provisions for determining indirect cost rates for grantees and sub grantees of federal grants. The objectives are:

*1. Establish uniform standards of allowability.* All federal agencies agree to recognize the central service costs which benefit grant programs as allowable costs of those programs, so long as they are calculated in accordance with 2 CFR 225.

*2. Establish uniform standards of allocation.* All federal agencies accept the method of allocation agreed to by the “cognizant” federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.

*3. Identify the full cost of federal programs.* By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the exact cost of all federal programs may be determined.

*4. Ensure federal programs bear their fair share of costs.* Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan in conformity with 2 CFR 225 will localities be reimbursed for the total cost of federal programs.



5. *Simplify intergovernmental relations.* Under the 2 CFR 225 (OMB Circular A-87) concept of the “cognizant” agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.

6. *Encourages consistency of treatment.* Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

The Texas Education Agency (the agency) has, in cooperation with the U.S. Department of Education (USDE), developed an indirect cost proposal to be used for the school districts in Texas. The agency has been delegated the authority by the USDE to review indirect cost applications and to approve indirect cost rates for school districts. To recover any indirect costs for the administration of federal grants, a school district must have an approved indirect cost rate. A new indirect cost rate must be obtained for every fiscal year.

Indirect cost *rates* are established for each school district to determine the amount of indirect cost *revenue* that can be recorded in the General Fund. As discussed above, indirect cost revenues recognized in the General Fund are intended to defray the cost of providing certain services to grant programs. Examples of these costs are accounting, budgeting, purchasing, auditing and payroll processing. All of these business function costs are incurred by the school district as a whole. An attempt to maintain separate time and effort accounting for each specific grant would be prohibitive. By calculating and using an indirect cost rate, indirect cost *revenues* can be transferred from the grant to the general fund to compensate the school district for district-wide expenditures used to facilitate the grant. *It is not necessary to track the use of indirect cost revenues once they are transferred to the General Fund.* Once earned, the revenues may be used for any education-related expenditure, including administrative costs and fixed costs incurred in administering the grant.

2 CFR 225 (OMB Circular A-87), which establishes cost principles and standards for federally funded grants, is a key resource for indirect cost information. The regulation includes provisions for determining indirect cost rates for grantees and subgrantees of federal grants and contracts.

Generally, an indirect cost rate is a ratio of total indirect costs to total direct costs, based on the district’s actual expenditures, exclusive of any extraordinary or distorting expenditures such as capital outlay and major subcontracts. When calculating the indirect cost rate the *expenditures for the second preceding fiscal year* are used because the actual costs for the immediately preceding year will not be available at the time the agency needs to calculate the rate for the following year.

Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is approved, it is applied to the net direct cost amount expended (total direct costs less unallowable costs such as capital outlays, subgrants and other distorting or unallowable items). The approved rate is the maximum rate and can be applied at less than the maximum.

The restricted and unrestricted rates are utilized for grants which the school district applies for and receives directly from the U.S. Department of Education or other Federal Agencies (i.e., Direct Grant Programs, 34 CFR Part 75). The rates approved by the Texas Education Agency (TEA), as the cognizant agency for USDE, will be used by other state or federal agencies if the school district receives funds from other state or federal agencies.

TEA has, in cooperation with the U.S. Department of Education (USDE), developed an indirect cost plan to be used by school districts in Texas. Pursuant to the authorization in 34 CFR 75.561(b), TEA approves all indirect cost rates for Texas public school districts.

The approved indirect cost rates are valid for one year. Information in the most current official audited Annual Financial Report (AFR) is the basis for the calculation of the indirect cost rate to be used in the following federal grant year (July 1 through June 30). For example, expenditures for the AFR for the year ended August 31, 2006 are the basis for the indirect cost rate calculation for a federal grant that begins July 1, 2007 and ends June 30, 2008.

### 1.6.1.2 Types of Indirect Cost Rates

There are two types of indirect cost rates:

#### **Restricted Rates**

*Restricted rates* apply to grants made under federal programs with *supplement, not supplant* requirements. *Supplement, not supplant* means that the grant expenditures supplement a school district's state and local expenditures and do not replace the state or local funds or activities. Most of the federal grants that the school district obtains through TEA are of the "restricted" type.

As defined in the Education Department General and Administrative Regulations (EDGAR) at 34 CFR 75.563 and 76.563, restricted rates apply to grants made under federal programs with supplement and in no case supplant requirements.

34 CFR 76.563 Restricted indirect cost rate—programs covered (State-Administered programs). Sections 76.564 through 76.569 apply to agencies of State and local governments that are grantees under programs with a statutory requirement prohibiting the use of Federal funds to supplant non-Federal funds and to their subgrantees under these programs.

34 CFR Sec. 75.563 Restricted indirect cost rate—programs covered (Direct Grant Programs). If a grantee decides to charge indirect costs to a program that has a statutory requirement prohibiting the use of Federal funds to supplant non-Federal funds, the grantee shall use a restricted indirect cost rate computed under 34 CFR 75.564 through 75.569.

In general, the federal grants that flow from the state to school districts (i.e., state-administered grants) allow only the use of the restricted rate since most of these programs contain a supplement-not-supplant provision. It is incumbent upon the grantee (school district) to determine if supplement not supplant applies to a given grant, and if any other restrictions apply to a given grant based on review of the authorizing statute and regulations and other applicable regulations and guidelines. Requirements such as supplement-not-supplant are also contained within the applicable Standard Application System (SAS) provisions and assurances and program guidelines issued by TEA.

## Unrestricted Rates

*Unrestricted rates* apply to grants not subject to the supplement but not supplant statutory restriction.

1. Indirect Costs – Expenditures for the facilities maintenance and operations are classified as an indirect cost when calculating an unrestricted rate. All other costs are classified the same as the restricted rate calculations.
2. Direct Costs, Disallowed Costs, and Excluded Costs are also classified the same as the restricted rate calculations.

### 1.6.1.3 Calculation of Indirect Cost Rates

To earn indirect cost revenues on a grant, a school district must have an approved indirect cost rate. To determine an Indirect Cost Rate, school districts must submit an Exhibit J-2, Schedule of Expenditures for Computation of Indirect Costs, in the school district's official audited Annual Financial Report (AFR) filed annually and the detail accounts that make up that report. Data from the following audit schedules are used to calculate the rates:

- Exhibit C-1 and H-1, Combined Balance Sheet - All Fund Types and Account Groups

- Exhibit C-2, Combined Statement of Revenues, Expenditures and Changes in Fund Balance, All Governmental Fund Types and Expendable Trust Funds which shows all expenditures for a school district by fund and function for all governmental fund types and expendable trust funds
  
- Exhibit J-2, Schedule of Expenditures for Computation of Indirect Cost showing:
  - All administrative expenditures for Function 41, General Administration
  - Any expenditures for computer operations utilized by the business and/or personnel offices that are coded to Function 53, Data Processing Services
  - Any expenditures for appraisal district costs that are coded to Function 99, Other Intergovernmental Charges
  - Specific expenditure amounts included in the amounts on Exhibit C-2 but not allowable in the indirect cost rate calculation

When completing the schedule Exhibit J-2, no additional cost categories or Organization Units may be added or deleted.

### ***Classifying Expenditures for Rate Calculation***

The sources of information utilized to determine indirect cost rates are the school district's official audited Annual Financial Report (AFR) and the detail accounts that make up that report. Therefore, it is essential that school districts classify expenditures uniformly and consistently. Types of expenditures are identified as indirect costs shall not also be included as direct costs. All expenditures detailed on the AFR must be true and correct, and records supporting them must be maintained by the school district.

An approved indirect cost rate is obtained by completing the Exhibit J-2 – Schedule of Expenditures for Calculation of Indirect Cost Rate (a required schedule in the Annual Financial Report).

The indirect cost rate calculation formula requires indirect cost data along with direct cost data and unallowable cost data. These data come from expenditures/expenses in the following areas:

- General Fund

- Special Revenue Fund
- Child nutrition programs accounted for in an Enterprise Fund.

The three categories of costs - direct costs, indirect costs and unallowable costs, have specific definitions:

- *Direct costs* - Direct costs are those that can be identified specifically with a particular cost objective. Generally, *activities limited to one organization, subject or phase* of an operation are direct costs. Examples of direct costs are salaries and expenditures/expenses related to the direction and supervision of the following functional areas:
  - 10 - Instruction and Instructional Related Services
  - 20 - Instructional and School Leadership
  - 30 - Support Services - Pupil
  - 51 - Facilities Maintenance and Operation (for restricted rate only)
  - 52 - Security and Monitoring Services
  - 60 - Ancillary Services
  - 90 - Intergovernmental Charges

For rate calculations, TEA defines direct costs as expenditure amounts shown in the annual financial and compliance report Exhibit C-2 less the non-allowable expenditures identified on Schedule J-2.

- *Indirect costs* - Indirect costs are determined based on information from Exhibit J-2 in the annual financial and compliance report. Most indirect costs are recorded in Function 41, General Administration and in most cases consist of *administrative and fixed costs in Function 41, Organization Unit 750*. Others are those costs in Function 53, Data Processing Services, which relate directly to business functions in Function 41, and those costs in Function 99, Other Intergovernmental Charges, which relate directly to appraisal district costs.

*General Administration Costs* consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel administration activities. Those activities that are limited to one school, subject, or phase of operation, are not general

administration costs, such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, human resources, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. For school districts, this would include the costs recorded in General Administration (Function 41) and any costs for Data Services (Function 53) that are directly related to General Administration (function 41). In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach. Therefore these costs are considered indirect.

As stated in 34 CFR 76.565, “general management costs mean the costs of activities that are for the direction and control of the grantee’s affairs that are organization wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee’s level even if the function is physically located elsewhere for convenience or better management.”

Accordingly, the superintendent’s and school board’s salary, benefits, communications/telephone charges and other expenditures related directly to the operation of the Superintendent’s tax collection, and school board offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the indirect cost rate.

Charges for individuals whose time is divided between district-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with 2 CFR Part 225 (OMB Circular A-87), Attachment B, Paragraph (8)(h)(4)(5). For example, if the Superintendent’s secretary is part-time to the Superintendent’s office, both Superintendent’s office time and non-Superintendent’s office time must be captured by time distribution records.

- **Administrative costs** are salaries and other expenditures for persons engaged in administrative activities from which the entire school district benefits. Examples are salaries and other expenditures for:
  - Accounting
  - Budgeting
  - Payroll
  - Human Resources
  - Purchasing
  - Employee relations

- **Fixed costs** are those costs associated with employment of personnel. For indirect cost rate calculations, indirect fixed costs are limited to the following costs that are associated with the personnel whose salaries are classified as administrative costs in Organization Code 750:
  - Employee retirement matching
  - FICA matching
  - Pension fund payments
  - Premium expenditures for
    - ◆ Health insurance
    - ◆ Liability insurance
  - Unemployment compensation
  - Unused Leave for Separating Employees
  
- **Unallowable/excluded costs** *are not* considered in the indirect cost rate computation. Annual Financial Report Exhibit J-2 identifies these unallowable and excluded costs. Although these costs are included in amounts on Schedule C-2 for the General Fund, Special Revenue Fund and Enterprise Fund (for child nutrition programs only), they are excluded during the rate calculation. Examples are:
  - Contributions and donations
  - Bad debts
  - Contingencies
  - Debt service and interest
  - Stipends
  - Capital outlay
  - Entertainment
  - Transfers and college/university tuition
  - Fines and penalties
  - Food (The US Department of Agriculture has determined that some operating costs for the Child Nutrition Program should be used in the computation of indirect cost rates. According to their guidelines, the cost of raw food processed for consumption under the program should be excluded from the indirect cost rate computation. However, child nutrition program labor and other costs should be included in the rate computation.)
  - Building purchase, construction, or improvements

Note: Consistency of expenditure classification is a basic principle applied when developing or using indirect cost rates. Expenditures treated as *indirect* or *direct* in rate calculation must be treated in the same manner in program budgets.

Exhibit 47 below provides guidance for analyzing and classifying expenditures into the three categories of indirect, direct and unallowable costs.

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**Exhibit 47. Guide for the Analysis of Function 41 Expenditure Accounts (Audit Report Exhibit J-2)**

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<b>Object Code</b>	<b>Explanation</b>
	Indirect costs consist of the salaries and expenditures/expenses for persons who are engaged in administrative activities from which the entire school district benefits. Those activities that are limited to one campus, subject or phase of operation are direct costs.



Object Code	Explanation
611X - 6149	<p>Payroll Costs as used in 611X-6149 includes base pay and fringe benefits:</p> <ul style="list-style-type: none"> <li>– Salary paid to the school district board secretary goes in the school board column (Organization Unit 702).</li> <li>– Salaries for tax collection (if performed locally) belong under the Tax Collection column (Organization Unit 703).</li> <li>– If the business manager is also the tax collector, prorate this salary on the basis of time spent in each area (Organization Units 703 for taxes and 750 for business office functions).</li> <li>– Only salaries for the superintendent and the superintendent's immediate secretary or secretaries should be entered in the Superintendent's Office column (Organization Unit 701).</li> <li>– Assistant, Deputy (etc.) Superintendents are not considered to be part of the superintendent's office for this calculation.</li> </ul> <p>Generally, salaries for staff in accounting, budgeting, payroll, human resources, purchasing and employee relations are indirect costs. Salaries related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services and student services are not indirect costs. The costs of these functions are considered as direct costs. For example, the business manager and accounting section are included as indirect costs. A supervisor of transportation would not be included as an indirect cost but would be classified as a direct cost.</p> <p>Any Unused leave paid out for separating employees must be reported separately from Payroll and must be reported in the Indirect Cost (Organization Unit 750) column <b>only</b> using the applicable 6149 line</p>

Object Code	Explanation
6149	<ul style="list-style-type: none"> <li>– Payroll fringe benefits. Unused Leave <b>ONLY</b> for Separating Employees <b>in</b> Functions 41 and related 53) should only be reported in the Indirect Cost column (Organization Unit 750). Any other fringe benefits are reported on the basis of the area they benefit in Payroll Costs on the 611X-6149 line.</li> </ul>
6149	<ul style="list-style-type: none"> <li>– Payroll fringe benefits. Unused Leave <b>ONLY</b> for Separating Employees in all Functions <b>outside of</b> Functions 41 and related 53 should be reported in the Indirect Cost column (Organization Unit 750). Any other fringe benefits are reported on the basis of the area they benefit in Payroll Costs on the 611X-6149 line.</li> </ul>
6211	<ul style="list-style-type: none"> <li>– Legal fees which pertain to defending the school board or are for litigation other than for the collection of taxes should be put in the School Board (Organization Unit 702) column.</li> <li>– Superintendent’s Office costs are those legal services furnished by the chief legal officer or legal staff solely for the purpose of discharging general responsibilities (Organization Unit 701).</li> <li>– Direct Costs are the cost of legal expenses required in the administration of a federal grant program (Organization Unit 720).</li> <li>– Legal fees which pertain to the collection of taxes should be recorded under the Tax Collection (Organization Unit 703) column.</li> <li>– Legal expenses are not reported in Miscellaneous or Indirect Costs column (Organization Unit 750).</li> </ul>
6212	The cost of the independent audit of the school district is an indirect cost (Organization Unit 750).
6213	All Function 41 and 99 expenditures related to tax collection and appraisal district costs are placed under the Tax Collection column (Organization Unit 703).
6214	Any lobbying costs will be placed in the Miscellaneous column and included with non-employee stipends as a deduction of unallowable costs on the J-2 worksheet

Object Code	Explanation
6219	<p>Analyze professional services expenditures on the basis of the area they benefit. Refer back to the explanation of 611X-6149 for further assistance.</p> <p>Data processing, pupil appraisal, cocurricular event and student assembly costs should be analyzed based upon usage. Payroll, inventory, accounts receivable, accounting and personnel records processing would be examples of indirect cost usage. Student attendance accounting, class scheduling, grade reporting, special population and transportation reports would be examples of direct cost usage (benefiting specific areas of the school district).</p>
6220	These tuition and transfer expenditures are recorded under the Miscellaneous column.
6230	Education Service Center services expenditures in object 6239 must be analyzed according to the area benefited. See 611X-6149.
6240	Contracted maintenance and repair expenditures are direct costs (Organization Unit 720).
6250	Utility expenditures are direct costs (Organization Unit 720).
6260 through 6290	Rentals and Miscellaneous Contracted Services must be analyzed and recorded on the basis of the area they benefit. Refer back to the explanation of 611X-6149 for further assistance.
6320 and 6330	Books, magazines and periodicals and testing materials are usually direct costs. However, if any such items of expenditures relate to any other category, then those items of expense should be recorded after analyzing expenditures on the basis of the area they benefit. Refer back to the explanation of 611X-6149 for further assistance.
6341	Food, if present, should be placed in the Miscellaneous column.
6342	Non-food expenditures are direct costs.
6399	General Supplies expenditures should be allocated based upon a reasonable estimate of usage by the different 611X-6149 personnel in this analysis.

<b>Object Code</b>	<b>Explanation</b>
6410	Travel and Subsistence Expenditures (6411) usually relate on a one-to-one basis with salary position expenditures, and can be sorted into the same categories to which the salaries are assigned. Otherwise, identify such expenditures within the functional category that benefited from the travel or subsistence. All non-employee stipends (6413) should appear in the Miscellaneous column.
6420	Insurance and Bonding Expenses also can be related on a one-to-one basis to a salaried position. See 611X-6149. These expenses are assigned to the functional category that they benefit. In the case of a blanket bond, the costs can be prorated on any reasonable basis (bond coverage per person, gross salary ratios, if tied to salaries, etc.)
6430	Election expenses will be a school board expense. (Organization Unit 702)
6490	Miscellaneous Operating Costs 6490 must be analyzed and recorded on the basis of the area they benefit. Refer back to the explanation of 611X-6149 for further assistance.
6500 and 6600	All expenditures for Debt Service (6500) and Capital Outlay - Land, Buildings and Equipment (6600) will be placed in the Miscellaneous column.

### ***Rate Calculation***

Once expenditures are classified in the appropriate categories, the rates are calculated using the formula in Exhibit 48 below:

**Exhibit 48. Indirect Cost Rate Calculation**

$$\text{Indirect Costs/Direct Costs} = \text{Indirect Cost Rate}$$

<b>Factor</b>	<b>Source</b>
Indirect costs	Indirect cost amounts from AFR Exhibit J-2
Direct costs	Total costs for the General fund, the Special Revenue fund and expenses of child nutrition programs accounted for in the Enterprise fund  <i>LESS</i>  Indirect costs and unallowable costs identified on Exhibit J-2

Note: The calculation formula is based on the Modified Total Direct Costs (MTDC) method and is the same for both the restricted rate and the non-restricted rate except indirect costs for facilities maintenance and operation and depreciation or use charges are added to calculate the non-restricted rate.

Note: The rates are based solely on actual costs incurred for a future period (i.e. actual costs of 8/31/2006 for rates to be used 7/1/2007 - 6/30/2008), therefore the rates are classified as "Predetermined" rates. To compute the rate based on Predetermined rates, a predetermined discounting factor is applied to the rate. If a school district's Restricted rate for Fiscal Year 2006 is 5.0% based on the MTDC, the Predetermined rate will be calculated as follows:

Rate Based on Actual Costs, FY 2006	5.000%
Discounting Factor of 7%	93%
Predetermined Restricted Rate, FY 2008	4.650%

The predetermined discounting factor is based on a 5 year average and satisfies the requirement that we must have "reasonable assurance" that the Predetermined Rate will not exceed the recipient's rate based on actual costs (2 CFR Part 225 (OMB Circular A-87), Attachment E (E) (2)).

### 1.6.1.4 Indirect Costs on TEA State-Funded Grants

Effective October 3, 2008, all TEA grantees are permitted to claim indirect costs on TEA state-funded grants. Grantees must have a current approved federal indirect cost rate in order to do so. For additional information, refer to the October 3, 2008 letter to all TEA grantees under TEA correspondence for 2008.

## 1.6.2 Indirect Cost Revenue

If a school district has an assigned indirect cost rate, it can claim indirect cost revenue on applicable grants. As indirect cost revenues are earned in the Special Revenue Fund on federally funded grants, these revenues can be transferred from the Special Revenue Fund to the General Fund. After the indirect cost revenue has been recorded in the General Fund, the revenues can be used for any legal purpose.

### 1.6.2.1 Calculation

Indirect cost revenues for a specific grant are calculated by multiplying the direct expenditures for the grant times the applicable indirect cost rate. To determine direct expenditures, a school district must subtract unallowable grant expenditures from the total grant expenditures. Unallowable grant expenditures are the same as those that appear in the list of unallowable costs in the Calculation of Indirect Cost Rates section above. A school district should be familiar with the specific terms and requirements that apply to each grant program.

Exhibit 49 includes an example of an indirect cost revenue calculation when an adjustment must be made to exclude unallowable costs.

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#### Exhibit 49. Calculation of Indirect Cost Revenues with Adjustment for Unallowable Costs

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Description	Code	Amount
Total Grant Expenditures to Date:		
Payroll costs	6100	\$34,595

Professional and contracted services	6200	750
Supplies and materials	6300	1,000
Other operating expenses	6400	2,200
Debt Service	65XX	2,500
Capital outlay - Building improvements	6620	700
Capital outlay - Equipment	6630-6660	<u>2,250</u>
Total Expenditures		<u>\$43,995</u>

Unallowable Grant Expenditures:		
Capital Outlay - Equipment	6630/6640	\$ 2,250
Capital Outlay - Building Improvements	6620	700
Debt Service	65XX	2,500
Total Unallowable Expenditures		<u>\$ 5,450</u>

Total allowable program costs for indirect cost revenue calculation           \$38, 545 (1)

(1)     \$43, 995 in total expenditures minus \$5,450 in unallowable expenditures

Indirect Cost Revenue Earned (\$38,545 x 5% (applicable rate))     \$ 1,927

Note: The calculation of indirect cost revenues generally does not include cents. Therefore, indirect cost revenue calculations must be rounded *down* to the nearest dollar.

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#### **Exhibit 50.     Calculation of Indirect Cost Revenues with Program Allocation Limitations**

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In this example, assume there are no additional funds available to pay indirect costs over and above a program's allocation. The rate must be applied (when compiling a budget) in such a way that the total program monies do not exceed the total allocation. Presented below is an illustration of how to calculate the amount of direct costs when a school district is limited. The 5% rate is chosen arbitrarily.

<b>Description</b>	<b>Code</b>	<b>Amount</b>
Total Allocation	A	\$43,995
Total Allocation Minus Nonallowable Costs		(43,995 - 5,450)
	A	38,545

Indirect Cost Rate	R	5% or .05
Formula	$\frac{(R)(A)}{1 + R}$	$\frac{(.05)(38,545)}{1.05}$
Allowable Indirect Cost Rate		1,835

Total direct cost	\$42,169
Indirect cost	<u>1,835</u>
Total allocation	<u>\$43,995</u>

### 1.6.2.2 Limits

There are three major limitations affecting how much indirect cost may be recovered. These limitations are:

- Federal law or grant conditions may limit the amount of indirect cost that can be earned. For example, if the school district has a restricted rate of 3.5% and the law only allows a 3% rate of recovery, then the school district can recover indirect costs equal to only 3% of the direct costs. Some grants may contain terms and conditions that prohibit any recovery of indirect costs.
- Recovery of indirect costs on grants is subject to the availability of funds. Most restricted grants are allocated to the state as a grant in which each school district is entitled to a specific maximum grant amount. The total direct costs for the grant plus the indirect costs earned cannot exceed this maximum entitlement.
- Indirect costs can be recovered only to the extent that the school district makes direct program expenditures. The indirect cost rate is applied to the eligible direct cost amount *expended* not to the amount of the grant award.

### 1.6.2.3 Shared Services Arrangements

In a shared services arrangement, the fiscal agent generally receives indirect cost reimbursement. The indirect cost revenue earned is computed using the fiscal agent's indirect cost rate.



For shared services arrangements where the fiscal agent and the member school district both incur direct costs, each school district (or education service center) computes its own indirect cost revenue using its own indirect cost rate. Thus, the school district that writes the check for a qualifying direct expenditure receives the indirect cost earned on that expenditure.

### 1.6.2.4 Recording Indirect Cost Revenues

When indirect cost revenues are earned on a grant program in the Special Revenue Fund, journal entries should be recorded to show the earned amount due to the General Fund. In the following example, assume that a school district has received \$100,000 in ESEA Title I - Disadvantaged Children revenues from the state. Of that amount, \$95,000 was expended on eligible direct expenditures in the ESEA, Title I, Part A - Improving Basic Programs Special Revenue Fund. The remaining \$5,000 is to be claimed as indirect cost, based on a 5% restricted indirect cost rate. *Indirect cost revenues are not expenditures in the Special Revenue Fund but rather serve to reduce the funds available to expend on direct costs.* Consequently, a school district may consider the following method for accounting for the grant:

- A. Record the receipt of the funds from TEA in the ESEA, Title I, Part A - Improving Basic Programs Special Revenue Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$100,000	
Federal Revenues Distributed by the TEA (ESEA, Title I, Part A - Improving Basic Programs)		
211-00-5929-00-000-Y-00-0-00		\$100,000

- B. Record expenditures as they occur.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
211-11-6XXX-00-101-Y-24-0-00	\$95,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$95,000

C. Record indirect costs in the ESEA, Title I, Part A - Improving Basic Programs Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Indirect Costs - ESEA, Title I, Part A - Improving Basic Programs		
211-00-5929-01-000-Y-00-0-00	\$5,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$5,000

D. Record indirect costs in the General Fund. These funds are now available for use.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$5,000	
Indirect Costs Revenues from ESEA, Title I, Part A - Improving Basic Programs		
199-00-5929-00-000-Y-00-0-00		\$5,000

In the preceding example, *due to* and *due from* accounts were eliminated for discussion purposes; however, interfund receivables and payables would be appropriate as intermediate accounting entries.

There are two notable aspects of the above entries: (1) the journal entry reflects a contra-revenue code for the indirect costs in the grant revenue account (this may be accomplished using local option codes 1 and 2; and (2) the revenue in the General Fund is provided separate accountability by using local option codes 4 and 5. This allows the school district to:

- Identify gross grant revenue in the grant fund
- Identify indirect costs as an offsetting contra-revenue account that can be easily distinguished
- Use unique codes to identify indirect costs earned from various grants in the General Fund

## 1.6.3 Cost Accounting Methodology

Legislation enacted by the 74th Legislature in 1995, requires that public school districts report "educational system costs by district, campus, and program." These requirements appear in [TEC Section 44.007\(d\)](#). This section of the code further provides for the minimum requirements of the accounting system to be prescribed by the state board of education and reviewed by the state auditor. Approval of the minimum accounting system occurs at the time of adoption of changes to the *Resource Guide*, in accordance with state board of education rules in Title 19, Texas Administrative Code, Chapter 109.

### 1.6.3.1 Accounting Considerations

To successfully account for programs by organization and program intent, the accounting system must include source (input) documents with adequate provisions for transaction coding. The codes used must be uniform throughout the school district and must conform to code standards of the *Resource Guide* and the *Texas School Directory*.

Information recorded as a result of reporting required under TEC Section 44.007 is filed with TEA and provides school districts with the information included in the annual financial and compliance report (see sample report in Appendix 10). The annual financial and compliance report does not reflect campus level data, as the report is a school district level document. Campus level accounting is a requirement of TEC Section 44.007 and is the basis of some of the information shown in the annual performance report required under Chapter 39, Subchapter C, TEC.

Campus and program intent data comprise the level of data that will be reported to TEA through the Public Education Information Management System ([PEIMS](#)) for specified functions. A school district may, however, elect to use cost accounting to determine additional costs at the local level.

Organization and program intent accounting can lead to a voluminous number of accounting data entries. For example, if a teacher has assignments in several of the program areas and also serves on a regular schedule with more than one campus, a number of entries are required to record payment of salary, salary supplements and related benefits. Salary supplements and fringe benefits are to follow the cost of the service performed, so the end result can be voluminous. The Salary and Fringe Benefits Allocations section below provides guidance concerning salary allocations.

More importantly, school districts can spend an inordinate amount of time distributing small amounts of costs for contracted services, supplies, etc. Therefore these costs generally are not required to be accumulated by organization or program intent code.

## **Minimum Requirements**

The minimum coding requirements that are necessary to account for transactions are identified in the Account Code Overview of this module. Minimum coding requirements for any transaction are defined below:

Fund	All transactions
Function	All expenditures
Object	All assets, liabilities, fund equity, clearing accounts, revenues, expenditures/expenses, other resources, non-operating revenues, other uses and non-operating expenses and transfers in/out
Local Option Codes 1 and 2	Optional
Organization Units	Varies by fund, function and object for expenditures
Fiscal Year	All transactions
Program Intent	Varies by fund, function and object for expenditures
Local Option Code 3	Optional
Local Option Codes 4 and 5	Optional

## **Organization Units**

Organization codes are used to accumulate costs incurred for each of the following, as applicable:

- Campus
- Summer school/intersession (district wide)
- Special locations
- Administrative cost centers

Organization codes allow school district management to compare costs within the school district or to other school districts. Organization/campus level accounting is required for school districts. The *Texas School Directory* indicates campus organization units. A school district may have more than one campus location, with each location having a

unique number assigned in the *Texas School Directory*. The site of a campus may comprise only one building or any number of buildings.

- *Campus Units* - Costs that are clearly attributable to a campus unit listed in the *Texas School Directory* are to be identified specifically for that campus in the school district's accounting records. The campus number assigned in the *Texas School Directory* is to be used to identify accounting transactions for a campus. When a new campus is established, the school district is to report the campus to TEA for assignment of campus number. Costs not specifically attributable to a campus are not required to be identified with a campus code number for accounting purposes unless mandated. (See Organization Code section in this module for additional information on the assignment of organization units to campuses and cost centers.)

Some types of expenditures are clearly attributable to a campus. This normally includes most payroll costs and certain purchased and contracted services, supplies and materials and other costs. Capital outlays are sometimes attributed to a campus, depending on the function governing the expenditures. Certain costs may be incurred for more than one campus, but nevertheless can be attributable to specific campuses. An example is expenditures for a teacher that is assigned to more than one campus on a scheduled basis, where percentages of cost can be determined and distributed. Another example is a central kitchen operation where food service expenditures can be distributed to specific campuses on the basis of student participation.

- *Other Organization Units* - Some expenditure functions, e.g., general administration, must use administrative organization units instead of campus organization units.

Organization Code 999, Undistributed, is to be used with all expenditures when it is not appropriate or mandatory to use another organization unit or campus unit; however, Organization Code 998, Unallocated may be used at the local option when it is not mandatory to use another organization unit or campus.

## **Program Intent Codes**

These codes are used to account for the cost of instruction and services that are directed to a particular need of a specific set of students. The intent (the student group to which the instruction/service is directed) determines the program intent code, not the demographic makeup of the students served.

*Basic* and *Enhanced* Program Intent Codes are to be charged with payroll and other costs that are directly attributable to the program intent code. In some cases, this may require the allocation of costs among several program intent codes. See Program Intent Code section of this module for additional information on the use of program intent codes. For functions and objects where program intent accounting is not mandatory, the allocation of costs should be performed only when, in the judgment of school district management, there

would be a material effect on the financial records of either an individual transaction or the total amount of a certain type of transaction. Consideration should also be given to the effort involved in gathering the information necessary to perform the allocation compared to the benefit to be derived from the allocation of costs.

School districts are strongly encouraged to use enhanced program intent codes for large expenditures that are readily identifiable.

*Other* Program Intent Codes include Athletics and Related Activities and Undistributed. Program Intent Code 91, Athletics and Related Activities is to be used to account for payroll costs and other identifiable costs that are for athletics or programs that exist only because of athletics, such as a drill team, pep squad, cheerleaders, etc. Costs associated with band are specifically excluded from Program Intent Code 91.

Program intent code 99, Undistributed, is to be used for all expenditures when use of another program intent code is not appropriate or mandatory.

### ***Local Option***

A school district may elect to utilize the entire account code system shown in the account code overview, or any portion of the overview above the minimum accounting requirements. The accounting system can be expanded locally to meet a variety of needs. With the use of features such as the local option codes, there is no practical limit as to the amount of information that can be derived from the system. School districts are encouraged to use local option codes to meet any special cost accounting requirement that the school district might have.

Many funding sources may have a requirement to account for a specific project. Although the span of the project may be shorter than the overall program or the project may overlap into different accounting periods, cost by project should be available. Project accounting provides the capability to determine accurate costs of operations at detailed levels without establishing a separate accounting system for each project. Project accounting can be accomplished by using local option codes. Normally, project codes would be utilized only when management desires an analysis of specific phases of a program or when federal or state funds require such procedures.

In some cases, relatively minor amounts of money will be involved in project accounting. This fact should not diminish the importance of project accounting for legal compliance with fund requirements and valuable cost control and effectiveness information.

## 1.6.4 Salary and Fringe Benefits Allocations

Personnel costs constitute the majority of a school district's budgeted expenditures. Consequently, allocating personnel costs to the appropriate cost centers is important to a school district in preparing a budget and in coding expenditures. Allocation of personnel costs enables a school district to:

- Provide accurate information by cost center and/or program
- Adequately evaluate the economy and efficiency of a cost center and/or program
- Maintain budgetary control
- Calculate accurate percentages of non-instructional personnel costs and all other non-personnel costs to be used in the cost allocation formula provided *below*.

Note: In a school district, a cost center will most often be an organization unit or a program intent. To facilitate this discussion, this section will refer to a campus as an example of a cost center and to a principal as an example of the cost center's manager. When an organization unit or program intent code is not specified, the reader is to assume that an undistributed code is acceptable.

Site-based decision making encourages each campus to be responsible for its use of resources. To adequately manage the resources assigned to the campus, the principal should have access to the most accurate information about the costs of operating the campus. Since personnel costs are normally the largest single expenditure for any campus or program intent, campus expenditure reports should include appropriately allocated personnel costs.

Expenditure reports that include appropriately allocated personnel costs provide an accurate picture of the resources used by an organization or program. This information is critical to the principal who can use it to adequately evaluate the economy and efficiency of the campus as a whole and of each existing campus program.

As part of managing a school district's resources, the school district creates a budget. Under the site-based management concept, each campus is generally responsible for maintaining budgetary control over the campus's portion of the budget. To maintain control, all related expenditures should be assigned to accounts over which the principal has authority. With personnel costs, this control is best maintained by allocating the personnel costs to appropriate campuses and program intent codes.

### 1.6.4.1 Allocation of Salaries

The minimum allocation required for salary expenditures is:

- *Instructional salaries (Function 11)*

These salaries must be recorded using fund, function, object, organization (campus unit), fiscal year digit and program intent codes, at a minimum. A school district may use additional local-option codes.

Instructional salaries are a component of the TEA-provided formula used to calculate allocations for almost all other expenditures. Because these costs have such a significant impact on the allocation of other costs, instructional salaries must be allocated in a reasonable manner.

- *Certain cocurricular/extracurricular salaries (Function 36)*

Certain cocurricular/extracurricular salaries must be recorded using fund, function, object, organization (campus unit when applicable), fiscal year digit and program intent codes, at a minimum. See the Extracurricular Salaries section below for clarification of what is included in this category.

- *Administrative salaries (Function 41)*

Administrative expenditures, including salaries, must be recorded using fund, function, object, organization and fiscal year codes, at a minimum. Organizational codes for administrative expenditures include, among others, codes for the superintendent's office, tax collection office (tax costs) and school board. A school district must allocate administrative expenditures to these organizations to provide information required by TEA to use in the calculation of indirect cost rates for school districts (Exhibit J-2 in the annual financial and compliance report).

- *Substitute salaries*

Expenditure Object Code 6112 - Substitute Teachers, may be used only with Functions 11 and 13. Minimum coding for substitute teachers is limited to fund, function, object, and fiscal year. The undistributed organization code (999) and program intent code



(99) may be used. While this coding sets forth the minimum level of cost accounting, a school district may expand the coding at the local option level.

- *All other salaries*

Campus units are to be used for all payroll costs, when possible, in Functions 12, 23, 31, 32, 33, 36, 52, 53, 61, and 81. For staff that cannot be readily classified to a campus unit, organization unit 999 may be used. See Organization Code section in this module for additional information on the assignment of organization units to campuses and cost centers.

All other salaries must be recorded using fund, function, object and fiscal year codes. The undistributed organization and program intent codes may be used.

A school district may elect to code transactions on a more detailed basis by using additional elements of the code structure. Several circumstances for which a school district may want to use additional codes include:

- A school district may elect to use local option codes to provide additional expenditure information to the school district that exceeds TEA requirements. For example, the school district may record expenditures by department, i.e., science, English or mathematics.
- A school district may elect to allocate certain salary costs to specific campuses or program intent codes even though the salaries are not charged to functions requiring mandatory organization or program intent accounting.

### ***Methods of Allocating Salaries***

A school district may choose any reasonable allocation method for allocating salary costs. However, the method used should be:

- Documented
- Applied consistently over time
- Reviewed periodically for changes in activities and/or assignments that may affect the allocation plan

An allocation plan should be documented to ensure a historical record of the methodology and to address any questions that may occur. For example, an internal or external auditor may want to review the allocation plan for reasonableness. In addition, a documented plan helps ensure that appropriate information is available to new staff who may be responsible for performing the allocations.

Generally, the same allocation plan should be applied consistently over time. For example, a school district should establish a methodology at the beginning of the school year and apply it consistently throughout the school year unless a change occurs during the year to invalidate the original method. This consistency requirement does not mean that a school district should not adjust allocated amounts or percentages to reflect actual activities, but that the method itself should not change without justification.

A school district should review its allocation plans periodically to verify their continued validity. Two primary issues should be considered:

- The methodology may become invalid because the nature of a specific position may have changed or because the activities performed by the staff member have changed.
- An allocation method may continue to be valid, but the amounts or percentages used in the allocation may change.

In both cases, a school district should amend its allocation plan. The school district should also determine if previously recorded expenditures should be adjusted to more accurately reflect what occurred.

The following section provides examples of several salary allocation methods for instructional and non-instructional staff.

- *Non-instructional salaries* - The most common method for allocating non-instructional salaries may be allocating salaries based on the time spent on a specific job. A school district may require daily time records or exception reports that can be used to determine actual time spent on a job. Alternatively, a school district may rely on an analysis of historical records or on time information derived during selected test periods.

It may be helpful to express allocations in terms based on the hours in a standard school district work day or on standard hours for a specific position.

- *Instructional salaries* - TEA requires that salary expenditures for instructional staff be coded to the fund, function, object, organization, fiscal year digit and program intent code level. This requirement may make allocating instructional salaries more complex than allocating non-instructional salaries.
  - *Time on task* - In many cases, instructional staff work at an assigned campus. The organization code for these salary expenditures should reflect the assigned campus. Salaries for instructional staff assigned to more than one campus should be allocated to campuses based on the time actually spent at the campuses. For example, a music teacher may teach at three campuses and be scheduled to teach at each campus every third day. This teacher's salary may be allocated equally among the three campuses.
  - *Class periods* - Class periods may be used to calculate time spent at each campus. For example, a teacher may be scheduled to teach two periods at one campus each day and three periods at a second campus each day. This teacher's salary should be allocated 40% to the first campus and 60% to the second campus.
  - *Program intent* - The program intent codes assigned to each salary account should reflect the intent of the class. If the intent of a class is to provide basic educational services and the class intent is not altered to include any enhanced services, the program intent code should be "11," Basic Educational Services. If the class intent is primarily to provide an enhanced service, then the appropriate enhanced services program intent code should be used. For example, the instructional salary for a class designed as a Gifted and Talented class should be charged to Program Intent Code 21.
  - If a class is designed with more than one intent, a school district should allocate the instructional salary to the applicable program intent codes. For example, a class may be designed to provide basic educational services but has been significantly modified to provide remedial services to some students. A school district should determine what percentage of time the teacher spends providing instruction for the accelerated education program. The allocation can be accomplished based on actual time records, on an evaluation of selected test periods or on analysis of the time spent in the past in similar situations.
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  - 
  - Exhibit 51 shows an example of a salary allocation for a teacher who provides different services during different periods of the day.

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**Exhibit 51. Salary Allocation for Teacher Providing Multiple Services**


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Total Salary for Teaching Contract: \$24,000

### Daily Schedule

Period	% Time	Class Intent
1	100%	Basic Education, Elementary Campus 101
2	75	Basic Education, Elementary Campus 101
	25	Accelerated Education, Elementary Campus 101
3	100	Planning and Preparation Period
4	100	Lunch
5	100	Basic Education, Elementary Campus 102
6	90	Basic Education, Elementary Campus 102
	10	Accelerated Education, Elementary Campus 102

### Allocation Calculation

Campus And Program Intent Code	Units Worked	Total Units Worked	% Worked
101-11	1.00 + .75 =	1.75	44%
101-24	.25 =	.25	6
102-11	1.00 + .90 =	1.90	47
102-24	.10 =	.10	3
		4.00	100

Account Codes	Calculation	Salary Allocation
199-11-6119-00-101-Y-11-0-00	\$24,000 x 44% =	\$10,560
199-11-6119-00-101-Y-24-0-00	\$24,000 x 6% =	1,440
199-11-6119-00-102-Y-11-0-00	\$24,000 x 47% =	11,280
199-11-6119-00-102-Y-24-0-00	\$24,000 x 3% =	720
	Total	\$24,000

## **Extracurricular Salaries**

TEA requires that expenditure account codes for extracurricular salaries be coded to the fund, function, object, organization, fiscal year digit and program intent code level. Specifically, extracurricular salaries are incurred to provide for participation in competitive athletic activities such as football, basketball, golf, swimming, volleyball, etc. Salaries for related activities are to be coded to the same level. Included are salaries for:

- Coaching
- Sponsors for drill team, cheerleaders and pep squad
- Any other activities that support athletics and exist as a result of athletics

The Function Code must be 36, Cocurricular/Extracurricular Activities. The Program Intent Code 91, Athletics and Related Activities must be utilized.

For salaries for coaches and sponsors, a campus unit is to be used.

Some staff may teach classes during the regular school day and also be involved in activities that support athletics. Salaries for classes that are designated as physical education (P.E.) or P.E. equivalents are considered instructional and should be coded to Function 11, Instruction, and should *not* be coded to Program Intent Code 91, Athletics and Related Activities. In most cases, Program Intent Code 11, Basic Education will be utilized. In other words, if students receive credit for the class, the related salary costs should be considered instructional and normally part of the basic education program and coded accordingly.

Salaries for periods during the regular school day during which a staff member performs coaching duties or other related activities are *not* considered to be instructional if P.E. or P.E. equivalent credit is not granted. These salary costs should be coded to Function 36, Cocurricular/Extracurricular Activities and Program Intent Code 91, Athletics and Other Related Activities. In addition, salaries for periods outside the regular school day, e.g., before or after school hours and days before the school year begins or after the school year ends, should be coded to Function 36 and Program Intent Code 91.

Note: When a school district employs coaching staff for hours or days outside the regular school year, the employment contract should state clearly for which period the supplemental pay is intended. This statement is helpful

in determining the final salary payoff when a staff member who receives a coaching supplement leaves the employ of the school district in the middle of the school year. For example, a coach's contract may require the staff member to work ten days before the beginning of the school year plus time as needed after the regular school day to fulfill coaching duties. If the coach leaves the employ of the school district two weeks after the school year begins, the staff member may be eligible to:

- Receive the entire supplement (because the staff member worked all of the required extra days prior to the beginning of the school year)
- Receive only part of the supplement (because the staff member did not work all of the expected hours after the regular school day)

The amount of salary associated with each of these responsibilities should be stated clearly in the contract:

Example:

187 days for teaching/coaching duties at a salary of \$93.64 per day for teaching and \$15.00 per day for coaching; plus \$936.40 for 10 days prior to the beginning of school.

#### 1.6.4.2 Fringe Benefits

Fringe benefit expenditures include a school district's costs for items such as matching FICA expenditures, matching Teacher Retirement System (TRS) expenditures, state portion of TRS as required by GASB Statement No. 24 (as it relates to on-behalf teacher retirement payments), health and life [insurance](#) costs, workers' compensation and unemployment compensation.

Fringe benefit expenditures should be coded in the same manner as the salary expenditures to which they apply. Generally, fringe benefits should be allocated to match the distribution of a staff member's total salary distribution. An exception has been made for Expenditure Object Code 6144, Teacher Retirement/TRS Care - On-Behalf Payments and Medicare Part D payments. For Expenditures Object Code 6144, the benefit need only be charged to the appropriate fund, function, object and fiscal year codes. It is acceptable under GASB Statement No. 24 for all "on-behalf" payments to be charged to the general

fund. See additional information in the On-Behalf Teacher Retirement System Payments section of this module. All other fringe benefits are to be charged to the fund, function, object, organization, fiscal year and program intent codes on a prorated basis that follows the salary.

Occasionally, there are some circumstances that require a fringe benefit to be allocated in a manner similar to only part of a staff member's salary costs. For example health insurance expenditures should be allocated in the same manner as the salary.

Exhibit 52 demonstrates health insurance expenditure allocations for a teacher with coaching duties.

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**Exhibit 52. Example of Health Insurance Allocation**

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Type Of Duty	Account Code	Salary
Teaching Duties	199-11-6119-00-001-Y-11-0-00	\$12,000
	199-11-6119-00-001-Y-21-0-00	12,000
Coaching Duties	199-36-6119-00-001-Y-91-0-00	5,000
Health Insurance	See below*	3,000

\*The health insurance allocation is based on the allocation of the salary to which the insurance applies. In this case, the teaching duties which are used as the basis for allocation are divided equally between Functions 11 and 21.

Type Of Duty	Account Code	Allocation
Health Insurance	199-11-6142-00-001-Y-11-0-00	\$ 1,500
	199-11-6142-00-001-Y-21-0-00	1,500

### ***Teacher Retirement System Matching Expenditures***

*Matching* teacher retirement expenditures should be allocated in a manner similar to the salaries included in the TRS calculation. The allocation of total matching TRS expenditures should match the total salary allocation. For example, in

Exhibit 53, the total TRS matching rate multiplied times the total salary provides the total matching TRS expenditure. The expenditure is allocated in the same manner as the salary.

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**Exhibit 53. Allocation of TRS Matching Expenditures**


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**Factors**

Salary	\$37,000
Matching TRS Contribution Rate	6.58%
Matching TRS-Care Contribution Rate	1%
Cost of Education Index	1.08
Days in Contract	193
State Minimum Monthly Rate	\$2,654.73
State Base Salary	\$27,547.28

**Calculation of Matching TRS Expenditure**

$$\$37,000 \times 7.58\% = \$2,804.60$$

**Allocation of Matching TRS Expenditures**

Type of Duty	Salary	% of Total Salary	TRS Matching Expenditures
Teaching Duties - Locally Funded	\$16,000	43	\$1205.98
Teaching Duties - Federally Funded	16,000	43	1205.98
Head Teacher Duties - Locally Funded	2,000	6	168.28
Pep Squad Sponsor Duties - Locally Funded	3,000	8	224.36
Total	\$37,000	100	\$2804.60

Note: The rates and assumptions used above are for example purposes only. Such calculations in school districts will vary depending upon applicable TRS matching rates, employee contract terms, etc.

As many as four separate components of the total matching TRS expenditures may be present. These components are:

- *Statutory minimum matching expenditure* - This expenditure is calculated on salaries subject to the appropriate minimum state base salary (if the school district is subject to the statutory minimum salary). The TRS matching contribution rate is multiplied times



the salary in excess of the adjusted state base salary (the adjusted state base salary is the state base salary multiplied times the school district's CEI).

- *Federal grant matching expenditure* - This expenditure is calculated on federally-funded salaries. The TRS matching contribution rate is multiplied times the lesser of the federally-funded salary or the adjusted state base salary (if the school district is subject to the statutory minimum calculation).
- *Federal TRS Care matching expenditure* - This expenditure is calculated on federally-funded salaries. The TRS matching contribution rate is multiplied times the federally-funded salary.
- *On-behalf teacher retirement payments* - The state pays the TRS matching expenditure not paid by the school district. Therefore, the calculation is the total TRS-eligible salary multiplied times the TRS matching contribution rate (established by the state) less the sum of the statutory minimum, federal grant and federal TRS-Care matching expenditures.

A school district must record the TRS matching amount paid by the state on behalf of the school district as a TRS matching expenditure. See the revenue object code 5831 and the summary of GASB Statement No. 24 in Appendix 1 for additional information.

Exhibit 54 shows the calculation of each component of the TRS matching expenditure based on the factors in Exhibit 54.

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**Exhibit 54. Calculation of TRS Matching Expenditure Components**

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**Statutory Minimum Matching Expenditure** (because the maximum federal grant matching amount will be charged to the federal account code, 100% of the statutory minimum matching is allocated among the local account codes):

$$[\$37,000 - (\$27,547.28 \times 1.08)] \times 6.58\% = \$476.98$$

**Federal Grant Matching Expenditure** (coded 100% to federal account codes):

$$\$16,000 \times 6.58\% = \$1052.80$$

**Federal TRS-Care Matching Expenditure** (coded 100% to federal account codes):

$$\$16,000 \times 1\% = \$160.00$$

**On-Behalf Teacher Retirement Payments**

$$\$37,000 \times 7.58\% = \$2804.60$$

$$\$2,804.60 - (\$476.98 + \$1052.80 + \$160.00) = \$1114.82$$

Note: TRS matching rates are for example purposes only. Applicable TRS matching rates should be used in actual calculations by school districts.

**Summary of TRS Matching Expenditure Allocation**

Account Codes	TRS Statutory Min.	Fed. Grant	Fed. TRS-Care	On-Behalf	Total
199-11-6144-00-001-Y-11-0-00	-	-	-	858.41	858.41
199-11-6146-00-001-Y-11-0-00	367.27	-	-	-	367.27
211-11-6146-00-001-Y-24-0-00	-	1052.80	160.00	-	1212.80
199-11-6144-01-001-Y-11-0-00	-	-	-	100.33	100.33
199-11-6146-01-001-Y-11-0-00	42.93	-	-	-	42.93
199-36-6144-00-001-Y-91-0-00	-	-	-	156.08	156.08
199-36-6146-00-001-Y-91-0-00	66.78	-	-	-	66.78
	476.98	1052.80	160.00	1114.82	2804.60

### 1.6.4.3 Cost Allocation Methodology

[TEC Section 44.007\(d\)](#) requires that school districts account for costs by “campus” (organization) and “program” (program intent). Historically, instructional costs have been the focus of cost accounting for school districts. A significant amount of campus-level and central office resources are expended coding transactions relating to the school district’s operations and activities. Salaries and benefits of instructional personnel are generally assigned to account codes based on a teacher’s or teacher aide’s schedule. As a result, the coding of instructional salaries and benefits remains relatively static during the year. However, the coding of costs associated with salaries and benefits of substitute teachers, contracted services, supplies, other operating expenditures and capital outlay require a substantial commitment of the campus staff’s time due to the high volume of transactions and the numerous account codes to which such expenditures must be charged.

By calculating the full-time equivalent (FTE) for staff members attributed to each organization/program intent combination, and allocating costs associated with substitute teachers, contracted services, supplies, other operating expenditures and capital outlay in accordance with the percentage of instructional staff members providing a specific service on a specific campus, the necessity of coding most non-payroll costs to an organization and program intent code will be eliminated. The non-payroll costs in instruction represent approximately 6% of total instructional expenditures. As a result, the allocation should not produce material differences between fully costing each individual transaction and allocating costs based upon instructional FTE’s. The most significant advantage of using the FTE allocation method is the reduction in time requirements for school district staff for time associated with the coding of expenditures which represents a relatively small percentage of total expenditures.

In general, the costs associated with an employee, such as fingerprinting, should be coded to the same fund, function, object, organization, fiscal year digit and program intent code level as the employee’s salary.

An example of allocating costs based on FTEs is shown in Exhibit 55 below.

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#### **Exhibit 55. Example of Cost Allocation Based on FTEs**

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##### **Assumptions**

Instructional FTEs for each instructional staff member must be available. There are several options for obtaining instructional FTEs. The following calculation is not dependent upon *how* the instructional FTEs are obtained.

A staff member's (Staff #1) instructional FTE is calculated as .5. The staff member's payroll account codes are as follows:

199-11-6119-00-101-4-11-0-00	\$11,000
199-11-6119-00-101-4-24-0-00	8,000
199-23-6119-00-101-4-99-0-00	<u>15,000</u>
	<u>\$34,000</u>

### Calculations

Identify all payroll account codes with Function 11 (instructional). Sum the salary amounts for the payroll account codes with Function 11:

199-11-6119-00-101-4-11-0-00	\$11,000
199-11-6119-00-101-4-24-0-00	<u>8,000</u>
	<u>\$19,000</u>

For the payroll account codes with Function 11, sum the salary amount for each combination of organization and program intent code:

<u>Org/PIC</u>	<u>Salary</u>
101/11	\$11,000
101/24	8,000

Calculate the percentage for each combination of organization and program intent code:

<u>Org/PIC</u>	<u>Percent</u>
101/11	$11,000/19,000 = 58\%$

$$101/24 \quad 8,000/19,000 = 42\%$$

Calculate the instructional FTE for each combination of organization and program intent code:

Org/PIC                      Instructional FTE

$$101/11 \quad .58 \times .5 = .29 \text{ FTE}$$

$$101/24 \quad .42 \times .5 = .21 \text{ FTE}$$

Sum the instructional FTEs for each organization/program intent code combination for all staff, and sum the instructional FTEs for all instructional staff:

Assume calculations for other staff members have resulted in the following:

Staff #2                      199-11-6119-00-101-4-11-0-00                      1.00 FTE

Staff #3                      199-11-6119-00-101-4-11-0-00                      .75 FTE

199-11-6119-00-101-4-24-0-00                      .25 FTE

Staff #4                      199-11-6119-00-001-4-11-0-00                      .50 FTE

199-11-6119-00-001-4-21-0-00                      .50 FTE

Org/PIC                      Instructional FTEs

$$101/11 \quad .29 + 1.00 + .75 = \quad 2.04 \text{ FTE}$$

$$101/24 \quad .21 + .25 = \quad .46 \text{ FTE}$$

$$001/11 \quad .50 = \quad .50 \text{ FTE}$$

$$001/21 \quad .50 = \quad \underline{.50 \text{ FTE}}$$

3.50 FTE

Calculate allocation percentages for each combination:

<u>Org/PIC</u>	<u>Allocation Percentages</u>
101/11	$2.04 / 3.50 = 58.3\%$
101/24	$.46 / 3.50 = 13.1\%$
001/11	$.50 / 3.50 = 14.3\%$
001/21	$.50 / 3.50 = \underline{14.3\%}$

100.0%

Multiply the allocation percentages for each combination times the expenditure accounts not allocated to a specific organization/program intent code combination:

<b>Account Codes</b>	<b>Total</b>	<b>101/11</b>	<b>101/24</b>	<b>001/11</b>	<b>001/21</b>
	<b>100%</b>	<b>58.3%</b>	<b>13.1%</b>	<b>14.3%</b>	<b>14.3%</b>
199-11-6399	\$100,000	\$ 58,300	\$13,100	\$14,300	\$14,300
199-13-6399	200,000	116,600	26,200	28,600	28,600
199-21-6399	100,000	58,300	13,100	14,300	14,300
199-34-6119	100,000	58,300	13,100	14,300	14,300
<b>Total</b>	<b>\$500,000</b>	<b>\$291,500</b>	<b>\$65,500</b>	<b>\$71,500</b>	<b>\$71,500</b>

Expenditures that are coded to specific organizations but not to specific program intent codes can be allocated using the same methodology. In the example, FTEs for Organization Code 101 include 2.04 FTEs for Program Intent Code 11 and .46 FTEs for Program Intent Code 24. Percentages are calculated as follows:

<u>Org/PIC</u>	<u>Instructional FTEs</u>	<u>Allocation Percentages</u>
101/11	2.04	$2.04/2.50 = 81.60\%$
101/24	<u>.46</u>	$.46/2.50 = \underline{18.40\%}$
Total for Organization 101	<u>2.50</u>	<u>100.00%</u>

Aggregate all costs that are charged to a specific organization but not to a specific program intent code:

199-23-6119-00-101-4-99-0-00	\$100,000
199-23-6399-00-101-4-99-0-00	10,000
199-31-6399-00-101-4-99-0-00	<u>5,000</u>
Total	<u>\$115,000</u>

Allocate these expenditures to the appropriate program intent codes based on the percentages calculated in the previous steps:

Account Codes	Program Intent Codes		Total
	11	24	
	<b>81.60%</b>	<b>18.40%</b>	<b>100%</b>
199-23-6119-00-101-4-99-0-00	\$81,600	\$18,400	\$100,000
199-23-6399-00-101-4-99-0-00	8,160	1,840	10,000
199-31-6399-00-101-4-99-0-00	4,080	920	5,000
<b>Total</b>	<b>\$93,840</b>	<b>\$21,160</b>	<b>\$115,000</b>

Expenditures that are coded to specific program intent codes but not to specific organizations can be allocated using the same methodology. In the example, FTEs for

Program Intent Code 11 include 2.04 FTEs at Organization 101 and .5 FTEs at Organization 001. Percentages are calculated as follows:

<u>Org/PIC</u>	<u>Instructional FTEs</u>	<u>Allocation Percentages</u>
101/11	2.04	$2.04/2.54 = 80.32\%$
001/11	<u>.50</u>	$.50/2.54 = \underline{19.68\%}$
Total for Program Intent Code 11	<u>2.54</u>	<u>100.00%</u>

Aggregate all costs that are charged to a specific program intent code, but not to a specific organization:

199-21-6399-00-999-4-11-0-00	\$100,000
199-31-6399-00-999-4-11-0-00	10,000
199-32-6399-00-999-4-11-0-00	<u>5,000</u>
Total	<u>\$115,000</u>

Allocate these expenditures to the appropriate organization based on the percentages calculated in the previous steps:

Account Codes	Organization Codes		Total
	001	101	
	<b>80.32%</b>	<b>19.68%</b>	<b>100%</b>
199-21-6399-00-999-4-11-0-00	\$80,320	\$19,680	\$100,000
199-31-6399-00-999-4-11-0-00	8,032	1,968	10,000
199-32-6399-00-999-4-11-0-00	4,016	984	5,000
<b>Total</b>	<b>\$92,368</b>	<b>\$22,632</b>	<b>\$115,000</b>



#### 1.6.4.4 Administrative Cost

One of the advantages of cost accounting is its presentation of direct (instructional services) costs as a ratio to indirect (all support services) costs of the school district. Support services are broken into two categories: administrative costs and other support services (as defined below). School districts are limited to an administrative cost rate that is determined by TEA each year.

TEC Section 42.201 required that an allowable administrative-to-instructional cost ratio be determined. It defined the components of administrative costs as General Fund expenditures in:

- Functions 21 (Instructional Leadership) and 41 (General Administration); object codes 6100 - 6400

divided by

- Functions 11 (Instruction), 12 (Instructional Resources and Media Services), 13 (Curriculum Development and Instructional Staff Development), 31 (Guidance, Counseling and Evaluation Services); object codes 6100-6400

This requirement was repealed by the 78<sup>th</sup> Legislature effective September 1, 2003; however, the administrative cost ratio is still included as an indicator in the School FIRST ratings.

## 1.7 Reporting

The intent of the following section is to provide school district management and independent auditors information and guidance relating to reporting. The primary focus of this section is the Annual Financial and Compliance Report which must be submitted to TEA as indicated below. The Data Collection and Reporting module of this *Resource Guide* contains additional extensive information regarding overall reporting objectives and procedures. This section also addresses reporting issues such as reporting entity and financial statement elements.

For governments to achieve their objective of accountability it is essential that they provide financial information that is both relevant and reliable to reasonably informed users. GASB concluded that to meet the varied needs of a wide range of users it was important for financial statements to report information by fund as well as to focus on the entire government as an economic entity.

Accordingly, in June 1999, GASB introduced the new financial reporting model in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 34"). The Statement integrates the traditional focus of government fund financial statements, relating to fiscal accountability and the modified accrual basis of accounting, with new forms of reporting to meet users' needs for longer-term financial information, and to ensure that the operational accountability objective of governments is fulfilled.

The primary purpose of GASB Statement No.34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, is to establish a basic financial reporting model:

- To provide more relevant information that will result in greater accountability by state and local governments, and
- To enhance the understandability and usefulness of the annual financial reports to the users of these reports, to enable them to make more informed economic, social, and political decisions.

### 1.7.1 Objectives of Financial Reporting

The financial reporting objectives identified in GASB Concept Statement No. 1 are to be used as a framework for establishing accounting and reporting standards for both the fund financial statements and government-wide financial statements.

GASB Concepts Statement No. 1 stresses further the importance of the following three objectives of financial reporting.

### 1.7.1.1 Accountability

GASB Concepts Statement No. 1 identifies *accountability* as the *paramount* objective of financial reporting by state and local governments. Accountability is based on the transfer of responsibility for resources or actions from the citizenry to another party, such as the management of a school district. Financial reporting should communicate adequate information to user groups to enable them to assess the performance of those parties that have been empowered to act in the place of the citizenry.

GASB Concepts Statement No. 1, paragraphs 3 and 4, describes financial reporting as follows:

Financial reporting is not an end in itself but is intended to provide information useful for many purposes. Financial reporting helps fulfill government's duty to be publicly accountable. Financial reporting also helps to satisfy the needs of users who have limited authority, ability, or resources to obtain information and who therefore rely on the reports as an important source of information. For that purpose, financial reporting objectives should consider the needs of users and the decisions they make.

Financial reporting is a means of communicating financial information to users. It encompasses all reports that contain financial information based on data generally found in financial statements. Financial reports and financial statements are end products of the reporting process. Certain information is better provided by financial statements; other information is better provided, or can only be provided, by financial reporting outside the financial statements. But financial reporting is not the only source of financial information about governmental entities. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs.

The primary users of a school district's financial statements are:

- Citizens of the school district (taxpayers/voters/service recipients, media, advocate groups, and public finance researchers)
- Direct representatives of the citizens such as legislatures and oversight bodies (state legislatures, school boards)

- Investors and creditors (individual and institutional investors, bond rating agencies, intergovernmental grantors)

Financial reporting should primarily assist:

- In fulfilling government's duty to be publicly accountable and should enable users to assess that accountability
- Users in evaluating the operating results of the governmental entity for the year
- Users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due

*Accountability* - Accountability is discussed in GASB Concepts Statement No. 1, paragraph 77, as follows:

Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess accountability.

- Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues not only were sufficient to pay for current-year services, but also increased accumulated resources.
- Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.
- Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. This information, when combined with information from other sources, helps users assess the economy,

efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within an entity and comparisons among similar entities. Information about physical resources . . . should also assist in determining cost of services.

### 1.7.1.2 Evaluating Operating Results

GASB Concepts Statement 1, paragraph 78, states that financial reporting should assist users in evaluating operating results of the governmental entity for the year:

- Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.
- Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.
- Financial reporting should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

### 1.7.1.3 Assessing Level of Services and Ability to Meet Obligations

GASB Concepts Statement 1, paragraph 79, states that financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due:

- Financial reporting should provide information about the financial position and condition of a governmental entity. Financial reporting should provide information about resources and obligations, both actual and contingent, current and noncurrent. The major financial resources of most governmental entities are derived from the ability to tax and issue debt. As a result, financial reporting should provide

information about tax sources, tax limitation, tax burdens and debt limitations.

- Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources. This information should be presented to help users assess long- and short-term capital needs.
- Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.

## 1.7.2 Financial Reporting and Data Submission

The sample Annual Financial and Compliance Report, which is included in Appendix 10 of this module, is presented as a model to school districts for use in the preparation of their annual financial statements. This sample report should not be considered all inclusive as it relates to the disclosures which may be required for a particular school district. A school district for which all of the funds, account groups or notes in the financial statements do not apply should not include such items in its Annual Financial and Compliance Report.

Many school districts now prepare Comprehensive Annual Financial Reports (CAFR) for submission to the Government Finance Officers Association (GFOA) and the Association of School Business Officials (ASBO) for their evaluation as to the accuracy and completeness of such CAFR. When a school district prepares a CAFR, it is not necessary to prepare a separate Annual Financial and Compliance Report for submission to the TEA; such CAFRs can be manually supplemented with TEA-required data to satisfy state requirements.

The following reports are required to be submitted to TEA:

- Annual Financial and Compliance Report, or modified CAFR
- Report to management or other similarly named correspondence from the school district's independent auditor issued during the annual financial audit

- Public Education Information Management System ([PEIMS](#)) and other reports as required by individual TEA divisions
- GASB Data Feed

The [PEIMS](#) data is required for submission to the TEA in four separate reports throughout the year. For further information on PEIMS submissions see the Data Collection and Reporting module or PEIMS Data Standards.

The Annual Financial and Compliance Report (or modified CAFR) is due no later than 150 days after a school's fiscal year end (the Annual Financial and Compliance Report must be submitted to the TEA on or before November 27<sup>th</sup> or January 28<sup>th</sup> of each year based upon whether a school has a June 30<sup>th</sup> or August 31<sup>st</sup> fiscal year end, respectively. Due to the wording of the law, when a due date falls on a weekend, the report should be filed on Friday to meet the "on or before" language. Any management letter or other correspondence from the auditor regarding significant deficiencies or material weaknesses must also be submitted in paper format. Most districts staple this correspondence inside the audit report. The Annual Financial and Compliance Report and the report to management should be sent to the following addresses by the school district management:

**STATE (Required for all districts)**

If mailed:

Texas Education Agency  
Division of Financial Audits  
1701 North Congress Avenue  
Austin, Texas 78701

If hand-delivered:

Texas Education Agency  
Room 5-113  
1701 North Congress Avenue  
Austin, Texas 78701

**Other:** Other State agencies that the district received direct funding from other than TEA.  
Any required depository to meet bond requirements (as specified in the bond documents).

**FEDERAL**

All school districts that expended \$500,000 or more in a year direct/indirect in Federal awards must submit a Form SF - SAC - Data Collection Form for Reporting on Audits of States, Local Government and Non-Profit Organizations plus the Single Audit reporting package using the Federal Audit Clearinghouse's Internet Data Entry System at:

<http://harvester.census.gov/fac/collect/ddeindex.html>

Only electronic submission is allowed for all fiscal years ending on or after January 1, 2008.

### 1.7.2.1 Financial Statement Elements

The minimum requirements for general purpose external financial reporting are:

- a) Management's Discussion & Analysis (MD&A) as Required Supplementary Information (RSI)
- b) Basic Financial Statements
  - 1) Government-Wide Financial Statements
  - 2) Fund Financial Statements
  - 3) Notes to Financial Statements
- c) Required Supplementary Information other than MD&A

**User Group that the Financial Statement Components are Aimed at:**

Financial Statement Components	User Group Primarily Aimed At
Required Supplementary Information (including MD&A)	Citizenry, Legislators and Oversight Bodies, Financial Community
Government-Wide Financial Statements	Citizenry and Legislators
Fund Financial Statements	Oversight Bodies and Financial Community



### **1.7.2.2 Government-Wide Financial Statements**

Government-wide financial statements, consisting of a statement of net assets and a statement of activities, should be prepared using the economic resources measurement focus and the accrual basis of accounting, i.e., revenues should be recognized in the accounting period in which they are earned and become measurable and expenses should be recognized in the period incurred, if measurable.

The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units.

### **1.7.2.3 Fund Financial Statements**

#### ***Governmental Fund Financial Statements***

Under GASB Statement No. 34, governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues should be recognized in the accounting period in which they become available and measurable and expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due. This requirement also applies to other forms of general long-term indebtedness, including capital leases, compensated absences, claims and judgments, pensions, termination benefits, landfill closure and postclosure obligations, and “other commitments that are not current liabilities properly recorded in governmental funds.”

#### ***Proprietary Fund Financial Statements***

Proprietary fund financial statements (including financial data for enterprise and internal service funds) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues should be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

## ***Fiduciary Fund Financial Statements***

Like proprietary fund financial statements, fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues should be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

### **Measurement Focus and Basis of Accounting for Financial Statements**

<b>Financial Statements</b>	<b>Measurement Focus</b>	<b>Basis of Accounting</b>
Government-Wide Financial Statements	Economic Resources	Accrual
Governmental Funds Financial Statements	Current Financial Resources	Modified Accrual
Proprietary Funds Financial Statements	Economic Resources	Accrual
Fiduciary Funds Financial Statements	Economic Resources	Accrual

### **1.7.2.4 Major Changes to Financial Statements Under GASB 34**

GASB Statement No. 34 did not change the requirement that governments prepare and publish the Comprehensive Annual Financial Report (CAFR). The Statement established new financial reporting requirements for governments by restructuring much of the information that governments presented in the past. The impact of GASB Statement No. 34 on the presentation of the CAFR is as follows:

**Exhibit 56. A Comparative Overview of Major Changes to Financial Statements Under GASB Statement No. 34**

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p>INTRODUCTORY SECTION</p> <p><u>Required</u></p> <p>Table of Contents</p> <p>Other Material Deemed Appropriate by Management</p> <p>Letter of Transmittal</p> <p>GFOA Certificate of Achievement</p> <p>Organization Chart</p> <p>Principal Officials</p>	<p>INTRODUCTORY SECTION</p> <p><i>No change under GASB 34</i></p> <p><u>Required</u></p> <p>Table of Contents</p> <p><u>Optional</u></p> <p>Letter of Transmittal</p> <p>GFOA Certificate of Achievement</p> <p>Organization Chart</p> <p>Principal Officials</p>
<p>FINANCIAL SECTION</p> <p>Auditor’s Report</p> <p>General Purpose Financial Statements (GPFS)</p> <p>Combined Balance Sheet – All Fund Types, Account Groups, and Discretely Present Component Units</p> <p>Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types and Discretely</p>	<p>FINANCIAL SECTION</p> <p><i>Major change under GASB 34</i></p> <p><b>Management’s Discussion &amp; Analysis</b></p> <p><b>Auditor’s Report</b></p> <p><b>Basic Financial Statements</b></p> <p><u>Government-Wide Financial Statements</u></p> <p>Statement of Net Assets</p> <p>Statement of Activities</p>

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p>Presented Component Units</p> <p>Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which an annual budget has been legally adopted)</p> <p>Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) – All Proprietary Fund Types and Discretely Presented Component Units</p>	<p><u>Fund Financial Statements</u></p> <p><i>Governmental Funds</i></p> <p>Balance Sheet</p> <p>Statement of Revenues, Expenditures, and Changes in Fund Balances</p> <p>Required Reconciliation Schedules</p> <p><i>Proprietary Funds</i></p> <p>Statement of Net Assets</p>
<p>Combined Statement of Cash Flows – All Proprietary Fund Types and Discretely Presented Component Units</p> <p><i>Trust Funds may be reported above as appropriate or may be reported separately</i></p>	<p>Statement of Revenues, Expenses, and Changes in Fund Net Assets</p> <p>Required Reconciliation schedules</p> <p>Statement of Cash Flows (using the direct method)</p> <p><i>Fiduciary Fund (and similar Component Units)</i></p> <p>Statement of Fiduciary Net Assets</p> <p>Statement of Changes in Fiduciary Net Assets</p> <p><i>Discretely Presented Component Units</i></p> <p>Fund Financial Statements as RSI if component unit does not issue separate financial statements</p>

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p><b><u>Notes to Financial Statements</u></b></p> <p>Two types of disclosure are necessary in the CAFR</p> <p>Notes to the financial statements that are essential for fair presentation of the GPFS (Combined Statements—Overview) level</p> <p style="text-align: center;">and</p> <p>Narrative explanations</p> <p><i>Notes Essential to the Fair Presentation of GPFS include</i></p> <p>Summary of Significant Accounting Policies</p> <p>Description of the component units of the financial reporting entity &amp; their relationships to the primary government</p> <p>Revenue recognition policies</p> <p>Encumbrance accounting and reporting methods</p> <p>Policies for reporting infrastructure</p> <p>Policies for capitalization of interest on fixed assets</p> <p>Definition of cash &amp; cash equivalents</p> <p>Policy regarding use of FASB pronouncements for proprietary activities</p>	<p><b><u>Notes to Financial Statements</u></b></p> <p><i>Refer to additional disclosures per GASB 34</i></p> <p>General Disclosure Requirements (Similar to Notes to Financial Statements per the old reporting model as applicable)</p> <p><i>Additional Disclosures in Summary of Significant Accounting Policies</i> (Paragraph 115 of the Statement)</p> <p>Description of government-wide financial statements including measurement focus &amp; basis of accounting used</p> <p>Description of types of transactions included in program revenues, policies for allocating indirect expenses to functions and elimination of internal activity in the statement of activities</p> <p>Policy for asset capitalization and estimation of their useful lives separately from historical cost.</p>
<p>Cash deposits with Financial Institutions</p> <p>Investments</p> <p>Significant contingent liabilities</p> <p>Encumbrances outstanding</p> <p>Significant effects of subsequent events</p>	<p><i>Required Disclosures about Capital Assets</i></p> <p><i>Refer to additional disclosures per GASB 34</i></p> <p>(Paragraphs 116-120 of the Statement)</p> <p>Beginning and ending balances and acquisitions and dispositions for the year for each major class of capital asset and the related accumulated depreciation reported</p>

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p>Pension plan obligations</p> <p>Accumulated unpaid employees benefits, such as vacation and sick leave</p> <p>Material violations of finance-related legal and contractual provisions</p> <p>Schedule of debt service requirements to maturity</p> <p>Commitments under noncapitalized leases</p> <p>Construction and other significant commitments</p> <p>Changes in general fixed assets</p> <p>Changes in general long-term debt</p> <p>Any excess of expenditures over appropriations in individual funds</p> <p>Deficit fund balance or retained earnings of individual funds</p> <p>Interfund receivables and payables</p>	<p><i>Required Disclosures on Long-term Liabilities</i> (Paragraphs 116-120 of the Statement)</p> <p>Beginning and ending balances and increases and decreases for the year for each major long-term liability.</p> <p>Additional disclosure is required for portion of <b>items</b> due within one year</p> <p>Information on governmental funds that have liquidated the long-term operating liabilities in the past</p> <p>Policy for authorizing and spending investment income</p> <p><i>Disclosures for Donor-Restricted Endowments</i> (Paragraph 121 of the Statement)</p> <p>Amounts of net appreciation on investment available for authorization for expenditure</p> <p>How amount are reported in net assets</p> <p>State Law relating to ability to spend net appreciation</p>

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p><i>Narrative Explanations</i></p> <p>Narrative explanations of combining, individual fund, account group, and component unit statements and schedules should provide information not included in the financial statements, notes to the financial statements, and schedules that is necessary</p> <p>To assure an understanding of the combining and individual statements and schedules, and</p> <p>To demonstrate compliance with finance-related legal and contractual provisions</p> <p><i>Segment Information for Enterprise Funds</i></p> <p>Enterprise fund segment disclosures are required if:</p> <ul style="list-style-type: none"> <li>Material long-term liabilities are outstanding,</li> <li>The disclosures are essential to assure the GPFS are not misleading, or</li> <li>They are necessary to assure interperiod comparability.</li> </ul> <p>Required Supplementary Information (RSI)</p> <p>Required supplementary information consists of statements, schedules, statistical data, or other information that GASB has determined is necessary to supplement, although not required to be a part of, the general purpose financial statements of a governmental entity</p>	<p><i>Segment Reporting</i> (Paragraph 122 of the Statement)</p> <p>Provision of Condensed Financial Statements in the Notes</p> <p><b>Required Supplementary Information (RSI) Other than MD&amp;A</b> <i>Note additional information required by GASB 34</i></p> <p><b>Budgetary Comparison Schedules</b> (Paragraph 130 of the Statement)</p> <p>Original &amp; final appropriated budget Actual amounts (Budgetary basis) Column to report the variance between the final budget and actual</p>

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
	<p>amounts is encouraged</p> <p><b>Modified approach to infrastructure disclosures (if applicable)</b></p>
<p>Combining and Individual Fund and Account Group Statements and Schedules.</p> <p><i>Combining Statements</i> By Fund Type where a governmental unit has more than one fund of a given fund type</p> <p>For Discretely Presented Component Units where the reporting entity has more than one component unit</p> <p><i>Individual Fund and Account Group Statements</i> Where a governmental unit (including blended component units) has only one fund type &amp; for account groups or where necessary to present prior year and budgetary comparisons</p> <p><i>Schedules</i> To demonstrate finance-related legal &amp; contractual compliance To present information spread throughout the statements that can be brought together and shown in greater detail To present in greater detail information reported in the statements</p> <p><b>TEA Required Schedules</b></p>	<p>Combining and Individual Fund Statements</p> <p>Combining statements are limited to nonmajor funds and are not required under GASB Statement No. 34</p> <p><b>TEA Required Schedules</b> No change</p>
STATISTICAL SECTION	<p>STATISTICAL SECTION <i>No change under GASB 34</i></p>



Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
<p>Statistical tables present comparative data for several periods of time—often ten years or more—or contain data from sources other than the accounting records and are presented in the final section of the CAFR. The following statistical tables should be included CAFR unless clearly inapplicable in the circumstances:</p>	<p>The following statistical tables should be included in the CAFR unless clearly inapplicable in the circumstances:</p>
	<p>General Governmental Expenditures by Function</p>
<p>General Governmental Expenditures by Function</p>	<p>General Revenues by Source</p>
<p>General Revenues by Source</p>	<p>Property Tax Levies and Collections</p>
<p>Property Tax Levies and Collections</p>	<p>Assessed and Estimated Actual Value of Taxable Property</p>
<p>Assessed and Estimated Actual Value of Taxable Property</p>	<p>Property Tax Rates—All Overlapping Governments</p>
<p>Property Tax Rates—All Overlapping Governments</p>	<p>Special Assessment Billings and Collections</p>
<p>Special Assessment Billings and Collections</p>	<p>Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita</p>
<p>Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita</p>	<p>Computation of Legal Debt Margin</p>
<p>Computation of Legal Debt Margin, if not presented in the General Purpose Financial Statements</p>	<p>Computation of Overlapping Debt</p>
<p>Computation of Overlapping Debt</p>	<p>Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures</p>
<p>Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures</p>	<p>Revenue Bond Coverage</p>
<p>Revenue Bond Coverage</p>	<p>Demographic Statistics.</p>
<p>Demographic Statistics.</p>	

Contents of the CAFR Under the Previous Reporting Model	Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by TEA
Property Value, Construction, and Bank Deposits  Principal Taxpayers.  Miscellaneous Statistics.	Property Value, Construction, and Bank Deposits  Principal Taxpayers.  Miscellaneous Statistics.

### ***Required Implementation Dates***

School districts in Texas were required to implement the provisions of GASB Statement No. 34 for the fiscal year ending August 31, 2002 (or June 30, 2002 for those districts electing to change their fiscal year end).

## **1.7.3 The Financial Reporting Entity**

GASB Statements No. 14 and 39 establish standards for defining and reporting on the financial reporting entity. These statements apply to financial reporting by primary governments, governmental joint ventures, jointly governed organizations and other stand-alone governments. They also apply to the separately issued financial statements of governmental component units. Failure to comply with the requirements of GASB Statement No. 14 and 39 may cause the reporting entity's (i.e., the school district's) financial statements to be misleading or incomplete. Accordingly, it is critical that school districts properly implement the requirements of GASB Statements No. 14 and 39 so that the financial condition of the school district is accurately stated and reported.

### **1.7.3.1 Defining the Financial Reporting Entity**

The financial reporting entity consists of the following entities:

- The primary government
- Organizations for which the primary government is financially accountable

- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete

The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government, such as a school district, is financially accountable for the organizations that make up its legal entity. It is also financially accountable for organizations (component units) that are fiscally dependent on it and for legally separate organizations that are so intertwined with the primary government that they are, in substance, the same as the primary government. Information for both the primary government and its component units should be included in the financial statements of the reporting entity.

The financial statements of the reporting entity should also allow the users to distinguish between the primary government and its component units. To accomplish this goal, the financial statements should generally communicate information about the component units and their relationships with the primary government. The financial statements should not create the perception that the primary government and all of its component units are one legal entity.

The "Evaluation of Potential Component Units" questionnaire, which is included as Exhibit 57 in section 1.7.3.3, should be consulted for criteria to aid in determining whether a potential component unit is a component unit and how to present a component unit in the annual financial statements.

The following are important terms defined by GASB Statement No. 14 and 39:

- *Primary Governments* have separately elected governing bodies, are legally separate from other entities, and are fiscally independent of other governmental units. By state law, a Texas school district represents a primary government.
- *Component units* are legally separate organizations for which the primary government is financially accountable or organizations whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
- *Legally separate* organizations are those that possess general corporate powers such as the capacity to have a name, the right to sue and be sued and the right to buy, sell, lease and mortgage property in its own name.

- *Fiscal independence* - An organization is fiscally independent if it has the authority to determine its own budget, levy taxes or set rates and charges and issue bonded debt, all without the approval of another governing body.
- *Financial accountability* - The primary government is financially accountable for a component unit if the primary government appoints a voting majority of the component unit's governing body; and the primary government:
  - Is able to impose its will on the component unit. A primary government has the ability to impose its will on an organization if it can significantly influence its programs or activities, or
  - Receives specific financial benefits or burdens from the component unit. The primary government receives financial benefits or burdens from a component unit when it - can access the organization's resources; - is legally obligated or has assumed the obligation to finance the deficits of, or provide financial support to, the organization; or - is obligated in some manner for the debt of the organization

Professional judgment is to be used in determining whether the nature and significance of an organization's relationship with the primary government warrants inclusion in the financial statements. An example of an organization that may be evaluated for inclusion is a foundation or nonprofit corporation that solicits funds for the benefit of the primary government.

- *Dual Inclusion* - A component unit of one primary government may be fiscally dependent on another primary government. Since an organization may be included as a component unit of only one reporting entity, professional judgment should be used in determining where the component unit is reported. Generally, fiscal dependency should govern in determining the appropriate reporting entity.

### 1.7.3.2 Reporting of Component Units

After the school district determines whether the potential component unit is part of the reporting entity, the school district should determine the appropriate method of reporting on the potential component unit. Because of the relationship among some component units and the primary government, they may be reported as if they are a part of (i.e., blended into) the primary government. However, most component units will be discretely presented so that financial statement users do not have the perception that the primary government and all of its component units are one legal entity.

## ***Blending Method***

Even though it is preferable to be able to distinguish between the primary government and its component units, there are some component units that, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in effect, the same as the primary government. Accordingly, GASB has stated that these component units should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending.

Reporting the component unit as a part of the primary government should be performed if:

- The component unit's governing body is substantively the same as the governing body of the primary government, or
- The component unit provides services entirely, or almost entirely to the primary government

Some component units account for their activities in a single fund; others use all or several fund types and account groups. If a component unit is blended, the fund types and account groups of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. However, because the primary government's general fund is usually the main operating fund of the reporting entity and often is a focal point for report users, its general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be reported as a special revenue fund.

## ***Discrete Presentation***

For those component units whose financial information is not blended in with the primary government, the component unit should be included in the financial reporting entity by discrete presentation. In discrete presentation, the component unit's financial data should be presented in separate columns to the right of the financial data of the primary government. Combining financial statements, for discretely presented component units, should be included in the Annual Financial and Compliance Report and the Comprehensive Annual Financial Report (CAFR), if a CAFR is prepared, using the same methodology as combining statements of fund type.

Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

- (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- (3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

TEA requires each discretely presented component unit to be presented in the reporting entity's statements of net assets and activities.

Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the primary government's fiduciary funds.

### ***Notes to the Financial Statements***

The notes to the financial statements should include a brief description of each component unit and its relationship to the primary government as well as information about how separate financial statements for each component unit may be obtained. This disclosure should also discuss both the criteria used for including the component units and how the component units are reported.

Additionally, the reporting entity's financial statements should make those component unit disclosures that are essential to the fair presentation of the reporting entity's financial statements. Finally, the notes to the reporting entity's financial statements should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units.

## ***Intra-Entity Transaction and Balances***

For blended component units, transfers between the component units or the component unit and the primary government should be shown as interfund transfers (internal activity in the financial statements of the reporting entity). Receivables and payables between the primary government and its blended component units should be reported as amounts due to and due from other funds.

Balances and transfers between the primary government and component units which are discretely presented should be reported as if they were external transactions—that is, as revenues and expenditures. However, amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line.

## ***Presenting Budget Information***

Budget-to-actual comparisons are required in connection with the basic financial statements for the general fund and any major individual special revenue funds for which legally adopted annual budgets are adopted. These comparisons may be presented either as one of the basic financial statements for governmental funds or as required supplementary information. (GASB 34, Basic Financial Statements) For the purpose of GASB Statement No. 14, the budget amounts reported in the combined statement of revenues, expenditures and changes in fund balances should include both the primary government and the blended component units.

## ***Reporting Periods***

In situations where the component unit's fiscal year end differs from that of the primary government, the reporting entity should incorporate financial information for the component unit's fiscal year ending during the reporting entity's fiscal year. If transactions between the component unit and the reporting entity result in reporting differences for transfers and due to or due from amounts, the nature and amount of those transactions should be disclosed in the notes to the financial statements.

### **1.7.3.3 Reporting Relationships with Entities other than Component Units**

The following types of relationships are defined in GASB Statements No. 14 and 39 as those that school districts should consider for reporting purposes:

## ***Related Organizations***

Related organizations are organizations where the primary government is accountable because it may appoint a majority of the board for which it is not financially accountable. Disclosure should be made with respect to the primary government's accountability for related organizations and any related party transactions.

## ***Joint Ventures***

A joint venture is a legal entity or other organization that results from a contractual arrangement. It is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control where the participants retain an ongoing financial interest or an ongoing financial responsibility.

When a primary government has an equity or ownership interest in a joint venture, the equity interest should be reported as an asset of the fund that has the equity interest. See GASB Statement No. 14, paragraphs 73 and 74 for detailed reporting requirements for equity interest joint ventures.

Regardless of whether the primary government maintains an ownership interest in the joint venture, the notes to the financial statements should include a description of the primary government's ongoing financial interest or ongoing financial responsibility. The notes should also provide information that enables the reader to evaluate whether the joint venture is accumulating significant financial resources or experiencing financial stress. Information about the availability of separate financial statements of the joint venture should also be disclosed.

## ***Jointly Governed Organizations***

A jointly governed organization is an organization jointly created and governed by representatives from other governments. However, this organization does not represent a joint venture because there is no ongoing financial interest or responsibility by the participating governments. For such organizations, participating governments should provide disclosures as required by GASB Codification Section J50.109b (related party transactions).



## ***Cost-Sharing Arrangements***

Cost-sharing arrangements are not considered joint ventures if the participating organizations do not maintain an ongoing financial interest or ongoing financial responsibility.

## ***Pools***

School districts participating in a public entity risk (insured) pool should follow the accounting and reporting guidance provided in GASB Codification Section C50, *Claims and Judgments*, paragraphs .131 through .138.

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**Exhibit 57. GASB Statements No. 14 and 39 The Financial Reporting Entity Evaluation of Potential Component Units**


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**GASB STATEMENT NO. 14 - THE FINANCIAL REPORTING ENTITY  
GASB STATEMENT NO. 39 – DETERMINING WHETHER CERTAIN ORGANIZATIONS ARE  
COMPONENT UNITS**

**EVALUATION OF POTENTIAL COMPONENT UNITS**

Potential Component Unit:

1. Is the potential component unit legally separate from the primary government?

(GASB Statement No. 14 para 15)

Yes No

An entity is a legally separate organization if it is created as a body corporate, or a body corporate and politic, or if it possess the corporate powers that would distinguish it as being legally separate from the primary government. Those corporate powers would give it the capacity to have a name, the right to sue and be sued without recourse to a governmental unit, and the right to acquire property in its own name.

It may be necessary to review the documentation on legal standing of potential component units with the general counsel for the primary government.

If yes, go to question 3; if no, go to question 2.

2. Does the primary government hold the legal corporate powers of the potential component unit?

(GASB Statement No. 14 para 15)

Yes No

If the potential component unit was determined not to be a separate legal entity in question 1 above, then either the primary government or some other entity must hold the corporate powers over the potential component unit.

If the primary government holds the legal corporate powers of the potential component unit, then it will be included in the financial reporting entity as part of the primary government.

If some entity other than the primary government holds the legal corporate powers of the potential component unit, then it will not be included in the primary government's financial reporting entity.

3. Does the primary government appoint a voting majority of the potential component unit's board?

(GASB Statement No. 14 para 22-24)

Yes No

If the primary government appoints a simple majority of the potential component unit's governing board, it usually has a voting majority. However, if financial decisions require a super majority, then the primary government is not accountable for the organization.



2. The primary government is entitled to, or has the ability to access a majority of the economic resources of the separate organization.
3. The economic resources of the individual organization are significant to the primary government.

Most organizations involved with Texas school districts will fail the 2<sup>nd</sup> or 3<sup>rd</sup> criteria. If the organization's relationship with the primary government meets the criteria of ¶39, see item 11 for the method of inclusion; if no, go to question 6.

6. Would it be misleading to exclude the potential component unit because of its relationship with the primary government?

(GASB Statement No. 14 para 39-41)

Yes

No

In addition to the entities for which the primary government is financially accountable as evaluated in other sections of the checklist, the primary government's financial reporting entity should include entities that, if excluded, would result in presentations of misleading or incomplete financial statements. These entities are considered component units based on the nature and significance of their relationship with the primary government, even though the primary government is not financially accountable for them.

GASB Statement No. 39 does not provide guidance as to what constitutes relationships that would lead to inclusion. It does, however, provide three examples relevant to school districts:

Example 4. Booster Club

Example 8. School District Parent—Teacher Organization (PTO)

Example 9. Music Instruction Program

If it is determined that it would be misleading to exclude the potential component unit because of its relationship with the primary government, go to question 10; if not, then it will not be included in the primary government's financial reporting entity. Refer to ¶69-78 of GASB Statement 14 for any joint venture reporting requirements.

7. Is the primary government able to impose its will on the potential component unit?

(GASB Statement No 14. para 25-26)

Yes

No

In order for the primary government to be accountable for another entity, it must be capable of affecting the day-to-day operations of the other entity as well as having the authority of appointing a voting majority of its board.

The concept to be evaluated is referred to by GASB as imposition of will, which is defined as the ability to significantly influence the programs, projects, activities or level of services performed or provided by the potential component unit.

While the determination of the concept of imposition of will is a matter of judgment, GASB concluded that the existence of any of the following is a clear indication of the primary government's ability to affect the day-to-day operations of the potential component unit:

Appointed members can be removed at will by the primary government.

The budget can be modified or approved by the primary government.

Rate or fee charges that affect the revenues can be modified or approved by the primary government.

Other decisions may be vetoed, overruled or modified by the primary government.

Management personnel may be appointed, hired, reassigned or dismissed by the primary government.

If the primary government is able to impose its will on the potential component unit, go to question 9; if not, go to question 8.

8. Is there a financial benefit/burden relationship between the primary government and the potential component unit?

(GASB Statement No. 14 para 27-33)

Yes

No

The primary government is financially accountable for another entity when it appoints a voting majority of the entity's governing board and the relationship creates the possibility that the other entity provides specific financial benefits to or specific financial burdens on the primary government.

GASB Statement No. 14 states that a financial benefit or burden is created if any of the following relationships exist:

The primary government has access to the other entity's resources. The ability to use the resources only needs to exist. The actual use of those resources is not required. An interest in the remaining assets of an entity when liquidated is not considered to provide the primary government with access to the other entity's resources.

The primary government is legally required or has assumed the responsibilities to finance the other entity's deficits or financially support the other entity. The primary government accepts an obligation for the debt of another entity. The following conditions would obligate the primary government for the debt of another entity:

- The primary government is legally responsible for debt that is not paid after other default remedies have been pursued.
- The primary government is required to provide funds to cover temporary deficiencies.
- The primary government is either required to fund reserves maintained by the other entity or to create its own reserve fund.
- The primary government is authorized to either fund reserves maintained by the other entity or to create its own reserve fund and has established such a fund.
- The primary government is authorized to either provide financing for a reserve fund maintained by the other entity for the purpose of repurchasing outstanding debt or to create its own reserve fund and has established such a fund
- The debt contract states that the primary government may cover defaults (even though it is not required to do so).
- Legal precedents related to actual or potential defaults make it probable that the primary government will be responsible for the other entity's defaulted debt.

If the primary government is financially accountable for another entity when it appoints a voting majority of the entity's governing board and there are relationships that create specific financial benefits to or specific financial burdens on the primary government, go to question 9; if no, go to item 13 for the method of inclusion.

9. Is the governing board of the component unit substantively the same as the governing board of the primary government?

(GASB Statement No. 14 para 53a)

Yes  No

GASB 14 indicates that these criteria will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.

If the governing board of the component unit is not substantively the same as that of the primary government go to question 10; if yes, go to item 11 for method of inclusion.

10. Does the component unit provide services entirely or almost entirely to the primary government?

(GASB Statement No. 14 para 53b)

Yes  No

The essence of this type of arrangement is similar to an internal service fund where the goods or services are provided to the government itself.

If the component unit provides services entirely or almost entirely to the primary government, go to item 11 for method of inclusion; if no, go to item 12 for method of inclusion.

#### Methods of Inclusion

11. Blending (See GASB Statement No. 14 para 52-54)

12. Discrete presentation (See GASB Statement No. 14 para 44-51)

13. Note disclosure (See GASB Statement No. 14 para 68)

See GASB Statement No. 39 for amendments to GASB Statement No. 14.

## 1.7.4 Management's Discussion & Analysis

The management's discussion and analysis (MD&A) is part of the required supplementary information (RSI) that precedes the basic financial statements. It should be based on

currently known facts (as of the date of the audit report) and should provide an objective and easily readable analysis of the district's financial activities.

The financial managers of school districts are knowledgeable about the transactions, events, and conditions that are reflected in the district's financial report and of the fiscal policies that govern its operations. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities.

### 1.7.4.1 Contents

The focus of the MD&A should be on the primary government; however, information on the component units could be presented as well. GASB has stated that both the positive and negative aspects of the government's operations should be presented so that the reader can conclude whether the government is better off or worse off than in the prior year.

The following is a list of required information that should be included and addressed, *at a minimum*, in the MD&A as modified by TEA. MD&A is restricted to the following topics although there is no limit to the information that may be presented about these topics in the letter of transmittal or in other forms of supplementary information.

Information and discussion on the basic financial statements presented, their relationship to one another, and the significant differences in the information they provide. The discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.

Condensed financial information comparing current year to prior year. The analysis should include specific economic factors that contributed to the change from the prior year. Charts and graphs may be used to supplement information in the condensed statements but should not be used in place of them. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year should be presented for the following categories, if relevant:

- (1) Total assets, distinguishing between capital and other assets
- (2) Total liabilities, distinguishing between long-term liabilities and other liabilities
- (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts

- (4) Program revenues, by major source
  - (5) General revenues, by major source
  - (6) Total revenues
  - (7) Program expenses, at a minimum by function
  - (8) Total expenses
  - (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
  - (10) Contributions
  - (11) Special and extraordinary items
  - (12) Transfers
  - (13) Change in net assets
  - (14) Ending net assets
- Objective analysis of the district's overall financial position and results of operations should address both governmental and business-type activities separately. It should assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The discussion should include reasons for significant changes from the prior year, not simply comments or percentages. Important economic factors that significantly affected operating results should be discussed.
  - An analysis of balances and transactions on a fund basis addressing the reasons for significant changes in fund balances or fund net assets. The analysis should also include information on whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.
  - A discussion on significant variances between the district's original budget and final budget, and between the final budget and actual expenditures, and the impact



of these variances on the government’s future liquidity. It is not sufficient to state that the original budget was increased to cover higher-than-expected expenditures. MD&A should explain why the variances occurred.

- A description of activity relating to the district’s significant capital assets and long-term debt activity during the year. This discussion should include commitments made for capital expenditures, changes in credit ratings, and debt limitations affecting the financing of planned facilities or services.
- A description of currently known facts, decisions or conditions expected to impact the district’s financial position and results of operations. The term ‘currently known’ is limited to events or decisions that have occurred, been enacted, adopted, agreed upon, or contracted as of at the date of the auditor’s report. The discussion should address expected effects on both governmental and business-type activities. Governments should not discuss the possible effects of events that might happen.

Information that does not address the above requirements should not be included in the MD&A but could be reported as supplementary information or could be included in the letter of transmittal.

### 1.7.4.2 Letter of Transmittal and MD&A

The district should ensure that information contained in the MD&A is not duplicated in the letter of transmittal.

#### Important Distinction between Letter of Transmittal and MD&A

Letter of Transmittal	MD&A
<p>Presented as part of the Introductory Section in the Comprehensive Annual Financial Report (CAFR).</p> <p>Not limited to topics described in GASB Standards</p>	<p>Presented as part of the Financial Section in the financial statements or CAFR</p> <p>Must only present topics required by GASB 34</p> <p>Purpose is to provide a summary and analysis of the government’s overall financial position and operations.</p>

Provides an opportunity to discuss future plans.	Highly structured and requires information only on currently known facts, conditions, or decisions.
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### Comment

If the district provides comparative financial statements by presenting basic financial statements and RSI for two years, then a separate MD&A for each year is not required, but the MD&A is required to address both years presented in the comparative financial statements. The MD&A should include comparative condensed financial information and related analysis for three years so that each of the two years presented in the comparative financial statements can be compared to its prior year.

### 1.7.4.3 Sample MD&A

This information is provided only to give districts an idea of the types of narrative information commonly seen based on the GASB 34 reporting requirements. The sample sentences provided relate to multiple school districts and situations and therefore should not be used simultaneously for any one report. The condensed financial information is often reported in terms of thousands or millions since the actual numbers are available in the government-wide financial statements. All information should be tailored to the district's actual types and number of funds and other operations. The only requirement by TEA regarding MD&A is that the district follow the GASB 34 reporting requirements.

### FINANCIAL HIGHLIGHTS

**Note that the Financial Highlights are obtained from the more detailed analysis within the MD&A and provide a synopsis of the district's operations and financial condition as a whole.**

The assets of the District exceeded its liabilities at the close of the fiscal year by \$24,470,673 (net assets). Of this amount, \$9,302,754 (unrestricted net assets) may be used to meet the district's ongoing obligations.

The District's total net assets increased by \$4,866,533. Approximately half of this increase is attributable to [insert topic].

As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of \$43,670,229, an increase of \$25,571,587 in comparison with the prior year. Approximately 32% of this total amount, \$14,174,640, is available for spending at the District's discretion (unreserved, undesignated fund balance).

At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$14,174,640, or 56 percent of total general fund expenditures.

The District's total debt increased by \$26,533,353 (70 percent) during the current fiscal year. The key factor in this increase was the issuance of \$28,000,000 in school building bonds.

### Other possible comments

The District continues to grow at a steady pace. Student enrollment increased by xxx students to a total of xxx students as of August 31, 200x. State aid increased accordingly by \$xxx or by \$xxx per student. Federal aid increased by \$xxx, federal revenue per student increased by \$xxx. Property tax revenues increased \$xxx primarily as a result of increases in property tax rates and growth of taxable property.

The cost of various District construction projects underway for the year ended August 31, 200x are projected at a total cost of \$xxx. Harvest Elementary, Ridgeline Elementary and Fox Hollow Elementary were completed in the fall of 200x at a combined cost of \$xxx.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### **Paragraph 11a of GASB Statement No. 34**

**Information in the MD&A should provide a brief discussion on the basic financial statements presented, their relationship to one another, and the significant differences in the information they provide.**

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. This report also includes other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s *overall* financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in *more detail* than the government-wide statements.

The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

*Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.

*Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

## Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector company. These statements include:

*The Statement of Net Assets.* The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of what the District owns (assets), what it owes (liabilities), and the net difference (net assets). Net assets may be further separated into amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial health is improving or deteriorating.

*The Statement of Activities.* The Statement of Activities presents information showing how the net assets of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing for when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, student enrollment, facility conditions, required educational programs for which little or no funding is provided, or other external factors.

The government-wide financial statements of the District are divided into three categories:

*Governmental activities*—Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

*Business-type activities*—The District charges fees to customers to help it cover the costs of certain services it provides. The District's food service fund is included here.

*Component units*—The District includes several other entities in its report. Although legally separate, these "component units" are important because the District is financially accountable for them.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds*—Most of the District’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out of those funds and (2) the balances left at year-end that are available for spending in future periods. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s educational programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

The District maintains [insert number] individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other [insert number] governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund, the Debt Service Fund and the Capital Projects Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with statutory requirements.

*Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. The District maintains two types of proprietary funds. First, enterprise *funds* (one type of proprietary fund) are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for the activity recorded in its xxxx Fund.

The District maintains another proprietary fund type (*internal service fund*) (the other kind of proprietary fund). The internal service fund is an accounting device used to accumulate and allocate costs internally among the District’s various functions. The District uses its internal service funds to account for insurance claims and premiums and for its printing services. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The District maintains [insert number] individual internal service funds. These funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

*Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds such as club and class funds and payroll withholding funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning budget to actual presentations for the General Fund, Food Service Fund, and the Debt Service Fund in accordance with State Board of Education rules. Required Supplementary Information can be found on pages xx – xx [insert pages] of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pages xx – xx [insert pages].

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### **Paragraphs 11b and 11c of GASB Statement No. 34**

**The MD&A should provide an objective analysis of the district's financial condition and operations as a whole and should address both governmental and business-type activities separately. The analysis should include condensed financial statements comparing current year to prior year and specific reasons and economic factors that contributed to the change from the prior year, not simply amounts or percentages of change.**

Capital assets, which consist of the District's land, buildings, building improvements, construction-in-progress, vehicles, and equipment, represent about xx percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable and prepaid assets. The increase in Current and Other Assets is primarily due to the balance remaining in the Capital Projects Fund for unexpended bond funds.

The District's largest liability (xx percent) is for the repayment of general obligation bonds. Other liabilities, representing about xx percent of the District's total liabilities, consist almost entirely of payables on accounts and salaries and benefits. The number of sick and vacation days used during the fiscal year increased by xx% compared to the prior year. As a result, the estimated liability for compensated absences increased by \$xxx. The decrease in Other Liabilities is the result of a lower accrual for salaries due to a later start date.

The largest portion of the District's net assets (40 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted

that the resources needed to repay this debt must be provided from other sources (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (22 percent) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased by \$xxx during the year ended August 31, 200x. This decrease resulted primarily from spending resources available in the capital projects funds. The fund balance designation for compensated absences of \$xxx is offset by an estimated accrued liability of approximately the same amount and is not included in total unrestricted net assets. The remaining balance of unrestricted net assets (\$9,527,859) may be used to meet the district's ongoing obligations to students, employees, and creditors and to honor next year's budget.

Anywhere Independent School District's Net Assets

	Governmental Activities		Business-type Activities		Total		Total
	2008	2007	2008	2007	2008	2007	% Change
							2008-07
Current and other assets	\$ 50,932,750	\$ 22,444,285	\$ 308,709	\$ 258,581	\$ 51,241,459	\$ 22,702,866	125.7%
Capital assets	44,926,798	38,596,959			44,926,798	38,596,959	16.4%
Total assets	95,859,548	61,041,244	308,709	258,581	96,168,257	61,299,825	56.9%
Long-term liabilities	62,104,530	35,480,442	83,604	103,406	62,188,134	35,583,848	74.8%
Other liabilities	9,284,345	5,956,662			9,284,345	5,956,662	55.9%
Total liabilities	71,388,875	41,437,104	83,604	103,406	71,472,479	41,540,510	72.1%
Net assets:							
Invested in capital assets, net of related debt	9,807,034	8,262,446			9,807,034	8,262,446	18.7%
Restricted	5,360,885	4,367,242			5,360,885	4,367,242	22.8%
Unrestricted	9,302,754	6,974,452	225,105	155,175	9,527,859	7,129,627	33.6%
Total net assets	\$ 24,470,673	\$ 19,604,140	\$ 225,105	\$ 155,175	\$ 24,695,778	\$ 19,759,315	25.0%

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets: for the government as a whole, as well as for its separate governmental and business-type activities. The same situation existed for the prior fiscal year.

There was an increase of \$69,930 in restricted net assets reported in connection with the District's business-type activities. Almost all of this increase resulted from [insert reason],

The district's net assets increased by \$4,936,463 during the current fiscal year. About one third of this increase represents the degree to which increases in ongoing revenues have outpaced similar increases in ongoing expenses. Another third is a result of [insert reason].

The remainder of this growth is a result of increases in operating grants and investment earnings.

### **Governmental Activities**

Governmental activities increased the District's net assets by \$4.8 million dollars, accounting for 98 percent of the total growth in the net assets of the District. Key elements of this increase are as follows:



<b>Expenses</b>							
Instruction	14,158,823	13,515,713			14,158,823	13,515,713	4.8%
Instructional resources and media services	850,810	756,761			850,810	756,761	12.4%
Curriculum and staff development	359,746	313,433			359,746	313,433	14.8%
Instructional leadership	473,943	476,134			473,943	476,134	-0.5%
School leadership	1,256,458	1,201,918			1,256,458	1,201,918	4.5%
Guidance, counseling, and evaluation services	1,524,697	1,441,340			1,524,697	1,441,340	5.8%
Health services	213,427	200,055			213,427	200,055	6.7%
Student transportation	1,045,591	969,758			1,045,591	969,758	7.8%
Food services	1,342,297	1,255,755			1,342,297	1,255,755	6.9%
Cocurricular/extracurricular	1,212,953	967,235			1,212,953	967,235	25.4%
General administration	1,292,402	1,188,426			1,292,402	1,188,426	8.7%
Plant maintenance and operations	2,888,935	2,695,886			2,888,935	2,695,886	7.2%
Security and monitoring services	85,825	72,108			85,825	72,108	19.0%
Data processing services	148,368	153,986			148,368	153,986	-3.6%
Community services	6,539	6,281			6,539	6,281	4.1%
Interest on long-term debt	3,141,525	1,896,549			3,141,525	1,896,549	65.6%
Bond issuance costs and fees	8,814	13,229			8,814	13,229	-33.4%
Capital outlay	20,158				20,158	-	na
Contracted instructional services between schools	2,711,636				2,711,636	-	na
Payments related to shared services arrangements	396,429	447,324			396,429	447,324	-11.4%
Business type activities			563,229	413,614	563,229	413,614	36.2%
<b>Total expenses</b>	<b>33,139,376</b>	<b>27,571,891</b>	<b>563,229</b>	<b>413,614</b>	<b>33,702,605</b>	<b>27,985,505</b>	<b>20.4%</b>
Increase in net assets before transfers	4,858,562	5,973,218	77,901	67,391	4,936,463	6,040,609	-18.3%
Transfers	7,971	9,553	(7,971)	(9,553)	-	-	na
Increase in net assets	<b>4,866,533</b>	<b>5,982,771</b>	<b>69,930</b>	<b>57,838</b>	<b>4,936,463</b>	<b>6,040,609</b>	<b>-18.3%</b>
Net assets, beginning	19,604,140	13,621,369	155,175	97,337	19,759,315	13,718,706	44.0%
Net assets, ending	<b>\$ 24,470,673</b>	<b>\$ 19,604,140</b>	<b>\$ 225,105</b>	<b>\$ 155,175</b>	<b>\$ 24,695,778</b>	<b>\$ 19,759,315</b>	<b>25.0%</b>

Revenues for the District's governmental activities increased 13 percent, while total expenses increased 20 percent. Three major actions this year reduced the level of

deficit reported last year. Two of these three actions increased revenues and a third reduced expenses:

Property tax rates increased an average of 5 percent. This increase, the first in four years, raised tax revenues \$56.4 million in 200x. Tax revenues are budgeted to increase an additional \$2.8 million next year.

The District imposed a hiring and overtime freeze in mid-year that resulted in a \$2.2 million savings in wages and related benefits expenses in 200x compared to 200x. This freeze, plus cost savings of \$0.5 million from continuing staff restructuring efforts, held down the increase in expenses.

Charges for services declined by \$xxx primarily from a decline in catering activity by food service, reduced enrollment in Adult Basic Education, and a reduction in allocation of indirect cost.

Operating grants and contributions increased by about x.x% primarily due to receiving a new grant of approximately \$xxx for Family Literacy.

Property tax collections increased by about x.x% as a result of an increase of \$xxx in the District's assessed valuation.

State aid – Foundation School Program decreased by x.x% as a result of a decrease in enrollment.

The largest source of revenue for the District continues to be locally assessed property taxes. As a result of a x.x% increase in the District's assessed valuations, the District recognized a \$xxx increase in tax revenues for a total Property Tax Revenue of \$xxx and a collection rate of xx.x%.

State Aid is generated from the Foundation Formula and is distributed based on a per pupil allocation. The amount received per eligible pupil is \$xxx.xx. This per pupil amount has remained the same since 200x. The District has been determined to be a "Hold Harmless" district, which allows the district to receive as much per pupil as they did in 200x. Without this clause, the District would not receive any State Aid.

Interest earnings were down by \$xxx from the prior year as a result of historically low interest rates. Interest earned on the idle funds for the year ranged from x.x% to x.x% as compared to rates in the prior fiscal year of x.x% to x.x%.

Program revenues consist of Charges for Services and Grants and Contributions. The largest source of Charges for Services is [insert program]. The second largest source of revenue in this category is the Child Nutrition Program. Fees charged for the lunch program accounted for \$xxx in revenue, an increase of \$xxx over the prior year.

Grants and Contributions account for \$xxx in Program Revenues. The four largest sources of revenue within this category are the Adult Education and Literacy Program (\$xxx), Federally funded Child Nutrition Program (\$xxx), State Transportation Aid

(\$xxx), and the [insert program] (\$xxx). These four sources generated \$xxx in program revenue. These programs generated \$xxx over the prior year.

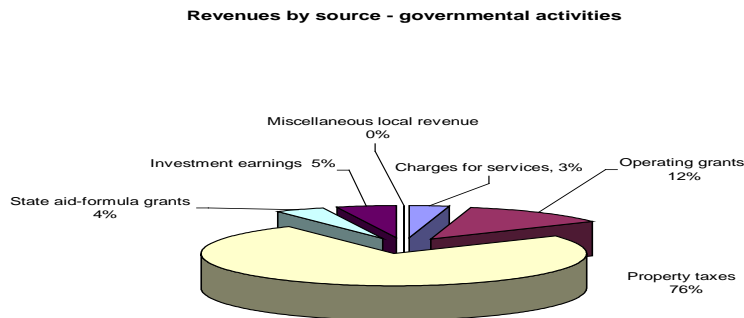
A \$xxx increase in property tax revenue was due to new growth. The levy for the payment of general obligation debt increased by a rate of .xxxx to pay for bonds issued as previously approved by voters.

Government-wide per student revenue increased by \$xxx as compared to a \$xxx increase in 200x. Government-wide per student expenses increased by \$xxx as compared to a \$xxx increase in 200x.

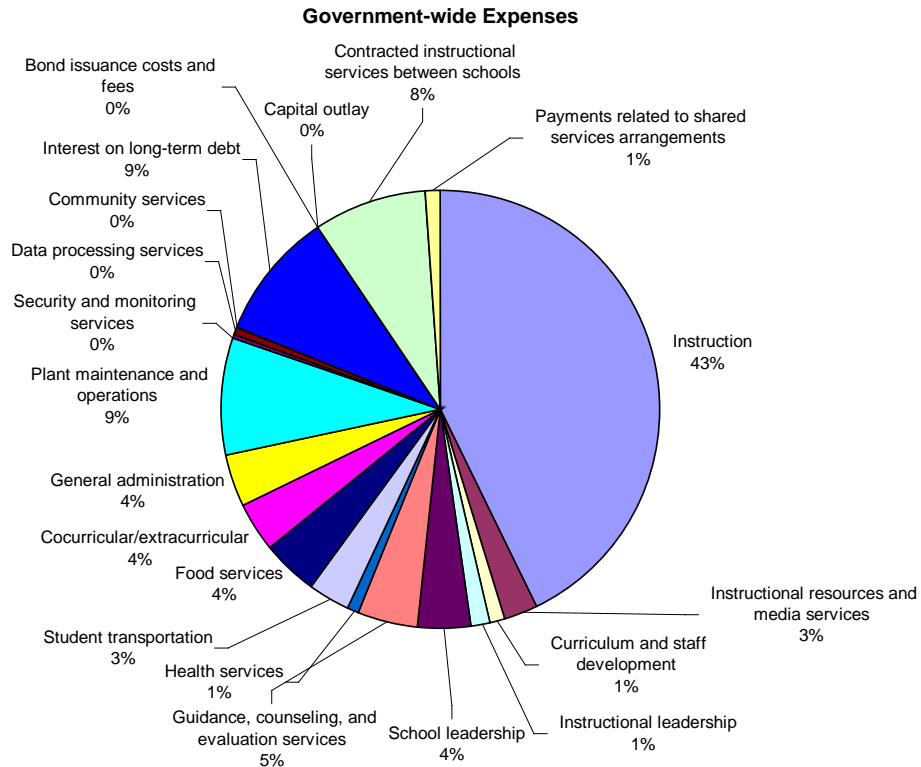
The largest net dollar increase in revenues is from State aid. A \$xxx increase in State aid was primarily from student growth. State aid is based primarily on student attendance and other appropriations.

Despite the rate increase, property tax revenues lagged by \$680,000 compared to the final budget estimates because delays in several major commercial and residential developments precluded adding them to this year's tax rolls.

**Note that charts and graphs may be used to supplement and elaborate on information in the condensed financial statements included in the MD&A but should not be used in place of them.**



As can be seen, property taxes are the largest source of revenue for the governmental activities, comprising 76% of the total.



The District's total expenses, which increased in total by \$xxx, or x%, are primarily related to instructing students, providing student services (such as counseling and testing), and transporting students. The most significant changes in expenses occurred in the following areas:

**Instruction** – Enrollment declined by approximately xxx students resulting in a reduction in classroom teaching positions at a cost of approximately \$xxx and the reduction of about \$xxx in materials and supplies.

**Support services** – The x.x% increase in support services was due to a \$xxx increase in salaries and benefit costs, a \$xxx decrease in material and supply purchases, and a \$xxx increase in claims and judgments.

**Maintenance and operations** – The x.x% increase occurred as a result of increases in overtime, as well as increases in utility costs and outside contractors of approximately \$xxx.

**Health insurance costs** increased approximately x.x% from the prior year as a result of significant premium increases approved by the Board of Trustees effective [insert date]. This increase in costs to provide health care to all full-time employees will continue to require close monitoring considering its budget impact.

The expenditure increase over the prior year is primarily due to the increase in the number of employees to meet the demand of an additional xxx students in fiscal year 200x. In

addition, expenses increased due to normal raises and increased health insurance premiums associated with existing staff.

Instructional services represent the largest dollar increase in expense of \$xxx due to an increase of xx additional full-time equivalent teachers for new growth of xxx students, increases in salaries, and increases in health care insurance premiums.

### **Business-Type Activities**

Revenues of the District's business-type activities increased 33 percent to \$641,000 and expenses increased 36 percent to \$563,000. Factors contributing to these results are primarily a 7 percent increase in operating revenues from food services driven by increased student population. Operating expenses for food service increased 2 percent primarily due to a decrease in reimbursements received from the government.

### **Financial Analysis of the District's Funds**

#### **Paragraph 11d of GASB Statement No. 34**

**The MD&A should include an analysis of balances and transactions on a fund basis addressing the reasons for significant changes in fund balances or fund net assets. The analysis should also include information on whether restrictions, commitments or other limitations significantly affect the availability of fund resources for future use.**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$43,670,229, an increase of \$25,571,587 in comparison with the prior year. Approximately 32 percent of this total amount (\$14,174,640) constitutes unreserved, undesignated fund balance, which is available for spending at the district's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) to construction (\$23,131,861), 2) to pay debt service (\$4,808,492), 3) to liquidate contracts and purchase orders of the prior period (\$523,439), 4) for inventories and food services (\$628,051) or 5) for a variety of other restricted purposes (\$403,746). Designations reflect

the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

*General Fund.* The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$14,174,640, while total fund balance reached \$14,908,737. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 56 percent of total General Fund expenditures, while total fund balance represents 59 percent of that same amount.

The fund balance of the District's General Fund increased by \$1,428,596 during the current fiscal year. Key factors in this growth are as follows:

An increase in the property tax rate (\$.017 or 1.1%) increased tax revenues by \$xxx,xxx.

Expenditures for general District purposes totaled \$xxx, an increase of x.x% during the current fiscal year. This compares to a x.x% increase in 200x. Instructional services represent xx.x% of general fund expenditures.

General fund salaries totaled \$xxx; the associated employee benefits of retirement, social security, and insurance (health and accident, industrial, and employment) added \$xxx to arrive at xx.x% of total general fund expenditures.

The District has designated a portion of the general fund's unreserved fund balance for compensated balances (\$xxx).

*Debt Service Fund.* The Debt Service Fund has a total fund balance of \$4,808,492, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Fund was \$932,616. The District enacted a \$.0625 or 24 percent property tax increase for debt service at the beginning of the year. This new revenue was partially offset by increases of \$701,000 in interest expenditures because of new indebtedness incurred during the year.

The District's Debt Service Fund balance increased primarily because of increases in revenues in advance of planned expenditures. The table that follows assists in illustrating the financial activities and balance of the Debt Service Fund.

**Anywhere Independent School District's Analysis of Debt Service Funds**

	<u>2008</u>	<u>2007</u>	<u>% Change</u> <u>2008-07</u>
<b>Revenues</b>			
Property taxes	\$ 5,161,323	\$ 3,856,044	33.9%
State program revenues	35,757	0	na
Total revenues	<u>5,197,080</u>	<u>3,856,044</u>	<u>34.8%</u>
<b>Expenditures by function</b>			
Principal on long-term debt	863,431	934,150	-7.6%
Interest on long-term debt	3,392,219	2,690,625	26.1%
Other debt service expenditures	8,814	13,229	-33.4%
Total expenditures	<u>4,264,464</u>	<u>3,638,004</u>	<u>17.2%</u>
Net change in fund balance	932,616	218,040	327.7%
Fund balance, beginning	<u>3,875,876</u>	<u>3,657,836</u>	<u>6.0%</u>
Fund balance, ending	<u>\$ 4,808,492</u>	<u>\$ 3,875,876</u>	<u>24.1%</u>

Property taxes were expected to increase due to new construction (approximately x% of valuation); as well as the passage of the aforementioned levy.

Expenditures increased x.x% over the prior year due to 200x being the first full year of interest and principal payments on bonds issued in 200x.

*Child Nutrition Fund.* The Child Nutrition Fund has a total fund balance of \$552,393. The net increase in fund balance during the current year in the Child Nutrition Fund was \$87,723.

**Anywhere Independent School District's Analysis of Child Nutrition Funds**

	<u>2008</u>	<u>2007</u>	<u>% Change</u> <u>2008-07</u>
<b>Revenues</b>			
Local and intermediate sources	\$ 1,165,585	\$ 1,099,114	6.0%
State program revenues	6,072	6,186	-1.8%
Federal program revenues	191,313	166,979	14.6%
Total revenues	<u>1,362,970</u>	<u>1,272,279</u>	<u>7.1%</u>
<b>Expenditures by function</b>			
Food service	1,272,944	1,184,491	7.5%
Maintenance and operations	2,303	2,527	-8.9%
Total expenditures	<u>1,275,247</u>	<u>1,187,018</u>	<u>7.4%</u>
Net change in fund balance	87,723	85,261	2.9%
Fund balance, beginning	<u>464,670</u>	<u>379,409</u>	<u>22.5%</u>
Fund balance, ending	<u>\$ 552,393</u>	<u>\$ 464,670</u>	<u>18.9%</u>

*Capital Projects Fund.* The Capital Projects Fund has a total fund balance of \$xxx,xxx, all of which is designated for ongoing capital projects, as authorized by District voters in the November 20xx election. The fund balance decreased by \$xxx,xxx during the current fiscal year, due to expenditures for land, new construction, additions and other improvements.

The majority of this change in fund balance is attributable to the increase in the restricted balance in unspent bond proceeds.

The District's Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities specifically funded by bonds approved by the voters. The increase in fund balance is a result of issuance of general obligation bonds in the amount of \$xxx, as discussed below, offset by continuing expenditures for construction projects as follows:

**Anywhere Independent School District's Analysis of Capital Projects**

	<u>Project Authorization</u>	<u>Expended to August 31, 200x</u>	<u>Committed</u>
Meadows Elementary	\$ 9,700,000	\$ 7,932,591	\$ 1,767,409
Liberty Elementary	9,700,000	98,429	9,601,571
Orange High School	56,100,000	1,620,258	54,479,742
Hyatt Middle School	18,600,000	13,839,473	4,760,527
Total Capital Projects	<u>\$ 94,100,000</u>	<u>\$ 23,490,751</u>	<u>\$ 70,609,249</u>

**Proprietary Funds**

Unrestricted net assets of the type 1 fund at the end of the year amounted to \$xx,xxx, and those for the type 2 fund amounted to \$x,xxx. The total growth in net assets for both funds was \$x,xxx and \$x,xxx, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the District's business-type activities.

**Budgetary Highlights**

**Paragraph 11e of GASB Statement No. 34**

**GASB Statement 34 requires the MD&A to provide a discussion on significant variances between the district's original budget, final budget, and actual expenditures, and the impact of these variances on the District's/department's future liquidity.**

*General Fund.* The FY 200x budget was developed by balancing the challenges of student growth, lower student/teacher ratios, and reductions in state funding for education while



maintaining an adequate fund balance reserve to ensure financial stability. The most significant fund for the District is the General Fund, funded primarily through local property tax revenue. Over the course of the year, the District revised its budget several times. These budget amendments fall into the following categories:

To bring forward amounts for encumbrances from the prior year budget into the current year budget.

Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in August 200x).

Changes made in the third quarter to account for the mid-year hiring and overtime freeze, some of the District's staff restructuring efforts.

Increases in appropriations to prevent budget overruns.

Even with these adjustments, actual expenditures were \$1.3 million below final budget amounts. The most significant positive variance resulted from a 10 percent reduction of the general administration workforce due to the staff restructuring and hiring freeze.

On the other hand, resources available were \$1.1 million below the final budgeted amount. As noted earlier:

Property tax collections were less than expected.

Reductions in state funding also affected grant resources available for appropriation.

The unreserved General Fund balance increased xx.x% to \$xxx in 200x as the Board of Trustees made a concerted effort to improve the reserves of the District. This performance is noteworthy when considered in light of the substantial reductions in state funding detailed in the above section. The \$xxx increase gives the District a fund balance that is the equivalent of xx days of expenditures. This fund balance is adequate to minimize the likelihood of the District entering the short-term debt market to pay for current operating expenditures.

During the fall of each school year, budget amendments are presented to the Board of Trustees. The main objective of these adjustments is to refine the initial budget based on newly acquired information from State Funding for purposes of revenue projections. On the expenditure side, adjustments are made to the initial salary and benefit projections to reflect actual salary levels. In addition, school and program budgets are adjusted to include certain budget surpluses left unspent from the prior year. These amounts are not known at the time the initial budget is developed but have the Board of Trustees' approval to add them at a later date.

For the General Fund, actual revenues exceeded the revised projections by \$xxx. Of this \$xxx difference, \$xxx was due to a better than anticipated collection rate for property taxes, \$xxx was due to higher collections in student activity accounts, and \$xxx in higher than expected Federal revenues associated with the District's Adult Education and Literacy Programs. Offsetting these increases are reduced investment earnings of \$xxx as a result of depressed interest rates this past year.

Even with these adjustments, actual expenditures were \$xxx less than final budgeted amounts. The most significant positive variances were \$xxx in instruction and \$xxx in supporting services. On the other hand, resources available for appropriation were \$xxx below the final budgeted amount. Variances primarily result from expenditure-driven federal and state grants that are included in the budgets at their full amounts. Such grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year's budget. Therefore, actual grant revenues and expenditures are normally less than the amounts budgeted.

The District's general fund balance of \$1.7 million differs from the general fund's *budgetary* fund balance of \$1.4 million reported in the budgetary comparison schedule principally because *budgetary* fund balance excludes:

\$182,821 of supplies inventories that are reported as expenditures for budgetary purposes when they are purchased and

\$40,292 of encumbrances reported as expenditures for budgetary purposes.

*Capital Projects Fund.*

The District uses Capital Projects Funds to account for school construction and improvement projects which were financed primarily through bond issues. The fund had expenditures of \$xxx and a fund balance of \$xxx.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### **Paragraph 11f of GASB Statement No. 34**

**A description of significant activity relating to the district's capital asset and long-term debt activity during the year. This discussion should include commitments made for capital expenditures, changes in credit ratings, and debt limitations affecting the financing of planned facilities or services.**

### **Capital Assets**

At the end of 2008, the District had invested \$60 million (gross) in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase

(including additions and deductions) of \$7.4 million or 14 percent over last year. The District currently has a net book value of \$xxx or xx% of the original cost. Depreciation for the year ended August 31, 200x was \$xxx.

**Anywhere Independent School District's Capital Assets**

(net of depreciation)

-----if applicable-----

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,917,091	\$ 1,025,527			\$ 1,917,091	\$ 1,025,527
Buildings	36,021,457	36,878,947			36,021,457	36,878,947
Furniture and equipment	807,347	692,485			807,347	692,485
Construction in progress	6,180,903				6,180,903	
<b>Total</b>	<b>\$ 44,926,798</b>	<b>\$ 38,596,959</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,926,798</b>	<b>\$ 38,596,959</b>

Major capital asset events during the current fiscal year included the following:

\$891,465 purchase of land for an elementary school

\$6,180,903 construction in progress for an elementary school

\$183,822 of school bus purchases

\$154,250 air conditioning replacement

Other sample phrases

Purchase of land costing \$xxx, to be used for future school construction.

Extensive renovation and remodeling projects at numerous District schools and administrative facilities totaling over \$xxx. The projects included classroom and restroom renovations, sewer system upgrades, window and locker replacements, cafeteria remodels and additions, and Americans with Disabilities Act upgrades.

Roofing projects totaling over \$xxx at xx schools.

Other projects such as paving cost almost \$xxx; \$xxx for turf fields and field improvements; and \$xxx for portable classrooms to accommodate student growth.

Vehicles and equipment totals remained consistent with the purchase of xx new buses costing almost \$xxx offset by the disposal of obsolete buses and other vehicles and equipment for a net increase of \$xxx.

The District's fiscal year 2009 capital budget projects spending another \$16 million for capital projects, principally for the purchase of computers and new software as well as for the construction of new schools. The District has no plans to issue additional debt to finance these projects. Rather, we will use bond proceeds from the bonds issued this year and resources on hand in the District's funds. More detailed information about the District's capital assets is presented in Note 8 to the financial statements.

Construction in progress decreased by \$xxx due to the completion of prior year construction projects by fiscal year end. Building additions and improvements accounted for an additional \$xxx, while the net cost of equipment decreased by \$xxx. The District is committed to maintaining and improving its fixed assets as is evidenced by the improvement or replacement of buildings as needed.

The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The cost of various District construction projects underway for the year ended August 31, 200x are projected at a total cost of \$xxx. Harvest Elementary, Ridgeline Elementary and Fox Hollow Elementary were completed in the fall of 200x at a combined cost of \$xxx. The schools are located in area 1, area 2, and area 3. The District also is completing various remodeling projects at a cost of \$xxx.

The District is experiencing a shift in student population to the northern section of the District. In response to this shift, temporary classrooms are moved to accommodate housing needs until permanent school buildings can be constructed. The District has a total inventory of 105 trailers and 16 modular units that supply 330 portable classrooms representing approximately 407,000 square feet.

### Long-Term Debt

#### Anywhere Independent School District's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	General obligation bonds	\$ 64,417,741	\$ 37,884,388			\$ 64,417,741
Capital leases (if applicable)						
Maintenance tax notes (if applicable)						
Total	\$ 64,417,741	\$ 37,884,388	\$ -	\$ -	\$ 64,417,741	\$ 37,884,388

At year-end the District had \$64.3 million in bonds and notes outstanding—an increase of 68 percent over last year—as shown in Table A-5.

In November 2007, the voters of the District approved an authorization of \$28.5 million of bonds to be issued during the year and subsequent years. Bonds were sold to refund \$15.8 million of existing debt to take advantage of lower interest rates and for the purpose of providing funds for construction of

#### Bond Ratings

The District's bonds presently carry ratings as follow:  
Moody's Investor Services "Aa" and Standard & Poors "AA"

an elementary school, improvements to existing schools and buildings and purchase of equipment.

State statutes limit the amount of general obligation debt a governmental entity may issue to a tax at a rate not to exceed \$.50 per \$100 of valuation. The current debt limitation for the District is \$xxxx, which is significantly in excess of the District's outstanding general obligation debt.

More detailed information about the district's debt is presented Note x to the financial statements on pages xx – xx of this report.

#### Other sample phrases

During the current fiscal year, as shown in the table, the District's total debt decreased by \$xxx (x.x percent). The decrease is a result of the refunding of \$xxx million in School Building bonds, principal and refunding payments of \$xxx, unamortized premium of \$xxx and amortization expense of about \$xxx.

On May 2, 200x, the public voted (by a xx% margin) to authorize the District to issue \$200 million of general obligation school building bonds for new school construction, land acquisitions, and renovation of existing school facilities and related equipment and improvements. This debt authorization was sought to meet the rapid student growth expected over the next four to eight years.

On February 8, 200x, the District issued an additional \$xxx of general obligation school building bonds completing the full \$200 million authorization.

Although it is not unusual for districts to have a 30-year bond payoff schedule, the District maintains an aggressive schedule to retire all of its general obligation bonds by 2018.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

#### **Paragraph 11h of GASB Statement 34**

**The district should provide a description of currently known facts, decisions or conditions expected to impact the district's financial position and results of operations. The term currently known is limited to events or decisions that have occurred, been enacted, adopted, agreed upon, or contracted as of the date of the auditor's report. The discussion should address expected effects of both governmental and business type activities.**

The most significant economic factor for the District is the State of Texas's Foundation School Program. For the year ended August 31, 200x, the Foundation School Program provided over xx percent of the District's General Fund program resources. The District is

expecting additional revenue from the Foundation School Program for the year ended August 31, 200x, based on the distribution formula determined by the Texas State Legislature for the 2007-2009 biennium.

The 200x-x total assessed valuation is \$xxx and includes \$xxx in new construction being added to the rolls. This represents growth of x.x% over 200x-x values. The District's property tax rate for 200x-x remains at \$x.xx per \$100 of assessed valuation.

The financial well-being of the District is tied in large measure to the local growth in the District's Assessed Valuation. Over xx% of the District's revenues come from local property tax receipts.

Voters in the District passed a tax increase in November of 200x. The rate increase generated \$xxx and \$xxx in fiscal 200x-x and 200x-x, respectively.

The costs of salaries and related benefits are expected to increase in 2008-09. Employees will receive a x.x – x.x percent increase in salary in addition to salary step increases which are based on length of service with the District. Contractual increases will be augmented by the hiring of additional teachers and support staff to serve a projected increase in student enrollment. Health insurance costs will also increase due to an increase in the employer paid cap of \$xxx per eligible employee per month.

The District expects continued enrollment growth, a result of the state's rebounding economy and the District's solid reputation. Enrollment increased by over xxx students to a total enrollment of xx,xxx during the year ended August 31, 200x, and the District has projected enrollment growth of over xxx students for 200x-200x.

The final assessed valuation from Anywhere County for tax year 200x was not available until August 200x. As a result, the revenue budget will be amended to include additional property taxes of about \$xxx.

The District undertook a comprehensive review of District-wide programs including personnel and non-personnel related activities. The end result was a proposal to reduce staffing in non-classroom environments leaving class sizes and staffing ratios intact.

Combining the effects of the proposed cost containment measures and the gradual decline in student enrollment, the District has been able to adopt a balanced budget for the forthcoming fiscal year. As part of the normal budgeting process, long-range projections are developed and continually updated. This process allows the District to determine how much of the available resources can be used for on-going projects, such as new programs or initiatives, versus one-time projects, such as facility repairs. At the same time, budget requests are distinguished between "Core" and "Extra" costs, as well as "New/Continuing" initiatives, should there be the need for future adjustments or reductions.

The unemployment rate for the District is currently x.x percent, which is a decrease from a rate of x.x percent a year ago. This compares favorably to the state's average unemployment rate of x.x percent and the national average rate of x.x percent.

The construction of a 1.6 million square foot mall will eventually add another \$4.5 million to the local tax roll. The school district assisted in economic development by joining a tax increment financing district for this mall.

The district's student attendance rate increased from 96.4% to 96.7%

The district's student dropout rate decreased from 0.8% to 0.3%

These indicators were taken into account when adopting the budget for 2009. Amounts available for appropriation in the general fund budget are \$25.7 million, an increase of 11.7 percent over the final 2008 budget of \$23.0 million. Property taxes benefiting from the 2008 rate and increases in assessed valuations), and grant revenue (boosted by increased funding in several of our current programs) are expected to lead this increase. The District will use these increases in revenues to finance programs we currently offer and cover the expected impact of inflation on program costs.

Expenditures are budgeted to rise nearly 4 percent to \$25.3 million. The largest increments are increased wage and cost-of-living adjustments of \$600,000. The District has added no major new programs or initiatives to the 2009 budget.

If these estimates are realized, the District's general fund balance is expected to increase modestly by the close of 2009.

**Other items that might be included are:**

**The award and acceptance of a major grant**

**The adjudication of a significant lawsuit**

**A significant change in the property tax base**

**A renegotiated contract with District employees.**

**Major initiatives**

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Department.

## 1.7.5 Government-Wide Financial Statements

The purpose of government-wide financial statements is to present the financial position and the operating results of the district as a whole. The statements are expected to provide users with operational accountability information and to enable them to:

- Understand the true financial position of the district including capital and financial assets and long term as well as short term liabilities.
- Determine if the district is able to continue to provide current service levels and meet liabilities as they become due.
- Determine the operating results of the district, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

The government-wide financial statements include:

- Statement of Net Assets
- Statement of Activities

Most school districts use spreadsheets to make entries to convert from the fund statements based on the general ledger to the government-wide financial statements. For information on the types of journal entries required and a sample spreadsheet, refer to version 12 of the Financial Accountability System Resource Guide which is available on the [Financial Audits website](#) under “Historical Versions...”.

### 1.7.5.1 Measurement Focus and Basis of Accounting

Information in the government-wide financial statements should be reported using the flow of economic resources measurement focus and the accrual basis of accounting.

#### **Comment**

GASB Statement No. 20 allowed governments to choose whether to apply FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements for all enterprise funds. GASB 34 does not provide an opportunity to change that election. The option used in the past for a district’s proprietary funds must now be used in accounting for the information included in the government-wide financial statements.





### 1.7.5.2 Statement of Net Assets

The statement of net assets is intended to present the financial position of the primary government and of its discretely presented component units. This statement is accordingly required to present *all* financial and capital resources. GASB 34 encourages the net assets format which displays assets less liabilities equal net assets (*not* fund balances or fund equity).

#### Key Differences Between the Combined Balance Sheet per the Previous Reporting Model and the Statement of Net Assets Under the New Reporting Model per GASB 34

Combined Balance Sheet per the Previous Reporting Model	Statement of Net Assets Under the New Reporting Model
Focus was on fund and fund-type reporting.	Focus is on governmental and business-type activities.
Reporting was on current financial resources measurement focus and modified accrual basis of accounting as well as on economic resources measurement focus and accrual basis of accounting based on nature of the fund.	Reporting is on economic resources measurement focus and accrual basis of accounting for all assets and liabilities.
General capital assets and general long-term liabilities were reported only in account groups.	The statement includes general capital assets and general long-term liabilities.
The reporting of infrastructure assets was optional.	Infrastructure assets must be reported.
No accumulated depreciation was reported for general fixed assets.	Accumulated depreciation must be reported for all capital assets.

## Presentation

Data is required to be reported in separate columns for governmental activities and business-type activities of the primary government which is the reporting entity.

### Distinguishing between Governmental Activities and Business-Type Activities

Governmental Activities	Business-Type Activities
Activities financed by taxes and intergovernmental revenues, and other nonexchange revenues.	Activities for which fees are charged to external parties for goods or services
Activities reported in governmental funds and internal service funds	Activities reported in Enterprise funds and internal service funds (as applicable – see note below)
Internal clearing account funds, for example payroll clearing, should be reported in the governmental activities column. Funds used to account for tax collections on behalf of other entities should be accounted for as private purpose trust funds and therefore excluded from the government-wide financial statements.	

*Note:* GASB Statement 34 states that although internal service funds are reported as proprietary funds of the government, the activities accounted for in them are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the district should report that internal service fund's residual assets and liabilities within the business-type activities column in the statement of net assets

Discretely presented component units are required to be presented in total in a separate column.

A total column is required for the primary government. A total column for the reporting entity as a whole, including the discretely presented component units, may be presented but is not required.

Comparative data is not required but may be presented at the option of the district. If comparative data is presented, all columns must be included for both years.

Fiduciary funds and fiduciary component units are *not included* in the government-wide statements, as fiduciary resources cannot be used to support the government's programs or other services.

GASB 34 encourages presentation of assets and liabilities based on their relative liquidity. The classified presentation distinguishing between current and long-term assets and liabilities is allowed but not encouraged.

### Determining Liquidity of Assets and Liabilities

Assets	Liabilities
Determined by how readily the asset is expected to be converted into cash and whether restrictions limit use of resources.	Based on its maturity, or when cash is expected to be used to liquidate it.  Liabilities whose average maturities are greater than one year should be reported in two components—the amount due within one year and the amount due in more than one year.

The difference between a district's assets and liabilities is its net assets. Terms such as equity, net worth, or fund balance should not be used in the statement of net assets. The three components of net assets are:

- Invested in capital assets, net of related debt
- Restricted net assets
- Unrestricted net assets

### Net Asset Classification

Invested in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets
All capital assets (including restricted) net of accumulated depreciation and reduced by outstanding balances of debt relating to the acquisition, construction, or improvement of these assets  If the district has capital assets but no related debt the account should be titled 'invested in capital assets' so as not to mislead readers	Assets on which limitations have been placed either by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.	All other assets not included in 'Invested in capital assets net of related debt' category or 'Restricted net asset' category. Internal designations may not be shown on the face of the statement of net assets.

### Comments

If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Instead, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, restricted for capital projects

Enabling legislation authorizes the district to assess, levy, charge or otherwise mandate payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party (citizens, public interest groups, or the judiciary) to use resources created by enabling legislation only for the purposes specified by the legislation.

Assets held for others included in a governmental or proprietary fund may be eliminated against the related liability though elimination is not required for the statement of net assets.

### 1.7.5.3 Statement of Activities

The operations of the reporting government should be presented in the net cost format. See Appendix 10 for format examples. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the government's functions to arrive at the "change in net assets" for the period. The purpose of using this format is:

To report the relative financial burden of each of the reporting government's functions on its taxpayers.

To identify the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid.

#### **Expenses**

Districts are required to report all expenses by function, except certain indirect expenses, as explained below. GASB has defined direct expenses as those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. Direct expenses include both operating and non-operating expenses, including depreciation and amortization of assets.

Functions, such as general administration or data processing services, may include expenses that are indirect expenses of other functions. Districts are not required to allocate those indirect expenses to other functions, but may choose to do so. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns. A column totaling direct and indirect expenses may be presented but is not required. Indirect expenses can be allocated to any of the primary government's functions. Although there are no standards for determining an allocation methodology, there should be a reasonable basis for expense allocations to specific funds.

Depreciation expense should be classified as follows:

*for capital assets that can specifically be identified with a function-* should be included in its direct expenses.

*for "shared" capital assets-* should be prorated as direct expenses of the appropriate functions.

*for capital assets that essentially serve all functions-* is not required to be included in the direct expenses of the various functions but as a separate line in the statement of activities or as part of the general government. Note that if a government chooses to use a separate

line in the statement of activities to report unallocated depreciation expense, it should clearly indicate in the footnotes to the financial statements that this line item does not include direct depreciation expenses of the various programs.

*for general infrastructure assets*- should not be allocated to the various functions and should be reported as (a) a direct expense that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets, or (b) as a separate line in the statement of activities.

**Comment**

The difference between a 'shared' capital asset and one that 'essentially serves all functions' is in the number of functions that share the asset. As the number of functions increase, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore depreciation of assets that serve many, or 'essentially all' functions is not required to be included in the direct expenses of those many functions. A shared capital asset is generally used by only a few functions and its use can be specifically identified to those functions.

**Interest Expense**

Interest on general long-term liabilities, including interest on capital leases or other vendor financing arrangements, should be considered an indirect expense.

Interest on long-term debt should be included in direct expenses only when borrowing is essential to the creation or continuing existence of a program.

**Revenues*****Program revenues***

Note that "program" as used in the section does not refer to program intent. Rather, program revenues will be defined for Texas school districts as those revenues that relate directly to specific function codes.

Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry and reduce the net cost of the function to be financed from the government's general revenues.

The statement of activities is required to present three categories of program revenues as follows:

*Charges for services* - Charges for services refer to revenues based on exchange or exchange-like transactions and arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. An example would be summer school tuition.

*Program-specific operating grants and contributions* - Program-specific grants and contributions refer to revenues occurring from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use

in a particular program. An example would be a contribution from a business to provide a scholarship for a counselor to attend training; this would be classified as a program revenue for function 31.

*Program-specific capital grants and contributions* - Grants and contributions consisting of capital assets or resources that are restricted for capital purposes such as purchasing, constructing, or renovating capital assets associated with a specific program should be reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the judgment of the reporting government. An example would be a grant to purchase a school bus; this would be classified as a program revenue for function 34.

Program revenues should not be netted against expenses but should be reported gross.

### *General revenues*

All revenues are general revenues unless they are required to be reported as program revenues. General revenues should be reported after total net expense of the district's functions.

### *Classification of revenues*

Programs are financed from essentially four sources:

Type A: Those who purchase, use, or directly benefit from the goods or services of the program

Type B: Parties outside the reporting government's citizenry

Type C: Taxpayers regardless of whether they benefit from a particular program

Type D: The governmental institution itself (primarily investment income)

### **Classification of Revenues**

<b>Source Type</b>	<b>Program Revenue</b>	<b>General Revenue</b>
Type A	Yes	No
Type B	Yes, if restricted	Yes, if unrestricted
Type C	No	Yes
Type D	No	Yes

For a detailed matrix of district revenue codes, see Appendix 6.

## 1.7.6 Fund Financial Statements

### ***Purpose***

The purpose of fund financial statements is to present information on the government's management and control of its short term financial resources and to continue to provide users with fiscal accountability information to enable them to assess if resources raised for a particular purpose were used for that purpose as required by law, regulation and legally adopted budgets.

Thus, fund financial statements are still a feature of the reporting model but their role in the basic financial statements was modified by GASB 34 to include information about major funds as opposed to fund-type in the previous model. The decision was based primarily on the needs of users for information about important individual funds that is hidden when embedded in the fund types. The fund financial statements accordingly center on information about the government's major governmental and enterprise funds, including its blended component units as well present information about a government's fiduciary funds and component units that are fiduciary in nature.

### ***Scope***

The fund financial statements include all funds of the primary government, including its blended component units, as well as all fiduciary component units, but not the assets and liabilities accounted for in the former account groups (account groups represent pre-GASB 34 standards under modified accrual basis).

### ***Key features of Fund Financial Statements under GASB Statement No. 34***

A distinct set of financial statements is presented for each fund category

Governmental Funds

Proprietary Funds

Fiduciary Funds

The GASB 34 model introduced two new fund types

*Permanent funds in the governmental fund category* - Permanent Funds are required to be used to report resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government programs.

*Private purpose trust funds in the fiduciary fund category* -Private-purpose trust funds should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Major funds are required to be identified for governmental and enterprise funds. Internal service funds are excluded from the major fund reporting requirements primarily because of the potential distortion that their inclusion would cause when applying the major fund criteria. Fiduciary fund information should be presented by type of fund and should not be displayed separately as major funds.

GASB has defined major funds as those funds meeting the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category (governmental funds) or type (enterprise funds),

*and*

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

If the district wants to present a specific fund separately in the basic financial statements even if it does not meet the above percentage criteria, it can be reported as a major fund.

**Comment**

In applying the major fund criteria to enterprise funds the government should consider both operating and nonoperating revenues and expenses. In applying the major fund criteria to governmental funds, revenues do not include other financing sources and expenditures do not include other financing uses.

### 1.7.6.1 Governmental Fund Financial Statements

Governmental funds – often called ‘source and disposition’ or ‘government-type’ funds are those through which most governmental functions are financed.

Governmental fund reporting focuses largely on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category, under GASB Statement No. 34, includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

#### Governmental Funds



Former Classification of Governmental Funds	Classification of Governmental Funds under GASB 34
General fund	General Fund
Special revenue funds	Special revenue funds (including most expendable trust funds)
Capital project funds	Capital project funds
Debt service funds	Debt service funds
	Permanent funds (including public-purpose funds formerly included as nonexpendable trust funds).

### **Balance Sheet**

The balance sheet should present information on the assets, liabilities, and fund balances for each major governmental fund (rather than fund types) in separate columns and for all nonmajor governmental funds in the aggregate in a single column.

A distinction is required between the reserved component of fund balances and the unreserved component. Reserved fund balances should be displayed in sufficient detail to disclose the purposes of the reservations.

### **Statement of Revenues, Expenditures, and Changes in Fund Balances**

This statement should present information on the inflows, outflows, and balances of current financial resources of each major governmental fund in separate columns and for the nonmajor governmental funds in aggregate

Special and extraordinary items should be reported separately from normal day to day operations after other financing sources and uses but before arriving at the net change in fund balance for the year.

Extraordinary items are transactions or other events that are both unusual in nature *and* infrequent in occurrence. FASB ASC 225-20, Extraordinary and Unusual Items, defines the terms unusual in nature and infrequency of occurrence.

Significant transactions or other events within the control of management that are *either* unusual in nature *or* infrequent in occurrence are special items and items should be reported separately in the statement of activities, before extraordinary items, if any.

Revenues should be classified by major source and expenditures by full function.

## ***Required Reconciliation Schedules***

Statement No. 34 requires two reconciliations:

Net assets to fund balance

Change in net assets to change in fund balance

The purpose of the reconciliation schedules is to provide an explanation for the differences between (1) fund balances in the fund financial statements and net assets in the government-wide financial statements and (2) the net change in fund balances of governmental funds in the fund financial statements and the change in net assets in the government-wide statements such as the effect of long-term accruals not reported in the funds. Other differences are a result of the difference in the measurement focus and basis of accounting between the government-wide financial statements and the fund financial statements and the possible inclusion of internal service funds in the governmental activities in the government-wide presentation.

The reconciliation should be presented at the bottom of the fund financial statements or in an accompanying schedule.

## ***Measurement Focus and Basis of Accounting***

Governmental funds should be reported on the current financial resources measurement focus and modified accrual basis of accounting

### **1.7.6.2 Proprietary Fund Financial Statements**

Proprietary Funds, sometimes referred to as ‘income determination’ or ‘commercial-type’ funds, are used to account for a government’s ongoing organizations and activities that are similar to those often found in the private sector.

Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows and includes enterprise and internal service funds.

## ***Enterprise Funds***

Enterprise funds are required to report any activity for which a fee is charged to external users for goods or services. GASB Statement No. 34 has made the conditions under which a government uses enterprise funds more restrictive. Activities are required to be reported as enterprise funds if it meets one of the following criteria: (1) the activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity, or (2) laws or regulations require that the activity’s costs of providing services, including

capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenue, *or* (c) pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

### ***Internal Service Funds***

GASB has stated that internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. However internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. The combined totals for all internal service funds should be reported in separate columns in the proprietary fund financial statements to the right of the total enterprise funds column.

#### **Comment**

Combining statements for internal service funds, like combining statements for nonmajor funds, are not required but may be presented as supplementary information.

### ***Statement of Net Assets***

Assets and liabilities should be presented in a classified, or order of liquidity format so as to distinguish between current and long term assets and liabilities. A net assets (assets less liabilities equal net assets) format should be used.

The statement should present the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be aggregated and displayed in a single column, and a combined total column should be presented for all enterprise funds.

Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds should be reported in a separate column to the right of the total enterprise funds column.

Assets that have restrictions that change the nature or normal understanding of the availability of the asset are defined as restricted assets. Restricted assets are required to be reported separately in the proprietary fund statement of net assets. Under the classified approach these assets should be reported as noncurrent assets.

The following three classifications of 'net assets' or 'fund equity' replace contributed capital and retained earnings in proprietary fund equity in the former financial statements. In other words, the entire equity section of an proprietary fund is required to be combined into a single combined 'net assets' amount and recast into separate components as stated below:

Invested in capital assets, net of related debt

Restricted  
Unrestricted

GASB Statement No. 34 states that capital contributions should not be displayed as a separate component of net assets as the focus of reporting in governments should not be on a historical record of equity transactions but on reporting net assets available to finance future services. Accordingly, governments that wish to continue to provide information about the extent to which a particular enterprise fund has received capital subsidies may do so in the notes to the financial statements.

The GASB Comprehensive Implementation Guide--2006 states that accrued interest on any capital-related debt, including deep-discount (capital appreciation) debt, generally should not be included in the computation of the invested in capital assets, net of related debt component of net assets. The amount of the “borrowing attributable to the acquisition, construction, or improvement” of a capital assets is the proceeds, rather than the total amount, including interest, that will be paid at maturity. The accrued interest liability would be included in unrestricted net assets.

**Comment**

Restricted assets may not necessarily equal restricted net assets as restricted assets may include temporarily invested debt proceeds or other resources, like customer deposits, that are not generated through operations.

***Statement of Revenues, Expenses, and Changes in Fund Net Assets***

The operating statement for proprietary funds is the statement of revenues, expenses, and changes in fund net assets.

Revenues should be reported by major source and should identify revenues used as security for revenue bonds. The purpose of identifying revenues used as security for revenue bonds is to segregate revenues that are ‘pledged’ as security for revenue bonds from other revenues.

A distinction should be made between operating and non-operating revenues and expenses. The presentation of operating and nonoperating expenses should be detailed. Accordingly governments may report expense by natural classifications (for example, salaries and wages, employee benefits, supplies, utilities) or by function (for example instruction, academic support). Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of activity being reported. A guideline for defining operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. For example revenues and expenses relating to cash inflows and outflows included in the operating activities categories would likely be regarded as operating. Transactions for which cash flows are

reported as noncapital financing activities, capital and related financing activities, or investing activities would likely not be reported as components of operating income.

Capital contributions, additions to permanent and term endowments, special and extraordinary items, and transfers should be reported separately after nonoperating revenues and expenses. The additional disclosure requirements, for significant transactions or other events that are either unusual or infrequent but are not within the control of management, required for governmental funds, as stated above, also apply to proprietary funds.

**Comment**

If the district has a business type activity that it reports in a separate enterprise fund and the government receives a grant from a private foundation and uses the grant proceeds to purchase equipment for that activity then the grant should be reported:

In the enterprise fund's statement of revenues, expenses and changes in net assets as follows:

Capital contribution revenue - if the grant is restricted to capital purposes

Nonoperating revenue - if the grant is not restricted for capital purposes but can be used for any purpose within the activity

In the government-wide statement of activities as follows:

Program revenue - if the grant is restricted to a specific activity or function

General revenue - if the grant is not restricted to a specific activity or function

***Required Reconciliation Schedules***

The amounts reported as net assets and changes in net assets in the proprietary fund statements for total enterprise funds should be the same as net assets and changes in net assets of business-type activities in the government-wide statement of activities. Generally only two circumstances would create a difference between total enterprise funds and business-type activities in the government-wide financial statements as follows:

When enterprise funds are the predominant or only participants in an internal service fund, internal service fund balances are required to be combined with the enterprise fund in the business-type activities column of the statement of net assets.

When an internal service fund provides services to both governmental and enterprise funds, an allocation of internal service fund net assets will be made.

When a government chooses to report activities accounted for in enterprise funds as governmental activities or vice-versa in the government-wide statements.

These differences should be reconciled and explained on the face of the fund statement.

### **Statement of Cash Flows**

The statement for cash flows for proprietary funds should be presented using the *direct* method and should include four categories of cash flows as follows:

- Cash flows from operating activities
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

When using the direct method, a reconciliation of operating income to cash provided by operations is required.

### **Reporting on Cash Flows**

GASB Statement No. 9, *Reporting on Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, was issued in September 1989 and was effective for fiscal years beginning after December 15, 1989. This section provides guidance on the categories in the cash flow statements and the relationship of cash flows to the footnotes and other financial statements.

Before preparing a cash flows statement, several key decisions should be made:

- The funds affected must be determined. As the name of the statement implies, all funds reporting on a full accrual *proprietary* basis of accounting must report cash flows even if the fund did not have operating income or loss. This includes:
  - Enterprise Funds
  - Internal Service Funds
  - Nonexpendable Trust Funds

A statement of cash flows is also required for a component unit if it is blended as one of the above categories. See the discussion of component units in the Financial Reporting Entity section above.

- Cash and cash equivalents must be determined for the affected funds. GASB Statement No. 9 defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that shifts in

interest rates would cause only insignificant changes in the value of the underlying security. As a general rule, [securities](#) with maturities at the time of purchase of 90 days or less qualify as cash equivalents. Examples of investments that often qualify as cash equivalents include:

- Treasury bills
- Commercial paper
- Certificates of deposit
- Money market funds
- Investment pools

Even though there are very limited options in defining cash equivalents for a school district, careful consideration should be given in making this decision. Any change in subsequent years would be treated as a change in accounting policy.

Many school districts utilize pooled cash and investments to simplify cash management and maximize their return on investment. To prevent time consuming allocations to determine how much of a pooled cash and investment balance is actually cash, GASB Statement No. 9 allows pooled cash and investments to be considered a cash equivalent in certain situations. The school district must be able to deposit and withdraw cash at any time without prior notice or penalty. A school district should carefully consider the substance as well as the form of its pooled cash arrangements to determine if this criterion is met. For example, an Enterprise Fund or Internal Service Fund which has an 80% share of pooled cash and investments may not qualify for cash equivalent status if the majority of the investments making up the pool do not also qualify as cash equivalents since it would be difficult for the proprietary fund to withdraw cash without prior notice.

- Proprietary funds should prepare a statement of cash flows based on the guidance established by GASB-9, except the statement of cash flows should be formatted based on the direct method in computing cash flows from operating activities. The statement of cash flows would be supplemented with a reconciliation of operating cash flows and operating income (the indirect method). (GASB-9, par. 30; GASB-34, par. 105)

The following exhibit illustrates the direct method. The direct method must show both the direct cash flows from operations and a reconciliation of operating income to operating cash flow. As seen in Exhibit 58, the direct method is in effect utilizing both the direct and the indirect method. In the exhibit, a negative cash balance should be considered a zero cash balance.

**Exhibit 58. Illustration of Direct Method**

ANYWHERE INDEPENDENT SCHOOL DISTRICT COMBINED STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPES YEAR ENDED AUGUST 31, 199X DIRECT METHOD			
	ENTERPRISE	INTERNAL SERVICE	19XX
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash flows from operating activities:	4,489,055		4,489,055
Cash received from user charges		21,932,341	21,932,341
Cash received from contributions	(9,224,797)		(9,224,797)
Cash payments to employees for services		(20,229,383)	(20,229,383)
Cash payments to suppliers for goods and services	(7,320,711)		(7,320,711)
Cash payments for operating expenses	(55,968)		(55,968)
Net cash used for operating activities	<u>(12,112,421)</u>	1,702,958	<u>(10,409,463)</u>
Cash flows from noncapital financing activities:			
Non-operating grants received and proceeds from sale of equipment	12,502,097		12,502,097
Net cash provided by noncapital financing activities	<u>12,502,097</u>		<u>12,502,097</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(199,119)		(199,119)
Proceeds from sale of equipment	380		380
Net cash used for capital and related financing activities	<u>(198,739)</u>		<u>(198,739)</u>
Cash flows from investing activities:			
Interest on investments	181,994		181,994
Net cash provided by investing activities	<u>181,994</u>		<u>181,994</u>
Net increase in cash and cash equivalents	372,931	1,702,958	2,075,889
Cash and cash equivalents September 1	<u>3,348,120</u>	<u>7,167,271</u>	<u>10,515,391</u>
Cash and cash equivalents August 31	<u><u>3,721,051</u></u>	<u><u>8,870,229</u></u>	<u><u>12,591,280</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>			
Operating loss	(14,515,210)	(167,342)	(14,682,552)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation	951,773		951,773
Commodities used	1,341,390		1,341,390
Changes in assets and liabilities:			
Increase in receivables	(3,215)		(3,215)
Decrease in inventories	6,803		6,803
Increase in accrued liabilities	71,677	1,870,300	1,941,977
Increase in deferred revenue	34,361		34,361
Net cash used for operating activities	<u>(12,112,421)</u>	1,702,958	<u>(10,409,463)</u>



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Note: A change from the indirect to the direct method would not result in a change in accounting policy.

### *Understanding the Cash Flow Categories*

The primary difference between the cash flow statements of a government compared to a commercial enterprise is in the area of cash flow categories. GASB Statement No. 9 requires governments to report their cash flows in four categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

*Operating activities* include all transactions that result from providing services or producing and delivering goods. Generally, items included in operating income in the statement of revenues and expenses will also be included in cash flows from operations. For school districts using the direct method, GASB Statement No. 9 requires at a minimum that the following categories of operating cash flow be separately reported:

- Cash receipts from customers
- Cash receipts from or payments to other funds through quasi-external operating transactions
- Cash payments to employees for services

- Cash payments to other suppliers of goods or services
- Other operating cash receipts or payments, if significant

*Noncapital financing* activities include borrowing and repayment of funds for any purpose other than for the acquisition, construction or improvement of capital assets. The use of the borrowing (i.e., noncapital financing purposes) rather than the structure of the borrowing (i.e., note, loan, bond) determines the proper cash flow category. Since FASB ASC 230-10-50 (Statement of Cash Flows/Overall/Disclosure) does not require noncapital financing activities to be disclosed separately, failure to distinguish between the types of financing cash flows is a common mistake made in the preparation of a statement of cash flows. Examples of cash flows from noncapital financing activities include:

- Proceeds and repayment of bonds, notes, and other short or long term borrowings including related interest.
- Unrestricted grants or subsidies. Grants or subsidies specifically restricted to capital purposes or restricted to activities that are considered operating activities of the grantor should be reported in those categories.
- Cash receipts or payment not related to operating or capital activities.
- Cash received from other funds except for operating related reimbursements and interfund service provided and used transactions and for amounts provided for acquisition, construction or improvement of capital assets.
- Cash received from property and other taxes that are not specifically restricted for capital purposes.
- Cash paid to other funds except for quasi-external operating transactions and reimbursements. This category would include cash flows related to operating transfers.

*Capital and related financing* activities include any cash inflow or outflow directly or indirectly related to the acquisition, construction or improvement of capital assets. This category includes acquisitions and disposals of capital assets, receipts, and payments related to any capital related borrowings including related interest and payments made for capital assets purchased on credit. Examples of capital and related financing activities include:

- Proceeds and repayments from issuing or refunding bonds, notes, and other capital related borrowings, including related interest
- Receipts from capital grants or other capital related subsidies
- Receipts or payments related to the disposal of capital assets including [insurance](#) proceeds for those capital assets that are stolen or destroyed
- Receipts from special assessments for capital related acquisitions
- Payments made for capital assets purchased on credit through lease-purchase programs

*Investing activities* include buying and selling of debt and equity [securities](#) for the purpose of realizing a return on an investment or other gains above the original purchase price of the security. Cash flows related to the purchase and sale of securities that qualify as *cash equivalents* may be shown net. All purchases and sales of securities that do not qualify as *cash equivalents* should be shown separately in their gross amounts. Examples of cash inflows and outflows from investing activities include:

- Proceeds and payments from sale of equity and debt securities including all interest, dividends, gains and losses
- Deposits and withdrawals from investment pools not defined as a *cash equivalent*

### *Footnotes and Financial Statements*

The definition of cash equivalents should be disclosed in the footnotes normally in the Summary of Significant Accounting Policies. In addition, noncash investing and financing activities should be disclosed. This disclosure can be accomplished through a schedule using either narrative or tabular format. This schedule may be included on the face of the statement of cash flows, disclosed separately in the footnotes, or as a separate schedule.

An issue that has caused considerable confusion is whether users of the financial statements should be able to agree cash balances reflected on the statement of cash flows to the cash reflected on the balance sheet. This issue arises because not all balance sheet cash is considered cash for the statement of cash flows and some balance sheet investments *are*

considered cash equivalents for the purposes of the statement of cash flows. For example, a certificate of deposit with a maturity of over 90 days is not considered cash or cash equivalent for the statement of cash flows, but a Treasury bill with a maturity date when purchased of less than 90 days is considered a cash equivalent. Several possible solutions to this problem are:

- List cash and cash equivalents as a separate line item on the balance sheet. This listing complies with the requirements of GASB Statement No. 9 but can cause confusion since *cash* reflected on the balance sheet may no longer agree with book balance cash in the cash and investments footnote. In addition, restricted cash and investments should be excluded from the school district's definition of cash equivalents. Despite these disadvantages, this solution may be the most preferable method because of the clear agreement between the amount of cash on the two statements.
- Provide a reconciliation of balance sheet cash to the statement of cash flows cash as a part of the statement of cash flows. This solution fulfills the requirement of GASB Statement No. 9 but can cause confusion on the part of the financial statement user and add to the length of the statement of cash flows.
- Combine pooled cash and investments together on the balance sheet. This solution works well if pooled cash and investments qualify as a *cash equivalent* and restricted assets have been excluded from the definition of cash equivalent.

As discussed above, each proposed solution has advantages and disadvantages that should be considered in light of the individual school district's investment practices.

### ***Additional Guidance***

Additional guidance on preparation and presentation of the statement of cash flows can be obtained from the original pronouncement, GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and from the Comprehensive Implementation Guide that is published by GASB entitled, *Chapter 2, Cash Flows Reporting*.

### ***Measurement Focus and Basis of Accounting***

Proprietary funds should be presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds should be reported based on all applicable GASB pronouncements and all applicable FASB Statements and Interpretations, APB Opinions, and ARBs of the Committee on Accounting Procedure issued on or before

November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. For enterprise funds, governments *may* elect to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. However, GASB 34 does not allow for a change in the election previously made under GASB Statement No. 20.

### 1.7.6.3 Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held by a government in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Since fiduciary funds report assets held in a trustee or agency capacity for others, these funds cannot be used to support the government’s own programs.

The fiduciary fund category under GASB Statement No. 34 includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

#### Fiduciary Funds

Former Classification of Fiduciary Funds	Classification of Fiduciary Funds under GASB 34
Pension trust funds	Pension trust funds
Agency funds	Agency funds (limited to net assets held for specific other persons or entities outside of the primary government)
Expendable trust funds	Include in Special revenue funds in Governmental fund category
Nonexpendable trust funds	Public purpose – include as permanent funds in governmental fund category
	Private Purpose trust funds
Investment trust funds	Investment trust funds

Fiduciary fund reporting focuses on net assets and changes in fiduciary net assets. Fiduciary fund financial statements should include information about all fiduciary funds of the primary government, as well as component units that are fiduciary in nature. The statements should provide a separate column for each fund type. Fiduciary component units should be reported within the appropriate fiduciary fund types rather than aggregated in a separate fiduciary component unit column.

### ***Statement of Fiduciary Net Assets***

The statement of fiduciary net assets should include information about the assets, liabilities, and net assets for each fiduciary fund type.

### ***Statement of Changes in Fiduciary Net Assets***

The statement of changes in fiduciary net assets should present information about the additions to, deductions from, and net increase (or decrease) for the year in net assets for each fiduciary fund type except agency funds and should provide information about significant year-to-year changes in net assets.

### ***Measurement Focus and Basis of Accounting***

Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans. Paragraph 26 of GASB Statement 25 and paragraph 20 of GASB Statement 45 provide guidance on recognition of these liabilities. The measurement and recognition requirements of these Statements are not amended by GASB Statement No. 34.

#### **Comment**

Expendable trust funds in the previous model were reported under the modified accrual basis of accounting while the private-purpose trust funds under GASB 34 are reported using the accrual basis of accounting.

Financial statements for individual pension plans and postemployment healthcare plans should be presented in the notes to the financial statements of the primary government if separate GAAP financial reports have not been issued. The notes should also disclose the financial statements of individual external investment pools in accordance with GASB Statement No. 31.

## **1.7.7 Notes to Financial Statements**

Section 2300 of GASB Codification, "Notes to Financial Statements," requires the presentation of notes to the financial statements that are essential to present fairly the financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). The notes to the financial statements should focus on the primary government and its discretely presented component units.

GASB Statement No. 34 did not amend the existing general note disclosure requirements, but requires additional disclosures based on the new requirements of the Statement as follows:

### ***Significant Accounting Policies (Additional Disclosure Requirements)***

Description of the government-wide financial statements indicating the elements of the statement of net assets and the statement of activities, the exclusion of fiduciary funds and component units that are fiduciary in nature, and the measurement focus and basis of accounting used.

The policy for eliminating internal activity in the statement of activities

The policy for applying FASB pronouncements issued after November 30, 1989, to business type activities and to enterprise funds.

The policy for capitalizing assets and for estimating their useful lives as used in the calculation of depreciation expense.

A description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities

The policy for defining operating and non-operating revenues of proprietary funds

The definition of cash and cash equivalents used in the statement of cash flows for proprietary funds

The policy regarding whether the government first applies restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. In other words districts are required to state whether they spend restricted funds only when unrestricted amounts are insufficient or unavailable or if they spend restricted funds first and use unrestricted resources when the restricted funds are depleted. Disclosure of this policy is essential to help readers understand the significance of restricted and unrestricted net assets relative to total net assets.

#### **Comment**

The requirement for additional significant accounting policies disclosure relates *only* to the government-wide statements and essentially calls for descriptive comments about the elements, purposes and scope of the statements of net assets and activities. The MD&A discussion on the other hand relates to *both* government-wide and fund statements and is oriented more towards the relationship of government-wide statements to fund financial statements.

### ***Required Disclosures For Capital Assets***

GASB Statement No.34 requires a disclosure for each major class of capital assets, including capitalized collections of works of art, historical treasures, and similar assets. Examples of major classes of capital assets include land, infrastructure, buildings and improvements, vehicles, machinery and equipment, and construction in progress. Capital assets associated with governmental activities should be reported separately from those associated with business-type activities, capital assets being depreciated separate from those that are not being depreciated, and historical costs separate from accumulated depreciation. For each of the classes, the following information should be presented as applicable:

Beginning- and end-of year balances, with accumulated depreciation shown separately from historical cost

Capital acquisitions

Sales or other dispositions

Current-period depreciation expense including the amounts charged to each of the functions in the statement of activities

The disclosure should also contain a description of the noncapitalized collections of works of art or other assets along with reasons for non capitalization of these assets.

### ***Required Disclosures For Long-Term Liabilities***

The disclosure should contain information about long-term liabilities including long-term debt instruments such as bonds, notes, loans, and leases payable, as well as other long-term liabilities such as compensated absences, claims, and judgments, as follows:

Beginning- and year-end balances

Increases

Decreases

The portions of each item that are due within one year of the statement date

Information on the governmental funds typically used to liquidate long-term liabilities in prior years.

The disclosure should also indicate if the government has decided to depart from the historical trend and use other funds to liquidate liabilities as the purpose of this disclosure is to provide readers with additional information about future claims against financial resources to assist them in assessing the fund balances of specific funds

Information about net pension obligations are required to be disclosed in a separate pension note using the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers.



## ***Disclosures Relating to Donor-Restricted Endowments***

The following information is required relating to donor restricted endowments in the notes:

Amounts of net appreciation on investments available for authorization for expenditure by the governing board and a description on how amounts are reported in net assets

State laws relating to the ability to spend net appreciation

Policy for authorizing and spending investment income

## ***Segment Disclosures***

### ***Definition***

Section 2500 of GASB Codification, “Segment Information,” requires the presentation of segment information for certain individual enterprise funds of the primary government, including its blended component units. The term “segment” in Section 2500 refers to an individual enterprise fund of a state or local government. GASB 34 redefines the term “segment,” in relation to the needs of users for additional financial information, as an identifiable activity reported as or within an enterprise fund or other stand alone entity for which one or more revenue bonds or other revenue backed debt instruments are outstanding.

### **Comment**

The definition of a segment includes a requirement that there is a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt. It is not a requirement that the debt be backed solely by pledged revenues. The ‘identifiable activity’ is the source of the pledged revenues.

Segment disclosures are not required for an activity whose only outstanding debt is conduit debt for which the government has no obligation beyond the resources provided by related leases or loans. In addition, segment reporting is not required when an individual fund both is a segment and is reported as a major fund.

### ***Segment Disclosure Requirements***

Required segment disclosures include:

Type of goods and services provided by the segment

Condensed statement of net assets

Condensed statement of revenues, expenses, and changes in net assets

Condensed statement of cash flows

Statement of activities (encouraged but not required for governments who want to present disaggregated information for multiple function enterprise funds in addition to the above information)

## 1.7.8 Required Supplementary Information (RSI) Other Than MD&A

Required supplementary information consists of information that GASB has determined to be an integral part of financial reporting. This information should be presented with, but not as a part of, the financial statements of a governmental entity. GASB 34 requires governments to present certain data as RSI:

### **Budgetary comparison schedules**

Budgetary comparison schedules showing the original budget, the final budget, and actual amounts for the *general fund* and *each major special revenue fund* that has a legally adopted annual budget are required as RSI. The schedules should compare the original and final appropriated budgets for the reporting period to actual results (inflows, outflows, and balances). Governments may present the budgetary comparison schedule by using the same format, terminology, and classifications as the underlying budget document, or by using the format, terminology, and classifications in the governmental funds' operating statement. Governments are encouraged but not required to present the variance between the final budget and actual amounts and between the original and final budget amounts. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information. Notes to RSI should also disclose any excess of expenditures over appropriations in individual funds. If the excess is considered to be a material violation to finance-related legal provisions, a disclosure in the notes to the financial statements is required.

GASB 34 does not require budgetary comparison information to be a basic financial statement as did the previous standards, but permits the presentation of the budgetary comparison statement as part of the basic financial statements rather than RSI at the election of the government if considered essential to the understanding of its financial position and results of operation. If the government chooses to present its required budgetary comparisons in the basic financial statements they should be reported with the fund financial statements after the statement of changes in revenues, expenditures, and changes in fund balances. Additionally disclosure of any excess expenditure over

appropriations in individual funds should be in the notes to the financial statements, rather than as notes to RSI.

### Original Budget and Final Budget

Original Budget	Final Budget
<p>The original budget is the first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year.</p> <p><b>Note:</b> The original budget should also include actual appropriation amounts automatically carried over from prior years by law.</p>	<p>The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.</p> <p><b>Note:</b> The final budget should incorporate amendments applicable to the fiscal year regardless of when signed into law or otherwise legally adopted through the end of the fiscal year (June 30<sup>th</sup> or August 31<sup>st</sup> depending upon the fiscal year start date of July 1<sup>st</sup> or September 1<sup>st</sup>).</p>

#### Comment

GASB 34 does not prescribe requirements for additional data presented as supplementary information such as combining and individual fund statements and statistical information. Districts may present additional budgetary information for debt service, capital projects, nonmajor special revenue funds, and other funds that have legally adopted budgets as supplementary information but are not required to in accordance with the provisions of GASB 34.

Note also that if more funds are included in the budget to actual comparison schedules than required (that is, more than the general and major special revenue funds) then those additional funds will have to be included as major funds in the Fund Level Financial Statements.

## 1.8 Federal/State Administrative Requirements and Cost Principles

Since the end of World War II, the federal government has become increasingly involved in providing financial assistance to state and local governments through a wide variety of programs. Similarly, state governments have increasingly provided financial assistance to their political subdivisions. One reason is limited revenue sources available to local

governments and the trend for higher level governments to mandate programs that must be administered by local governments. Included are a wide variety of programs in areas such as welfare, education and unemployment.

Federal financial assistance may take the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, and [insurance](#) or direct appropriations. Depending on the amount and source of the federal financial assistance received, school districts may be required to satisfy audit and reporting requirements prescribed by [Government Auditing Standards](#) issued by the Comptroller General of the United States (and often referred to as the Yellow Book); the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, Public Law 104-156, (the Single Audit Act); other federal agency policies and regulations; and agreements or contracts with the federal agencies. Several statutory and regulatory requirements are applicable to all or most federal assistance programs.

See Appendix 8 for an explanation of [OMB Circular A-133 Compliance Supplement - Part 3, Compliance Requirements](#), which describes 14 types of compliance requirements and the related audit objectives, as applicable, that the auditor shall consider in every audit conducted under OMB [Circular A-133](#) with the exception of program specific audits performed in accordance with a Federal agency's program specific audit guide. The compliance requirements for special tests and provisions are included in Appendix 8 of the Resource Guide and under Part 4 of the [OMB Circular A-133 Compliance Supplement](#). It is important that school business officials familiarize themselves with these procedures as it will help them to ensure that they are in compliance with the above requirements. In addition, see Appendix 9 for information regarding Catalog of Federal Domestic Assistance Identification Numbers which represent key cross reference codes used to identify compliance provisions for federal programs.

## 1.8.1 Federal Regulations

Note: For the purposes of these regulations, LEA refers to *Local Education Agency*, otherwise referred to in the *Resource Guide* as *school district*.

### 1.8.1.1 Allowable Cost Principles

Several state and regulatory requirements are applicable to all or most federal assistance programs. [2 CFR Part 225](#) (OMB Circular A-87) is one of the most significant in the context of appropriate use of the chart of accounts in the Financial Accounting and

Reporting Module. Costs that are not allowable charges to federal grants are recorded in the General Fund, in most instances.

### ***Allowable Cost Principles***

The cost of a federally-supported program is comprised of the allowable direct cost of the program plus its allocable portion of allowable indirect costs less applicable credits. Federal cost principles are designed to provide that federally assisted programs bear their fair share of recognized costs as determined by allowable cost principles. No provision for profit or other increment above cost is intended.

2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87) establishes cost principles for LEAs under grants and contracts resulting from federal legislation. They are designed to provide the basis for a program approach to the problem of determining costs and to promote efficiency and better relationships between grantees and the federal government. The principles are for determining costs only and are not intended to identify the circumstances or to dictate the extent of LEA participation in the financing of a particular project. They are designed to provide that federally-assisted programs operated in an LEA bear their fair share of costs recognized under these principles except where restricted or prohibited by law.

Texas LEAs use predetermined fixed rates for indirect costs. TEA calculates the rates based on information submitted by LEAs in a supplemental schedule to the Annual Finance and Compliance Report. TEA then issues indirect cost rates to each LEA based on a plan submitted to and approved by the United States Department of Education. In order to recover any indirect costs for the administration of federal grants and contracts, a grantee must have an approved indirect cost rate.

An indirect cost rate is a means of determining the percentage of allowable general administrative expense for each federal grant or contract. Basically, an indirect cost rate is the ratio of indirect costs to direct costs, based on the LEAs actual expenditures. The expenditures are those which have been recorded and audited in accordance with TEA guidelines.

2 CFR Part 225 (previously OMB Circular No. A-87), *Cost Principles for State, Local and Indian Tribal Governments*, establishes cost principles for local school districts and other governmental entities receiving Federal money through grants or contracts with the Texas Education Agency or directly from Federal agencies. The circular and relevant attachments are shown below.

## *Appendix A General Principles for Determining Allowable Costs*

### *Objectives*

This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as “Federal awards”). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

### *Policy Guides*

The application of these principles is based on the fundamental premises that:

- Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.
- Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.
- Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

### *Application*

These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to 2 CFR part 220 (OMB [Circular A-21](#)), “Cost Principles for Educational Institutions,” and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, 2 CFR part 225 does apply to

all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.

All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university or hospital), 2 CFR part 225 shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, 2 CFR part 220 ([Circular A-21](#)) shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Appendix; if a subaward is to some other non-profit organization, 2 CFR part 230 ([Circular A-122](#)), “Cost Principles for Non-Profit Organizations,” shall apply.

These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price. Where a Federal contract awarded to a governmental unit incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A-87) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

### *Basic Guidelines*

To be allowable under Federal awards, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of 2 CFR part 225.
- Be authorized or not prohibited under State or local laws or regulations.
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- Be the net of all applicable credits.
- Be adequately documented.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- Market prices for comparable goods or services.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.



- Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

### *Allocable costs*

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to 2 CFR part 225.

### *Applicable credits*

Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, [insurance](#) refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See Appendix B to this part, item 11, "Depreciation and use allowances," for areas of potential application in the matter of Federal financing of activities.)

## *Composition of Cost*

The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

### *Direct Costs*

Direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are:

- Compensation of employees for the time devoted and identified specifically to the performance of those awards.
- Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
- Equipment and other approved capital expenditures.
- Travel expenses incurred specifically to carry out the award.

Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

### *Indirect Costs*

Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term “indirect costs,” as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be

necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to 2 CFR part 225. In addition to restrictions contained in 2 CFR part 225, there may be laws that further limit the amount of administrative or indirect cost allowed. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

### *Interagency Services*

The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rata share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix C to 2 CFR part 225.

### *Required Certifications*

Each cost allocation plan or indirect cost rate proposal required by Appendices C and E to 2 CFR part 225 must comply with the following:

- No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices C and E to 2 CFR part 225. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.
- No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited

historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

### *Appendix B Selected Items of Cost*

The following section provides principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Appendix A to 2 CFR part 225. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

- *Advertising and public relations costs:*
  - *Advertising costs* are the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.
  - *Public relations costs* include community relations and mean those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
  - The *only allowable advertising costs* are those which are solely for:
    - (1) the recruitment of personnel required for the performance by the governmental unit of obligations arising under a Federal award;
    - (2) the procurement of goods and services for the performance of a Federal award;
    - (3) the disposal of scrap or surplus materials acquired in the performance of a Federal award except when governmental units are reimbursed for disposal costs at a predetermined amount; or

(4) other specific purposes necessary to meet the requirements of the Federal award.

– The *only allowable public relations costs* are:

(1) costs specifically required by the Federal award;

(2) costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or

(3) costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

Allowable advertising and public relations costs if incurred for more than one Federal award or for both sponsored work and other work of the governmental unit, are allowable to the extent that the principles in Appendix A to 2 CFR part 225, regarding direct costs and indirect costs are observed.

– *Unallowable advertising and public relations costs* include the following:

(1) All advertising and public relations costs other than as specified above as allowable;

(2) Costs of meetings, conventions, convocations, or other events related to other activities of the governmental unit, including:

(a) Costs of displays, demonstrations, and exhibits;

(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

(4) Costs of advertising and public relations designed solely to promote the governmental unit.

- *Advisory councils* - the costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.
  
- *Alcoholic beverages* - costs of alcoholic beverages are unallowable.
  
- *Audit costs and related services* - The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 USC 7505(b) and section 230 ("Audit Costs") of Circular A-133. Other audit costs are allowable if included in a cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to an award. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable, subject to the conditions listed in A-133, section 230 (b)(2).
  
- *Bad debts* - any losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.
  
- *Bonding costs* – Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the governmental unit. They arise also in instances where the governmental unit requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds. Costs of bonding required pursuant to the terms of the award are allowable. The costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.
  
- *Communications costs* - the costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like are allowable.
  
- *Compensation for personal services*:
  - Generally, compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
  - (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
  - (3) Is determined and supported as provided in subsection h.
- Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.
  - Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.
  - *Fringe benefits* are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee [insurance](#), pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if:

- (1) they are provided under established written leave policies;

- (2) the costs are equitably allocated to all related activities, including Federal awards; and,
- (3) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation [insurance](#) (except as indicated in the section on Insurance and Indemnification); pension plan costs (see below) and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

- *Pension plan costs* may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the



Federal Government and related Federal reimbursement and the governmental unit's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.

Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit's contribution in future periods.

When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.

The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

- *Post-retirement health benefits (PRHB)* refers to costs of health [insurance](#) or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

For PRHB financed on a pay as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.

Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

To be allowable in the current year, the PRHB costs must be paid either to: (a) An insurer or other benefit provider as current year costs or premiums, or (b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

- *Severance pay* - the payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer-employee agreement, or (c) established written policy. Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost. Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.
- *Support of salaries and wages* - these standards regarding time distribution are in addition to the standards for payroll documentation.

Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-

annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. [The substitute system must be available for audit and monitoring purposes.] Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. (a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including: (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c); (ii) The entire time period involved must be covered by the sample; and (iii) The results must be statistically valid and applied to the period being sampled. (b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable. (c) Less than full

compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.

Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

- *Donated services* - donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Common Rule.
  
- The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs. To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.
  
- *Contingencies* - contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable. The term “contingency reserve” excludes self-insurance reserves, pension plan reserves, and post-retirement health and other benefit reserves computed using acceptable actuarial cost methods.
  
- *Defense and prosecution of criminal and civil proceedings, and claims* are unallowable for contracts covered by 10 U.S.C. 2324(k), “Allowable costs under defense contracts,” for
  - (1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded nolo contendere to a charge of fraud or similar proceeding (including filing of a false certification)).

- (2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).

Legal expenses required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.

- *Depreciation and use* - depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided for in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.

The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

The computation of depreciation or use allowances will exclude:

- The cost of land;
- Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
- Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the

absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used. Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs. The use allowance for equipment will be computed at an annual rate not exceeding  $6\frac{2}{3}$  percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the  $6\frac{2}{3}$  percent equipment use allowance limitation.

A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical

sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

- *Donations and contributions* - Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable. For donations received:

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the Federal Grants Management Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

- *Employee morale, health, and welfare costs* - the costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs will be equitably apportioned to all activities of the governmental unit. Income generated from any of these activities will be offset against expenses.
- *Entertainment* - the costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.
- *Equipment and other capital expenditures* - as used in this section the following definitions apply:
  - Capital expenditures means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment,

for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from, the acquisition cost in accordance with the governmental unit's regular accounting practices.

- Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5000.
- Special purpose equipment means equipment which is used only for research, medical, scientific or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.
- General purpose equipment means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

The following rules of allowability shall apply to equipment and other capital expenditures:

- (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.
- (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency.
- (3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.
- (4) When approved as a direct charge pursuant to the 3 sections above, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement.



(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see the preceding Depreciation and use allowance section, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also see the Rental costs section concerning the allowability of rental costs for land, buildings, and equipment.

(6) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim the otherwise allowable use allowances or depreciation on the equipment or by (2) amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(7) When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

- *Fines and penalties* - fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.
- *Fund raising and investment management costs* - costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-[insurance](#), or other funds which include Federal participation allowed by this and other appendices of 2 CFR part 225 are allowable. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in the Basic Guidelines for Allocable Costs of Appendix A.
- *Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs:*
  - Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

- Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:
  - (1) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under *Depreciation and use allowances* and *Equipment and other capital expenditures* sections.
  - (2) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.
  - (3) A loss results from the failure to maintain permissible [insurance](#), except as otherwise provided in the *Insurance and indemnification* section.
  - (4) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection a., e.g., land or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.

- *General government expenses* - the general costs of government are unallowable (except as provided in the *Travel costs* section). These include:
  - Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal governments;
  - Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;

- Costs of the judiciary branch of a government;
- Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by program statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General); and
- costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.

- *Goods or services for personal use* – Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
- *Idle facilities and idle capacity* – As used in this section the following terms have the meanings set forth below:

(1) *Facilities* means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.

(2) *Idle facilities* means completely unused facilities that are excess to the governmental unit's current needs.

(3) *Idle capacity* means the unused capacity of partially used facilities. It is the difference between: (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays; and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

(4) Cost of idle facilities or idle capacity means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, property taxes and depreciation or use allowances.

The costs of idle facilities are unallowable except to the extent that:

- They are necessary to meet fluctuations in workload; or

- Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.

The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

- *Insurance and indemnification* - costs of [insurance](#) required or approved and maintained, pursuant to the Federal award, are allowable.

Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:

- Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.
- Costs of [insurance](#) or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.

Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award or as described below. However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

- The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit's settlement rate for those liabilities and its investment rate of return.
- Earnings or investment income on reserves must be credited to those reserves.
- Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.
- Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If individual departments or agencies of the governmental unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.
- Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection for post retirement health benefits), are allowable in the year of payment provided (1) the governmental unit follows a consistent costing policy and (2) they are allocated as a general administrative expense to all activities of the governmental unit.

Insurance refunds shall be credited against insurance costs in the year the refund is received.

Indemnification includes securing the governmental unit against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided.

Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable.

- *Interest* - the costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided below or authorized by Federal legislation.

Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980, is allowable, subject to the conditions below. Financing costs (including interest) paid or incurred on or after September 1, 1995, for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions below.

- The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;
- The assets are used in support of Federal awards;
- Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.
- For debt arrangements over \$1 million, unless the governmental unit makes an initial equity contribution to the asset purchase of 25 percent or more, the governmental unit shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-Federal entities shall prepare a cumulative (from the inception of the

project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

- Interest attributable to fully depreciated assets is unallowable.
- *Lobbying* - the cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, “New Restrictions on Lobbying” (see Section J.24 of Appendix A to 2 CFR part 220), including definitions, and the Office of Management and Budget “Government-wide Guidance for New Restrictions on Lobbying” and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or regulatory matter on any basis other than the merits of the matter.
- *Maintenance, operations, and repairs* - unless prohibited by law, the cost of utilities, [insurance](#), security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they:
  - keep property (including Federal property, unless otherwise provided for) in an efficient operating condition,
  - do not add to the permanent value of property or appreciably prolong its intended life, and

- are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures.
- *Materials and supplies* - Costs for materials, supplies and fabricated parts necessary to carry out a Federal award are allowable. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.
- *Meetings and conferences* – Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see *Entertainment costs*.
- *Memberships, subscriptions, and professional activities* - costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.

Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.

Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

Costs of membership in organizations substantially engaged in lobbying are unallowable.

- *Patent costs* - The following costs relating to patent and copyright matters are allowable: (i) cost of preparing disclosures, reports, and other documents required by the Federal award and of searching the art to the extent necessary to make such disclosures; (ii) cost of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government; and (iii) general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements (but see *Professional service costs* and *Royalties and other costs for use of patents and copyrights*).



The following costs related to patent and copyright matter are unallowable: (i) cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award; (ii) costs in connection with filing and prosecuting any foreign patent application, or any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government (but see *Royalties and other costs for use of patents and copyrights*).

- *Plant and homeland security costs* – Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to the *Equipment and other capital expenditures* section of this appendix.
- *Pre-award costs* - pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.
- *Professional service costs* - the costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit, are allowable, subject to items below when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

In addition, legal and related services are limited under the *Defense and prosecution of criminal and civil proceedings and claims* section of this appendix.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- (1) the nature and scope of the service rendered in relation to the service required.
- (2) the necessity of contracting for the service, considering the governmental unit's capability in the particular area.
- (3) the past pattern of such costs, particularly in the years prior to Federal awards.

- (4) the impact of Federal awards on the governmental unit's business (i.e., what new problems have arisen).
- (5) whether the proportion of Federal work to the governmental unit's total business is such as to influence the governmental unit in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.
- (6) whether the service can be performed more economically by direct employment rather than contracting.
- (7) the qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.
- (8) adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

In addition to the factors above, retainer fees to be allowable must be supported by available or rendered evidence of bona fide services available or rendered.

- *Proposal costs.* Costs of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.
- *Publication and printing costs.* Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the governmental unit. Page charges for professional journal publications are allowable as a necessary part of research costs where (1) the research papers report work supported by the Federal Government; and (2) the charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.
- *Rearrangements and alterations.* Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.
- *Reconversion costs.* Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing

immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

- *Rental costs* - subject to the limitations described in subsections of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.
  - Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.
  - Rental costs under “less-than-arm’s-length” leases are allowable only up to the amount (as explained above) that would be allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arm’s-length lease is one under which one party to the lease is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between divisions of a governmental unit; governmental units under common control through common officers, directors, or members; and a governmental unit and a director, trustee, officer, or key employee of the governmental unit or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a governmental unit may establish a separate corporation for the sole purpose of owning property and leasing it back to the governmental unit.
  - Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained above) that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. The provisions of FASB ASC 840 (Leases) shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in the *Interest* section. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.
- *Royalties and other costs for the use of patents* – Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

- (1) The Federal Government has a license or the right to free use of the patent or copyright.
- (2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.
- (3) The patent or copyright is considered to be unenforceable.
- (4) The patent or copyright is expired.

Special care should be exercised in determining reasonableness where the royalties may have been arrived at as a result of less-than-arm's-length bargaining, e.g.:

- (1) Royalties paid to persons, including corporations, affiliated with the governmental unit.
- (2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.
- (3) Royalties paid under an agreement entered into after an award is made to a governmental unit.

In any case involving a patent or copyright formerly owned by the governmental unit, the amount of royalty allowed should not exceed the cost which would have been allowed had the governmental unit retained title thereto.

- *Selling and marketing* – Costs of selling and marketing any products or services of the governmental unit are unallowable (unless allowed under *Advertising and public relations costs* as allowable public relations costs or under *Proposal costs* as allowable proposal costs).
- *Taxes* - taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision is applicable to taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.

Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.

This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of

unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.

- *Termination costs applicable to sponsored agreements* – Termination of awards generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the Federal award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this appendix in termination situations.

The cost of items reasonably usable on the governmental unit's other work shall not be allowable unless the governmental unit submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the governmental unit, the awarding agency should consider the governmental unit's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the governmental unit shall be regarded as evidence that such items are reasonably usable on the governmental unit's other work. Any acceptance of common items as allocable to the terminated portion of the Federal award shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

If in a particular case, despite all reasonable efforts by the governmental unit, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this and other appendices of 2 CFR part 225, except that any such costs continuing after termination due to the negligent or willful failure of the governmental unit to discontinue such costs shall be unallowable.

Loss of useful value of special tooling, machinery, and equipment is generally allowable if:

- (1) Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the governmental unit,
- (2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency, and
- (3) The loss of useful value for any one terminated Federal award is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, machinery, or equipment was acquired.

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated Federal award less the residual value of such leases, if:

(1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the Federal award and such further period as may be reasonable, and

(2) the governmental unit makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.

Settlement expenses including the following are generally allowable:

(1) Accounting, legal, clerical, and similar costs reasonably necessary for: (a) the preparation and presentation to the awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for default (see Subpart \_\_.44 of the Grants Management Common Rule (see Sec. 215.5) implementing OMB Circular A-102); and (b) the termination and settlement of subawards.

(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the Federal award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Subparts \_\_.31 and \_\_.32 of the Grants Management Common Rule (see Sec. 215.5) implementing OMB Circular A-102.

Claims under subawards, including the allocable portion of claims which are common to the Federal award, and to other work of the governmental unit are generally allowable. An appropriate share of the governmental unit's indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Appendix A. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

- *Training* - the cost of training provided for employee development is allowable.
- *Travel costs* - Generally, travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are on travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities. Notwithstanding the provisions in the *General Government Expenses* section of this appendix, travel costs of officials covered by that section, are allowable with the prior approval of an awarding agency when specifically related to Federal awards.

Travel cost may not exceed the amount determined using the state travel allowance guide adopted by the comptroller under Section 660.021, Government Code.

*Lodging and subsistence* - Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

Amounts authorized for maximum recovery for travel and per diem costs are restricted to those amounts which are approved in the state of Texas Appropriation Bill in effect for the particular funding period. Currently employees who travel within the state of Texas will be reimbursed for actual cost of lodging not to exceed \$85 per day (As of 1/1/08); actual cost of meals not to exceed \$36 per day; and mileage 50 cents per mile(as of January 1, 2010; 55 cents 9/1/09-12/31/09). This schedule is periodically revised and is available on the Window on State Government at <https://fmx.cpa.state.tx.us/fm/travel/travelrates.php>. If local policy establishes reimbursement of funds at a lesser rate, employees shall be reimbursed at the lesser rate. Employees who travel outside the State of Texas shall be reimbursed for actual costs not to exceed the locality-based rates specified in the Federal Travel Regulations. The locality based rates are published in the Out-of-State Meals and Lodging Rates and Median Rates schedule, published by the Texas Comptroller of Public Accounts at the same web link above.

Payment of travel allowances is prohibited in Texas. All reimbursements of travel expenses that are charged to state and/or federal programs or projects must be reimbursed at actual costs not to exceed the maximum allowable in the State Appropriations Bill. A school district may pay a travel advance; however, the employee or board member must submit the invoices for the trip upon return in order to settle up the advance.

[Section 2171.055](#) of the Government Code has been amended to allow an officer or employee of a school district who is engaged in official business to participate in the Comptroller's (formerly TBPC's) contract for travel services. The Comptroller may charge a participating school district a fee not to exceed the costs incurred by the comptroller in providing services under this subsection.

*Commercial air travel* - Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would: require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased costs that would offset the transportation savings, or offer accommodations not reasonably adequate for the traveler's medical needs. The governmental unit must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases. Unless a pattern of avoidance is detected, the Federal Government will generally not question a governmental unit's determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the governmental unit can demonstrate either of the following: (a) that such airfare was not available in the specific case; or (b) that it is the governmental unit's overall practice to make routine use of such airfare.

Air travel by other than commercial carrier. Costs of travel by governmental unit-owned, -leased, or -chartered aircraft, include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, [insurance](#), and other related costs. The portion of such costs that exceeds the cost of allowable commercial air travel, as provided for above in the Commercial Air Travel section is unallowable.

Foreign travel. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must receive such approval. For purposes of this provision, "foreign travel" includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term "foreign travel" for a governmental unit located in a foreign country means travel outside that country.

## *Appendix C State/Local-wide Central Service Cost Allocation Plans*

### *General*

Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.



Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.

### *Definitions*

Billed central services means central services that are billed to benefited agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.

Allocated central services means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefited agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.

Agency or operating agency means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.

### *Scope of the Central Service Cost Allocation Plans*

The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in the section regarding Documentation Requirements for Submitted Plans below. Costs of central services omitted from the plan will not be reimbursed.

### *Submission Requirements*

Local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs.. Extensions may be granted by the cognizant agency on a case-by-case basis.

### *Documentation Requirements for Submitted Plans*

The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (\*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

Generally, all proposed plans must be accompanied by the following: an organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see following subsection) that the plan was prepared in accordance with this and other appendices to this part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

For each allocated central service, the plan must also include the following: a brief description of the service\*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefited agencies, and a summary schedule showing the allocation of each service to the specific benefited agencies. If any self-[insurance](#) funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections regarding internal service funds and self-insurance funds shall also be included.

The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.

- For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: a brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular

billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this and other appendices of this part, with an explanation of how variances will be handled.

Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

- For each self-insurance fund, the plan shall include: the fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefited activities. Reserve levels in excess of claims (1) submitted and adjudicated but not paid, (2) submitted but not adjudicated, and (3) incurred but not submitted must be identified and explained.
- For fringe benefit costs, the plan shall include: a listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies\*; and procedures used to charge or allocate the costs of the benefits to benefited activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit's funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

Each central service cost allocation plan will be accompanied by a certification in the following form:

### **Certificate of Cost Allocation Plan**

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of 2 CFR 225, "Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)," and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit \_\_\_\_\_

Signature \_\_\_\_\_

Name of Official \_\_\_\_\_

Title \_\_\_\_\_

Date of Execution \_\_\_\_\_

### **Negotiation and Approval of Central Service Plans**

All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.

The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.

Negotiated cost allocation plans based on a proposal later found to have included costs that: (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Appendix B of this part, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

### *Other Policies*

Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of net assets of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

Allocated central service costs are usually negotiated and approved for a future fiscal year on a “fixed with carry-forward” basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This “carry-forward” procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made

at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

### ***Drug-Free Workplace Act***

School districts receiving grants or other shared services directly from any federal agency may be required to certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the granting agency that his or her conduct of grant activity will be drug-free. Making the required certification is a precondition of receiving a grant *directly* from a federal agency after March 18, 1989. A grantee, except a state, is required to make the required certification for each grant. A state, including a state agency such as the TEA, may elect a single annual certification to each federal agency from which it obtains grants.

The school district certifies that it will:

- Publish a policy statement notifying employees that the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited in the LEA's workplace. In addition, the LEA must specify the actions that will be taken against employees for violation of such prohibition.
- Establish an ongoing drug-free awareness program to inform employees about:

- The dangers of drug abuse in the workplace
  - The school district’s policy of maintaining a drug-free workplace
  - Any available drug counseling, rehabilitation and employee assistance programs
  - The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace
- Make it a requirement that each of the individuals to be engaged in the performance of the grant be given a copy of the required policy statement
  - Notify the employee in the statement that, as a condition of employment under the grant, the employee will: abide by the terms of the statement and; notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction
  - Notify the granting agency in writing within ten calendar days after receiving notice from an employee or otherwise receiving actual notice of such conviction
  - Take one of the following actions, within 30 calendar days of receiving notice with respect to any employee who is so convicted:
    - Taking appropriate personnel action against such an employee, up to and including termination; or
    - Requiring such employee to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a federal, state, or local health, law enforcement or other appropriate agency. [Public Law 100-690 Title V, Subtitle D, 41 USC 701 et seq., 34 CFR Part 86, Subpart F]

### **1.8.1.2 Administrative Requirements**

Federal financial assistance programs, with certain exceptions, are subject to the provisions of *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (Common Rule) codified in 34 CFR Part 80. These requirements are listed as follows. In addition, refer to Appendix 8 for other requirements.

- *Interest earned on advances* - School districts must maintain a cash log showing interest earned on advances, if any. All such interest earned on advances must be remitted by LEAs to the granting agency on a quarterly basis.
- *Period of availability of funds* - Where a funding period is specified, a LEA may charge to the award only costs resulting from obligations incurred during the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations incurred during the subsequent funding period.

LEAs must liquidate (be recorded as an expenditure under generally accepted accounting principles) all obligations (encumbrances) incurred under the award not later than 30 days after the end of the funding period (or as specified in a program regulation or the standard application system rules) to coincide with the submission of the final expenditure report, due 45 days after the end of the federal project period. Revisions to the final expenditure report must be received no later than 30 days from the deadline for the final expenditure report. Revised final expenditure reports received after the 30<sup>th</sup> day will not be used for cash disbursement or for determining roll forward calculations. For discretionary grants, refer to the provisions and assurances for submission dates. (“Obligations means the amounts of orders placed, contracts and sub grants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.” Obligations representing orders placed are reflected in the accounting records as encumbrances.) Obligations that are liquidated and recognized as expenditures must meet the allowable cost principles in 2 CFR Part 225 (OMB Circular A-87) and program rules contained elsewhere, such as, the standard application system application.

- *Program income* - LEAs must establish and maintain records and procedures to track program income. Program income can be defined as gross income earned by the LEA from grant-supported activities. Interest earned on advances of federal funds shall be remitted to the federal agency. Other income attributable to the grant should be used to increase the scope of the project. Program income must be deducted from the total project cost to determine the amount in which the federal government will share, or it must be applied toward the matching share (with federal agency permission) since the federal agency making the award determines which method of using grant income will be followed.
- *Real property* - Standards governing the use and disposition of federally financed property are prescribed by each federal agency. The LEA’s real property management procedures must provide for accurate records, adequate control and proper sales procedures. Such requirements will cover retention of title, use of property in other projects and sale or transfer of title.



- *Equipment* - The LEA's property management procedures must provide for the existence of a capital asset inventory system, which includes sources of financing for capital assets, percentage of federal ownership and disposition of equipment in accordance with 34CFR 80.32(d)(1), (2) and (e), as explained in Appendix 8, Part 1 - General Requirements for All Federal Programs, F. Equipment and Real Property, Financial Accounting and Reporting. Federal requirements relating to frequency of conducting inventory (usually biannually), transfers, property utilization, property disposition and accounting must be documented. The LEA's capital asset procedures must be adequate to maintain control over capital asset purchases, maintenance, safeguarding, transfers and equipment dispositions.

34 CFR Part 80.32, explains management requirements for equipment used in federal programs, as follows:

“...Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property...A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years....” A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss damage or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition.

- *Supplies* - LEAs must maintain inventory records of unused federally funded supplies. The LEA's policies must be adequate to compensate the granting agency for its share of unused supplies. If there is a residual inventory of unused supplies exceeding \$5,000 in total aggregate fair market value upon termination or completion of the award and if the supplies are not needed for any other federally sponsored programs or projects, the grantee shall compensate the awarding agency for its share.
- *Subawards to debarred and suspended parties* - LEAs must ensure that awards are not made to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal financial assistance programs under Executive Order 12549, “Debarment and Suspension.”
- *Procurement standards* - LEAs will use their own procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified below.

LEAs will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

LEAs will ensure that its employees avoid business arrangements or situations resulting in a real or apparent conflict of interest. A conflict of interest would arise when (i) the employee, officer or agent; (ii) any member of his immediate family; (iii) his or her partner, or (iv) an organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award. In addition, the officers, employees or agents of the LEA will neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to subagreements. LEAs may set minimum rules where the financial interest is not substantial.

LEA's procedures will provide for a review of proposed procurements to avoid purchases of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.

To foster greater economy and efficiency, LEAs are encouraged to enter into state and local intergovernmental agreements for procurement or use of common goods and services.

LEAs are encouraged to use federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs.

LEAs are encouraged to use value engineering clauses in contracts for construction projects of sufficient size to offer reasonable opportunities for cost reductions. Value engineering is a systematic and creative analysis of each contract item or task to ensure that its essential function is provided at the overall lower cost.

LEAs will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

LEAs will maintain sufficient records to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following:

- Rationale for the method of procurement

- Selection of contract type
- Contractor selection or rejection
- The basis for the contract price

LEAs will use time and material type contracts only: (i) after a determination that no other contract is suitable, and (ii) if the contract includes a ceiling price that the contractor exceeds at its own risk.

LEAs alone will be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. These issues include, but are not limited to source evaluation, protests, disputes and claims. These standards do not relieve the LEA of any contractual responsibilities under its contracts. Federal agencies will not substitute their judgment for that of the grantee or subgrantee unless the matter is primarily a federal concern. Violations of law will be referred to the local, state, or federal authority having proper jurisdiction.

LEAs will have protest procedures to handle and resolve disputes relating to their procurements and shall in all instances disclose information regarding the protest to the granting agency. A protester must exhaust all administrative remedies with the LEA before pursuing a protest with the federal agency or TEA.

Review of protests by the federal agency or TEA should be limited to:

- Violations of state or Federal law or regulations, and the standards of this section.
  - Violations of the LEA's protest procedures for failure to review a complaint or protest. Protests received by the federal agency or TEA other than those specified above should be referred to the LEA.
- *Contract pricing* - The cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used. LEAs shall perform some form of cost or price analysis in connection with every procurement action including contract modifications. Costs or prices based on estimated costs for contracts under grants shall be allowed only to the extent that cost incurred or cost estimates included in negotiated prices are consistent with federal cost principles.
  - *Contract provisions* - In addition to provisions defining a sound and complete procurement contract, LEAs shall include the following contract provisions or conditions in all procurement contracts and subcontracts:

- Contracts other than small purchases shall contain provisions or conditions which allow for administrative, contractual or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. Contracts are considered “small purchases” if their total dollar amount does not exceed \$100,000.
- All contracts in excess of \$10,000 shall contain suitable provisions for termination by the grantee including the manner by which it will be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.
- All contracts awarded in excess of \$10,000 by LEA's and their contractors or sub grantees shall contain a provision requiring compliance with executive order 11246, entitled “Equal Employment Opportunity”, as amended by executive order 11375, and as supplemented in Department of Labor Regulations (41 CFR Part 60).
- All contracts and sub grants for construction or repair shall include provision for compliance with the Copeland “Anti-Kickback” Act (18 USC 874) as supplemented in Department of Labor Regulations (29 CFR, Part 3). This Act provides that each contractor or sub grantee shall be prohibited from inducing, by any means, any person employed in the construction, completion or repair of public work, to give up any part of the compensation to which he is otherwise entitled. LEAs shall report all suspected or reported violations to the TEA.
- When required by the Federal grant program legislation, all construction contracts in excess of \$2,000 awarded by LEAs or sub grantees shall include a provision for compliance with the Davis-Bacon Act (40 USC 276a to a-7) as supplemented by Department of Labor Regulations (29 CFR, Part 5). Under this Act, contractors shall be required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor for that location. In addition, contractors shall be required to pay wages not less than once a week. The recipient shall place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. LEAs shall report all suspected or reported violations to the TEA.
- All contracts awarded by LEAs and sub grantees in excess of \$2,000 for construction contracts and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers shall include a provision for compliance with Section 103 and 107 of the Contract Work Hours and Safety Standards Act (40 USC 327-330) as supplemented by Department of Labor Regulations (29 CFR, Part 5). Under Section 103 of the Act, each contractor shall be required to compute the wages of every mechanic and laborer on the basis of a standard workweek of 40 hours. Work in excess of 40 hours per week shall be compensated at a rate of not less than 1 1/2 times the person’s basic rate of pay. Section 107 of the Act is

applicable to construction work and provides that no laborer or mechanic shall be required to work in surroundings or under conditions which are unsanitary, hazardous or dangerous to his or her health and safety as determined under construction, safety and health standards promulgated by the Secretary of Labor.

- Notice of awarding agency requirements and regulations pertaining to reporting, patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract, copyrights and rights in data.
- All contracts shall include a provision to the effect that the LEA, the TEA, the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract, for the purpose of making audit, examination, excerpts and transcriptions.
- LEAs shall retain all financial and programmatic records, supporting documents, statistical records, and other records pertinent to program regulations or the grant agreement for three years from the day the final expenditure report is submitted or until resolution of any audits which started within the three-year retention period. (34 CFR 80.42) **NOTE: The federal requirement is three years; however, the Texas State Library and Archives Commission requires a 7 year retention period for most financial records of school districts. See Part 2 of [Local Schedule GR](#).**
- LEAs shall require contractors to retain any books, documents, papers, and records which are directly pertinent to that specific contract for three years after final payment is made and all other pending matters are closed. [34 CFR 80.36 (i)(11)] **NOTE: The federal requirement is three years; however, the Texas State Library and Archives Commission requires a 7 year retention period for most financial records of school districts. See Part 2 of [Local Schedule GR](#).**
- Contracts, subcontracts and subgrants of amounts in excess of \$100,000 shall contain a provision which requires compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act (42 USC 1857 (h)), Section 508 of the Clean Water Act (33 USC 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR, Part 15), which prohibit the use under non-exempt federal contracts, grants or loans of facilities. The provision shall require reporting of violations to TEA and to the USEPA Assistant Administrator for Enforcement (EN-329).
- Contracts shall recognize mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (P.L. 94-163).

- *Competitive procurement* - All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of state and local laws provided that the procurements conform to applicable federal law. Some of the situations considered to be restrictive of competition include but are not limited to:
  - Placing unreasonable requirements on firms in order for them to qualify to do business
  - Requiring unnecessary experience and excessive bonding
  - Noncompetitive pricing practices between firms or between affiliated companies
  - Noncompetitive awards to consultants that are on retainer contracts
  - Organizational conflicts of interest
  - Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance of other relevant requirements of the procurement
  - Any arbitrary action in the procurement process

LEAs will conduct procurements in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. State licensing laws are not preempted.

LEAs will have written selection procedures for procurement transactions. These procedures should ensure that all solicitations:

- Incorporate a clear and accurate description of the technical requirements for the material, product or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product, or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equal” description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated.
- Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

- LEAs should ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, grantees and sub grantees will not preclude potential bidders from qualifying during the solicitation period.
- *Methods of procurement* -
  - (1) *Procurement by small purchase procedures* – Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
  - (2) *Procurement by sealed bids (formal advertising)* – Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed method is the preferred method for procuring construction. The following conditions should be present for sealed bidding to be feasible: a complete, adequate, and realistic specification or purchase description is available; two or more responsible bidders are willing and able to compete effectively; and the procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price. If sealed bids are used, the following requirements apply:
    - (a) The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;
    - (b) The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;
    - (c) All bids will be publicly opened at the time and place prescribed in the invitation for bids;
    - (d) A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
    - (e) Any or all bids may be rejected if there is a sound documented reason.
  - (3) *Procurement by competitive proposals* – This method is generally used when conditions are not appropriate for the use of sealed bids. If it is used, the following requirements apply:

(a) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(b) Proposals will be solicited from an adequate number of qualified sources;

(c) LEAs will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(d) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(e) LEAs may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation.

(4) *Procurement by noncompetitive proposals* – This involves procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(a) This may only be used when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies: (1) the item is available only from a single source; (2) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; (3) the awarding agency authorizes non-competitive proposals, (4) after solicitation of a number of sources, competition is determined inadequate.

(b) Cost analysis (verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits) is required.

(c) LEAs may be required to submit the proposed procurement to the awarding agency for pre-award review.

- The LEA will take all necessary affirmative steps to assure that small and minority firms, women's business enterprises and labor surplus area firms are used when possible including:
  - Placing qualified small and minority businesses and women's business enterprises on solicitation lists
  - Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources
  - Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority business and women's business enterprises
  - Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority business and women's business enterprises



- Using the services and assistance of the Small Business Administration, and the Minority Business Development Agency of the Department of Commerce
- Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed above.

### 1.8.1.3 Standards for Financial Management Systems

34 CFR 80.20 specifies the standards for financial management systems. Fiscal control and accounting procedures of the LEA must be sufficient to:

- (1) permit preparation of reports required by the administrative rules and statutes authorizing the grant, and
- (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The financial management systems must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. LEAs must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant cash, real and personal property, and other assets. LEAs must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and grant award documents, etc.
- (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement must be followed.

TEA or an awarding Federal agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award.

#### **1.8.1.4 Special Grant Conditions for “High-risk” Grantees**

34 CFR 80.12 allows for special grant conditions for “high-risk” grantees. A grantee may be considered “high risk” if TEA or an awarding Federal agency determines that a grantee:

- (1) Has a history of unsatisfactory performance, or
- (2) Is not financially stable, or
- (3) Has a management system which does not meet the management standards set forth in this part, or
- (4) Has not conformed to terms and conditions of previous awards, or
- (5) Is otherwise not responsible.

If TEA or the awarding Federal agency determines that an award will be made, special conditions and/or restrictions shall correspond to the high risk condition and shall be included in the award.

Special conditions or restrictions may include:

- (1) Payment on a reimbursement basis;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period;
- (3) Requiring additional, more detailed financial reports;
- (4) Additional project monitoring;
- (5) Requiring the grantee to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

If TEA or an awarding Federal agency decides to impose such conditions, the awarding official will notify the grantee as early as possible, in writing, of:

- (1) The nature of the special conditions/restrictions;
- (2) The reason(s) for imposing them;
- (3) The corrective actions which must be taken before they will be removed and the time allowed for completing the corrective actions and
- (4) The method of requesting reconsideration of the conditions/restrictions imposed.

## 1.8.2 State Regulations

### 1.8.2.1 Introduction

Texas public school districts are authorized in the Texas Constitution and are established by state law. These laws authorize the State Board of Education to make rules governing the operations of the public schools, and the Commissioner of Education has authority to require reports and issue certain regulations for school districts.

In general, there are several law or rule documents that specifically apply to Texas school districts. These are:

- The [Texas Education Code](#)
- Title 19, *Texas Administrative Code*, Education
- *Texas Education Agency Financial Accountability System Resource Guide*

The above documents set forth the majority of laws, rules or regulations with which a school district must comply for financial-legal purposes. It is not implied here that the above documents include all laws, rules or regulations affecting school operations, as there are others.

Significant state laws that school districts must comply with are discussed below.

### 1.8.2.2 Nepotism

Section 573.041, [Government Code](#), prohibits employment of a relative of a school board member within the third degree by consanguinity (blood relation) or within the second degree by affinity (marriage), except that employees continuously employed in a position for six months prior to an election other than general election, or one year of election at the general appointment of a relation board member, may continue to be employed in that position. Exemptions to the nepotism law occurs for the employment of bus drivers, if the school district is located either wholly or in largest part in a county with a population less than 35,000 and for an appointment or employment of a substitute teacher.

- When a person is allowed to continue in employment under the exceptions authorized by the statute, the school board member who is related to the employee shall not participate in deliberation or voting on the appointment, reappointment, employment, reemployment, change in status, compensation or dismissal of the employee, if the action applies only to the employee and is not taken with respect to a bona fide class or category of employees, Section 573.041, [Government Code](#).

Relationships redefined in the law changed the method used to calculate degrees of kinship as shown in

Exhibit 59 and Exhibit 60:

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**Exhibit 59. Consanguinity Relation Blood Relation to Trustee**

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<b>First Degree</b>	Parent	Child	-----	-----
<b>Second Degree</b>	Grandparent	Grandchild	Sister	Brother
<b>Third Degree</b>	Great Grandparent	Great- Grandchild	Aunt Uncle	Niece Nephew

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**Exhibit 60. Affinity Kinship Marriage/Blood Relations of Spouse**

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<b>First Degree</b>	Parent	Child	Spouse	-----
<b>Second Degree</b>	Grandparent	Grandchild	Sister	Brother

Notes:

- (1) Divorce severs all relationships by affinity unless a child, including an adoptive child, of the marriage is living.

- (2) No relationship exists if two marriages are necessary to create the relationship. A person is related to any blood relative of his or her spouse but not to marital relatives of his or her spouse.

### 1.8.2.3 Pecuniary Interest

Attorney General's Opinion No. JM-424, dated February 6, 1986, concerns conflict of interest by certain local public officials, including school board members. This opinion rules that Article 988b, VTCS (superseded by Chapter 171, [Local Government Code](#)), permits transactions with school trustees that were formerly prohibited by the common law.

The opinion states that a school district can do business with an entity in which a board member has a substantial interest, if the board member has appropriately filed an affidavit with the board disclosing such interest, and if the board member abstains from voting on actions pertaining to the interest. The definition of *substantial interest* is a part of the Code, and includes a nepotism clause. Chapter 171 of the [Local Government Code](#) defines a person as having a substantial interest in a business entity if: (1) the person owns 10 percent or more of the voting stock or shares of the business entity or owns either 10 percent or more or \$15,000 or more of the fair market value of the business entity; or (2) funds received by the person from the business entity exceed 10 percent of the person's gross income for the previous year. A person has a substantial interest in real property if the interest is an equitable or legal ownership with a fair market value of \$2,500 or more. A board member is also considered to have a substantial interest if a person related in the 1<sup>st</sup> degree by consanguinity or affinity (see Section 1.8.2.2) has a substantial interest.

Conflict of interest statutes also apply to individuals designated as school district investment officers of the district. The Public Funds Investment Act contains requirements relating to the disclosure of financial interests (of investment officers) in entities providing [investments](#) and/or other financial services to the district. For example, a disclosure in the format prescribed by the Texas Ethics Commission is required to be filed by an investment officer when the investment officer's money market account is managed by an entity that sells securities to the district.

### 1.8.2.4 Depository Transactions

The Texas Education Code ([Sections 45.201 – 45.209](#)) provides that a bank or savings and loan serving as a school depository may use a surety (the value of which is its face value)

bond and/or pledged [securities](#) (the value of which is its market value) in an amount to secure the balance of all deposits which the school district will have in said depository during the term of the depository contract, less all applicable Federal Deposit Insurance Corporation (FDIC) insurance. GASB Statements No. 3 and 40, require disclosures in the notes to the financial statements to the effect that deposits and [investments](#) are collateralized as well as the district's exposure to custodial credit risk. See section 1.2.1 of the FAR, Cash and Investments, for additional information.

Information and forms are available at the [Financial Audits](#) website.

Prior to the passage of HB 2411 by the 80<sup>th</sup> Legislature, the only method of choosing a depository bank was by competitive bids. [HB 2411](#) allows use of the competitive sealed proposal method. In addition, a school district and depository bank may extend a depository contract for two additional two-year terms. In the past, the extension was allowed only for one two-year term. Under the new law, a district could go out for bids or proposals every six years if both extensions are used.

According to Section 2257.024 of the [Government Code](#), the following items should be considered in the collateralization policy of a school district:

- A public entity may contract with a bank that has its main office or a branch office domiciled in this state to secure a deposit of public funds.
- The contract may contain a term or condition relating to an investment security used as a security for a deposit of public funds, including a term or condition relating to the:
  - Possession of the collateral;
  - Substitution or release of an investment security;
  - Ownership of the investment securities of the bank used to secure a deposit of public funds; and
  - Method by which an investment security used to secure a deposit of public funds is valued.

Under Section 2257 of the [Government Code](#), the following items are considered to be eligible “investment security” for collateralization purposes:

- An obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;

- A general or special obligation issued by a public agency that
  - Is payable from taxes, revenues, or a combination of taxes and revenues;
  - Is rated as to investment quality by a nationally recognized rating agency; and
  - Has a current rating of not less than A or its equivalent; or
- A security in which a public entity may invest under Subchapter A, Chapter 2256; or
- An ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;
- A fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security; or
- A floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security.

These laws are interpreted by several Attorney General opinions, including: JM-545, dated September 16, 1986, indicated that investment earnings on bond proceeds in the Capital Projects Funds were to be used to retire bonded debt. This opinion appeared to reverse A.G. Opinion H-1174 which indicated that earned revenues were to be used for capital projects, unless considered surplus or otherwise dedicated for debt service. The Attorney General's office has subsequently informed the TEA legal counsel that Attorney General Opinion JM-545 applies only to excess earnings not needed for the capital projects contemplated by or stated in the bond resolution approved by the voters, and that only surplus earnings from bond proceeds [investments](#) need to be used for the retirement of debt service.

A description of the investments that a school district is allowed to invest in is included in the Cash and Investments section of this module.

Senate Bill 638, 81<sup>st</sup> Regular Legislative session, added Subchapter F to Chapter 2257 of the Government Code. This will allow for the establishment of a pooled collateral program to begin operations not later than the first business day of April 2010. Financial institutions will be required to file reports with the Comptroller's office to ensure compliance with the collateral requirements.

### 1.8.2.5 Contracts and Purchases - Competitive Procurement

See *Handbook on Purchasing for Texas Public Schools, Junior and Community Colleges* and the Purchasing module of the *Resource Guide*.

### 1.8.2.6 Other Compliance Matters

Other compliance provisions to be considered in the review of the financial statements include items discussed in the Legal Requirements section of this module.

### 1.8.2.7 State Program Indirect Cost Rates

For programs financed under the Foundation School Program Act, rules of the state board of education provide that allocations must be used in the program areas prescribed by law, except for percentages as indicated below. The percentages indicated below can be used for any legal purpose including indirect costs (State Board of Education Rule defines indirect costs as functions 34 - school transportation, 41 - general administration; 81 - facilities acquisition and construction and 9X series in the General Fund relating to Intergovernmental transfers) in support of the program.

**Exhibit 61. Indirect Cost Allowable Percentage**

<b>Program</b>	<b>Percentage Allowable Starting Fiscal year 2009 - 2010</b>	<b>Percentage Allowable Fiscal years 2008-2009 and prior</b>
Bilingual Education	45%	15%
Compensatory Education	45%	15%
Gifted and Talented	45%	15%
Career and Technical	40%	10%
Special Education	45%	15%



### 1.8.2.8 Records Retention

A school district must retain and have access to all financial programmatic records, supporting documents, statistical records and any other records pertaining to federal or state programs. [Record retention requirements](#) for federal and state programs are mandated by the Texas State Library and Archives Commission. See additional information relating to records retention in the Data Collection and Reporting module.

### 1.8.2.9 Electricity, Water, & Natural Gas Consumption

Government Code 2265.001 (added by [HB 3693](#) from the 80<sup>th</sup> Legislature) requires a school district responsible for payments for electric, water, or natural gas utility services to record in an electronic repository the district's metered amount of electricity, water, or natural gas consumed for which it is responsible to pay and the aggregate costs for those utility services. The district shall report the recorded information on a publicly accessible Internet website with an interface designed for ease of navigation if available, or at another publicly accessible.

## 1.9 Tax Concerns and Obligations

Tax concerns and obligations of school districts include arbitrage rebate on tax-exempt bonds and other issues such as salaries and wages reporting, withholding on fringe benefits, independent contractor status, application of sales and use taxes, and exempt organizations.

### 1.9.1 Arbitrage Rebate on Tax-Exempt Bonds

Arbitrage rebate and yield restriction rules are very complex. Every school district should seriously consider engaging qualified consultants for assistance with its arbitrage-related compliance needs. See the Accounts Payable and Other Liabilities section of this module for guidance on the proper GAAP treatment and disclosures related to the arbitrage rebate liability. Information about arbitrage issues is found in [IRS Publication 4079](#), Tax-Exempt Governmental Bonds, and [Banks to Bonds: A Practical Path to Sound School District Investing](#), published by the Legislative Budget Board.

## 1.9.2 Other Tax Issues

This section addresses a school district's obligations regarding federal taxes and discusses a school district's responsibilities with the IRS regarding employee income taxes and Federal Insurance Contributions Act (FICA) taxes, commonly known as social security taxes. Failure to follow the prescribed rules can result in significant penalties being assessed against a school district.

A school district's obligations relating to federal taxes fall generally under two broad headings: obligations relating to employees and information reporting.

- *Employees* - Payments of compensation to employees must be reported to the employees and to the IRS. Also, certain rules apply in determining the proper amounts and timing of withholding from wages with regard to taxable fringe benefits (see Withholding on fringe benefits).
- *Information reporting* - In addition to reporting regarding employee payments, payments to outside parties may be required to be reported to both the recipient and to the IRS.

### 1.9.2.1 Salaries and Wages Reporting: Form W-2

[Form W-2](#), Wage and Tax Statement (Form W-2), is required to be filed on a calendar-year basis for all employees. Form W-2 summarizes all wages and taxes withheld from the employee's pay during the calendar year. Forms must be provided to employees by January 31 (and to the IRS by February 28) of the following calendar year. Paper forms are provided to each employee. Forms are available from the IRS; also, in many cases substitute forms are acceptable (such as those generated by many payroll software programs). Requirements for substitute forms are provided in [IRS Publication 1141](#).

All taxable amounts must be included in Box 1 of Form W-2. A box is also available for the school district to provide any information which it desires to its employees. This is the only unrestricted box available on the Form W-2.

Taxable fringe benefits (which may be provided *in kind* or by cash payments from the school district) must be included in the [Form W-2](#) (in Box 1). Taxable fringe benefits include:

- Automobiles
- Restricted-use automobiles

- Nonqualified moving expenses
- Nonaccountable travel reimbursement
- Per diem or mileage allowance for the amount paid in excess of the amount treated as substantiated under IRS rules
- Family travel expenses
- Employee contributions to an Archer MSA
- Employer contributions to an Archer MSA if includible in the income of the employee
- Employee contributions to a Health Savings Account (HSA)
- Employer contributions to a Health Savings Account (HSA) if includible in the income of the employee
- Employer contributions for qualified long-term care services to the extent that such coverage is provided through a flexible spending or similar arrangement
- Uniforms/clothing
- Deferred compensation/annuities
- Cost of group-term life [insurance in excess of \\$50,000](#)
- Whole life insurance
- Payments for non-job-related education expenses or for payments under a nonaccountable plan unless excludable under Educational assistance programs
- Other benefits

Certain details may be required in other boxes on the form. See the instructions for Form W-2 for a full listing of taxable items.

## 1.9.2.2 Other Federal Tax Issues

### ***Employee/Independent Contractor - Form W-2 Versus Form 1099***

With respect to an individual providing services to a school district as an employee, [Form W-2](#) must be filed, as discussed above. With respect to an individual providing services to a school district as an independent contractor, [Form 1099-MISC](#), Miscellaneous Income, must be filed (see Form 1099 Reporting, below). For such purposes, the amounts paid to the independent contractor are considered to be *nonemployee compensation*.

Whether an individual should be considered an employee or an independent contractor for tax purposes is a question of fact determined by the IRS. In making this determination, several factors should be considered. These factors regarding evidence of control and independence include primarily the following three categories:

*Behavioral Control* covers facts that show whether the district has a right to direct or control how the work is done through instructions, training, or other means.

*Financial Control* covers facts that show whether the district has a right to direct or control the financial and business aspects of the worker's job. This includes:

- The extent to which the worker has unreimbursed business expenses,
- The extent of the worker's investment in the facilities used in performing services,
- The extent to which the worker makes his or her services available to the relevant market,
- How the district pays the worker, and
- The extent to which the worker can realize a profit or incur a loss.

*Type of Relationship* covers facts that show how the parties perceive their relationship. This includes:

- Written contracts describing the relationship the parties intended to create,
- The extent to which the worker is available to perform services for other districts and similar businesses,
- Whether the district provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay
- The permanency of the relationship, and
- The extent to which services performed by the worker are a key aspect of the regular business of the district.

In each case, it is very important to consider all the facts – no single fact provides the answer. A discussion of each of these factors follows.

## **Behavioral Control**

These facts show whether there is a right to direct or control how the worker does the work. A worker is an employee when the district has the right to direct and control the worker. The district does not have to actually direct or control the way the work is done – as long as the employer has the right to direct and control the work. For example:

Instructions – if the worker receives extensive instructions on how work is to be done, this suggests that she is an employee. Instructions can cover a wide range of topics, for example:

- how, when, or where to do the work
- what tools or equipment to use
- what assistants to hire to help with the work
- where to purchase supplies and services

If the worker receives less extensive instructions about what should be done, but now how it should be done, she may be an independent contractor. For instance, instructions about time and place may be less important than directions on how the work is performed.

Training – if the district provides the worker with training about required procedures and methods, this indicates that the district wants the work done in a certain way, and this suggests that the worker may be an employee.

## **Financial Control**

These facts show whether there is a right to direct or control the business part of the work. For example,

Significant Investment – if the worker has a significant investment in her work, she may be an independent contractor. While there is no precise dollar test, the investment must have substance. However, a significant investment is not necessary to be an independent contractor.

Expenses – if the worker is not reimbursed for some or all business expenses, then she may be an independent contractor, especially if her unreimbursed business expenses are high.

Opportunity for Profit or Loss – if the worker can realize a profit or incur a loss, this suggests that she is in business for herself and may be an independent contractor.

## **Relationship of the Parties**

These are facts that illustrate how the district and the worker perceive their relationship. For example:

Employee Benefits – if the worker receives benefits, such as insurance, pension, or paid leave, this is an indication that she may be an employee. If she does not receive benefits; however, she could be either an employee or an independent contractor.

Written Contracts – a written contract may show what both the worker and the business intend. This may be very significant if it is difficult, if not impossible, to determine status based on other facts.

These criteria are, of course, something less than straightforward. It is simply not possible to develop a check list which will provide a clear answer in each case. A fairly reliable way to condense these factors is to simply ask the question: *Is this individual in business for himself/herself?* Obviously, an employee would not be. This approach *is not* specifically adopted by the IRS or the courts. If it is used carefully, however, it may be helpful in dealing with such situations.

The classification of an individual as an employee or independent contractor is important. Two federal taxes hang on that determination: FICA (social security and Medicare) tax and income tax withholding. Misclassification can result in consequences in both areas, including monetary penalties for improper withholding. It is not advisable to be too conservative, though, by always leaning toward an *employee* determination. For example, the Teacher Retirement System of Texas (TRS) is a *qualified plan* for income tax purposes. A qualified plan must be maintained for the exclusive benefit of *employees*. If contractors are erroneously treated as employees, there could be complications for TRS.

Additional information can be found in [IRS Publication 15](#) (also called Circular E, Employer's Tax Guide). Also refer to the IRS website regarding [Independent Contractors vs. Employees](#).

## **Form 1099 Reporting**

Any *unincorporated* business, not just individuals, that receives \$600 or more for services (not merchandise) in a *calendar* year must be issued a Form 1099-MISC, Miscellaneous Income. Asking whether service providers are incorporated should be a standard practice of all school districts because payees (service providers) must provide their taxpayer identification number. The school district should have a completed Form W-9, Request for Taxpayer Identification Number and Certification (Form W-9), or a similar form on file documenting the payee's response. Form W-9 is an IRS form available from IRS offices. It may be sent to payees, or the school district may use another form to obtain this information. Form W-9 is one form which is merely provided by the IRS for optional use.

The payee should return the Form W-9 to the school district before the school district makes payment. If the payee fails to provide its taxpayer identification number or certify that it is incorporated, backup withholding (also called *nonpayroll income tax withholding*) is required. That is, the school district must withhold an amount to be paid for income taxes. The taxes withheld are to be deposited with the IRS using EFTPS (Electronic Federal Tax Payment System) or by depositing at an authorized institution using Form 8109, Federal Tax Deposit Coupon, and are to be reported to the IRS on Form 945, Annual Return of Withheld Income Tax. The IRS prescribes use of EFTPS depending on the amount of taxes required to be deposited.

### **Reporting for Retirement and Fringe Benefit Plans**

Form 5500, Annual Return/Report of Employee Benefit Plan, is required for section 125 (cafeteria) plans. The form must be filed by the end of the seventh month following the close of the plan year. The plan document should identify the plan year. [Form 5500](#) is a very long form, but only a small portion of it must be completed for cafeteria plans. The instructions to the form indicate the lines of the form which must be completed.

If the school district should have any other *qualified plans*, Form 5500 is generally required; most of the questions on the form *do* have to be answered for such a plan. A qualified plan refers to a pension or profit sharing plan which is exempt from income taxes. Contributions to such a plan are not subject to tax, and distributions to participants are fully taxed. Most school districts will not be subject to this Form 5500 filing requirement if the only qualified plan they have is TRS. However, some school districts may have a *grandfathered* section 401(k) plan, or perhaps another pension or profit sharing plan. If a school district has such a plan, it must file Form 5500 annually (by the end of the seventh month following the close of the plan year).

Note: Due to the complexity of plan filing requirements, the district should consult with its outside advisors regarding filing requirements. The IRS has the [Form 5500 corner](#) on its website for additional information.

### **Penalties**

- If a school district fails to file the required forms listed above, it may be subject to various penalties.

## **Social Security Taxes**

Since July, 1991, employment by a school district has not been exempt from FICA taxes for individuals who are not *members* of a retirement plan. A participant in TRS generally appears to be a member of a retirement plan. Employees who do not participate in TRS must be provided a separate retirement plan by a school district, or their earnings will be subject to FICA. Several such plans for non-TRS participants are available in the marketplace. In general, to qualify a plan must provide benefits that are comparable to those provided by the old-age portion of social security, i.e., the retirement income portion of social security. Unusual situations may exist where a participant in TRS or a school district's plan will not be a *member* for these purposes. Competent professional guidance should be sought for defining such situations.

Employees who generally will be subject to FICA in the absence of a school district plan are part-time employees and employees who do not participate in TRS due to minimum age and service requirements.

This discussion has of necessity been somewhat simplified. In structuring any system designed to avoid the necessity of participation in social security, the school district should seek competent professional advice. Additional information can be found on the IRS website in the [FSLG Toolkit](#) area.

## **Employee/Board Member Travel and Business Expenses**

With proper accounting and documentation, the full cost of travel and subsistence, not to exceed the amount determined using the state travel allowance guide adopted by the comptroller under Section 660.021, Government Code, may be reimbursed by a school district without income tax consequences. All such reimbursements must be in accordance with a school district's policies for expense reimbursements. To avoid income tax consequences, the employee must report to the school district the actual amounts of expenditures, and must provide receipts for lodging costs and for any expenditure over \$25. Certain exceptions to these rules are noted below.

In lieu of actual expenses, a school district may adopt a per diem reimbursement policy. Under this method, only the business purpose and fact of the travel needs to be substantiated. This approach avoids the requirement for full accounting and documentation, but there are limits on the amounts which may be reimbursed without tax consequences to the employee. The limits given below were adopted in April, 1993, and are revised periodically. The most current IRS Publication 1542, *Per Diem Rates*, has the most complete and recent information.



How the district treats reimbursements on the employee's W-2 depends in part on whether the district has an accountable plan. Reimbursements paid under an accountable plan are not treated as pay, but reimbursements treated as paid under nonaccountable plans are reported as pay. To be an accountable plan, the reimbursement arrangement must include all of the following rules:

- 1) The expenses must have a business connection—that is, the employee must have paid or incurred deductible expenses while performing services as an employee of the district.
- 2) The employee must adequately account to the district for these expenses within a reasonable period of time.
- 3) The employee must return any excess reimbursement or allowance within a reasonable period of time.

Even though the employee is reimbursed under an accountable plan, some of the expenses may not meet all the rules. Those expenses that fail to meet all the rules for accountable plans are treated as having been reimbursed under a nonaccountable plan. The district makes the decision whether to reimburse employees under an accountable plan or a nonaccountable plan. If an employee receives payments under a nonaccountable plan, the employee cannot convert these amounts to payments under an accountable plan by voluntarily accounting to the district for the expenses and voluntarily returning excess reimbursements to the district.

A nonaccountable plan is a reimbursement or expense allowance arrangement that does not meet one or more of the three rules listed under accountable plans. Any nonaccountable expense allowance is taxable income. This allowance includes cash which is provided with either no responsibility to spend or no responsibility to document such expenditures. For instance, payment of a stated monthly amount to an employee to compensate him/her for private automobile usage, with no responsibility to actually drive any particular number of miles, is a taxable payment. However, an *advance* given for which an accounting is required with any excess returned to the school district within a reasonable time is not a taxable payment.

Travel away from home but not overnight is not considered *travel* for purposes of meals. Therefore, *any* reimbursement to an employee for meals incurred on such *day trips* is taxable to the employee.

The only exception to this rule is for *business meals*. To qualify as a business meal, the employee must substantiate the identity of the participants and the business purpose of the discussion. As the foregoing implies, an employee dining alone *cannot* have a business meal; multiple participants are required. This restriction creates a recordkeeping burden many school districts may not be prepared to deal with, since most have not had separate categories for *traveling* and *nontraveling* meals.

See [IRS Publication 463](#), Travel, Entertainment, Gift, and Car Expenses for additional information.

Section 2171.055 of the Government Code has been amended to allow an officer or employee of a school district who is engaged in official business to participate in the Comptroller's contract for travel services. The Comptroller may charge a participating school district a fee not to exceed the costs incurred by the commission in providing services under this subsection.

Note: Expenses for alcoholic beverages are not reimbursable from any funding source of the school district.

### **Section 403(b) Annuities**

Section 403(b) annuity plans exist throughout the state. They are a very common method of allowing employees to save for retirement increasing their benefits over and above the amounts which the employees will receive from TRS. These plans may be provided by a school district (which is not common), or by way of employee-elected deferrals of salary.

Section 403(b) plans are governed by IRS rules. For general information on the plans and links to additional IRS information, consult the [IRS 403\(b\) website](#).

In addition, the IRS Employee Plans Compliance Unit (EPCU) is contacting school districts across the country to determine if they are in compliance with the nondiscrimination provisions, also known as the universal availability requirement. It is anticipated that the IRS will be performing the compliance tests in all states. Please refer to the [IRS EPCU site](#) for details and links to additional information on the project.

### **Section 457 Plans**

Section 457(b) plans, also called eligible deferred compensation plans, are another form of retirement income planning. Amounts in a plan meeting these requirements are not taxable to the employee until they are made available (withdrawn or funded, in the sense discussed above). For additional information, refer to the [IRS 457 website](#).

Note: The above rules apply to a classic 457(b) plan. However, if the plan is not an *eligible* plan (generally, one which exceeds the contribution limits) its value is taxed to the employee in the first year that the rights to the account become vested. Even though the balance may be unfunded, the employee will pay tax on it. Section 457(f) generally governs taxability of *special* annuities (i.e., annuities which are not generally provided to all employees) provided to highly compensated individuals.

### 1.9.2.3 Application of Texas Sales and Use Taxes

The State of Texas sales tax is imposed on sales within the state, except on items to be held for resale, of *taxable items*. Sale is generally defined in the usual way, i.e., a transaction in which money is exchanged for goods or services, but also includes barter. Taxable items include both tangible personal property and specified taxable services. The Texas *use tax* is a related tax imposed on the storage, use or other consumption in the state of a taxable item. The purchaser is never assessed *both* sales tax and use tax, but essentially all purchases are subject to one or the other. The use tax primarily applies to taxable items purchased *outside* the state, for which no Texas sales tax was assessed. The amount of sales or use tax owed is measured by the purchase price of the taxable item.

#### ***Assessment of Tax***

The state may take action against either the purchaser or the seller for unpaid sales tax. Although sellers are responsible for collecting and remitting the tax to the state, the tax is intended to fall on the purchaser, and a seller's failure to collect the tax from the purchaser does not relieve the purchaser of its own tax liability.

#### ***Taxable Item***

The term *taxable item* is defined to include both tangible personal property and taxable services. Tangible personal property is defined as something that can be seen, weighed, measured, felt or touched, or that is otherwise perceptible to the senses. Taxable services include but are not limited to amusement services; specified personal services; repair, remodeling, maintenance and restoration of tangible personal property; information services; data processing services; and real property repair and remodeling services.

### 1.9.2.4 Exempt Organizations

Several regulations impact purchases and sales by exempt organizations.

#### ***Purchases by Exempt Organizations***

As used here, the phrase *exempt organizations* refers to organizations exempt from sales tax on their *purchases* of otherwise taxable goods and services. Exempt organizations are not required to pay sales tax on the purchase of tangible personal property or taxable

services if the property or service is to be used exclusively for public purposes. There are two ways that exempt status may be obtained.

- Certain organizations may apply for and obtain a letter of exemption from the State of Texas Comptroller of Public Accounts. Such requested exemption applies to many private schools.
- The organization may be statutorily exempt. Statutory exemption includes public school districts.

*Statutorily exempt organizations* include the State of Texas, its unincorporated agencies and instrumentalities; any county, city, special district or other political subdivision of the state; and any college or university created or authorized by the state. Therefore, public school districts are statutorily exempt organizations. No written application or other action is required of these organizations to receive exempt status. [[34 Tex. Admin. Code 3.322\(c\)\(5\)](#)]

In the ordinary course of business, a vendor must assume that a buyer's purchase is subject to sales tax unless the buyer presents an exemption certificate. However, a purchase voucher issued by a statutorily exempt organization is sufficient proof of the entity's exempt status. Nonetheless, an exemption certificate must be given to the vendor if an authorized *agent* (rather than the statutorily exempt organization itself) makes a cash purchase of merchandise for an exempt organization.

An *employee* of an exempt organization cannot claim an exemption from tax when purchasing taxable items of a personal nature even if the employee receives an allowance or reimbursement from the organization for the items purchased. Also, a person traveling on official business for an exempt organization must pay sales tax on taxable purchases whether reimbursed on a per diem basis or reimbursed for actual expenses incurred.

### ***Sales by Exempt Organizations***

Exemption from imposition of sales tax on an organization's *purchases* does not relieve it from the obligation of collecting sales tax on its *sales*, if any. An exempt organization (such as a school district) which sells taxable items must obtain a sales tax permit and is responsible for collecting and remitting tax on all sales of taxable items made by the organization unless such sales are otherwise exempt from the tax. If the school district needs to obtain a sales tax permit, it must file a Texas Application for Sales Tax Permit, Form AP-201, with the State of Texas Comptroller of Public Accounts.

All school districts should review their operations for possible sales tax collection obligations and should alter their procedures as appropriate to ensure that all such obligations are properly met. The publications from the Comptroller of Public Accounts in the area of sales taxes are found at <http://window.state.tx.us/taxinfo/taxpubs/taxpubs.html>.

### 1.9.2.5 List of Publications

<a href="#">Publication 15</a>	Circular E, Employer's Tax Guide
<a href="#">Publication 463</a>	Travel, Entertainment and Gift Expenses
<a href="#">Publication 521</a>	Moving Expenses
<a href="#">Publication 525</a>	Taxable and Nontaxable Income
<a href="#">Publication 535</a>	Business Expenses
<a href="#">Publication 571</a>	Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations
<a href="#">Publication 931</a>	Deposit Requirements for Employment Taxes
<a href="#">Publication 969</a>	Health Savings Accounts and Other Tax-Favored Health Plans
<a href="#">Publication 1542</a>	Per Diem Rates
<a href="#">Publication 3755</a>	Tax Exempt Bonds Filing Requirements
<a href="#">Publication 4079</a>	Tax-Exempt Government Bonds, Compliance Guide
 <a href="#">Other IRS Publications</a>	
<a href="#">Instructions for Forms</a>	1099, 1098, 5498 and W-2G
<a href="#">Publication 1141</a>	General Rules and Specifications for Substitute Forms W-2 and W-3
<a href="#">Publication 1179</a>	General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, W-2G, and 1042-S

### 1.9.3 Technical Advice on Texas House Bill 3459

**Advice has been requested on the applicability of Social Security (FICA) taxes in light of the passage of TX House Bill 3459 during the 78<sup>th</sup> Regular Session. The bill, in part, delays the participation of newly hired employees for a period of 90 days in the Teacher Retirement System.**

**In response to this bill, please note the following:**

1. Under the provisions of Internal Revenue Code Section 3121(b)(7)(F) and Treasury Regulation 31.3121(b)(7)-2, governmental employees not covered under a public retirement system (i.e., TRS) during the 90 days of initial employment are mandatorily covered by FICA, or an alternate retirement system meeting the requirements of Revenue Procedure 91-40 (i.e., a Sect. 403(b) or 457 plan). Once they are qualified participants in TRS, the Social Security liability (not including Medicare) would cease.
2. Medicare, under the provisions of Internal Revenue Code Section 3121(u), would start at the hire date and would continue even after the members are contributing to TRS.
3. If the members elect to purchase the three months under Government Code Section 823.406 of HB 3459, and designate that period to cover the initial three months in which they were not covered by TRS, a refund of FICA would be possible as that period of TRS non-coverage would now be deemed covered.
4. Since FICA may be refunded and/or credited with the filing of a Form 843 or 941-C, I would recommend the FICA over the alternative FICA coverage (403(b) or 457), as I would not know how it would be possible, if at all, to obtain a refund from a Section 403(b) or 457 plan.
5. I would recommend to the Board of Trustees that any election to purchase the three month period be limited to the statute of limitations of Internal Revenue Code Section

6501 (3 years). Any Form 843 or 941-C filings beyond that period would be denied. If the period involved prior years in which Forms W-2 were issued, a Form W-2C would be required.

My recommendations did not contain scenarios involving entities having Section 218 Agreements, and would direct any questions involving Section 218 entities to contact your local Social Security Administration office.

For further details on this issue, please contact Steve C. O'Brien, IRS Internal Revenue Agent, currently assigned to Federal, State, Local Governments (FSLG) by telephone at (512) 464-3129 or by e-mail at [steve.c.obrien@irs.gov](mailto:steve.c.obrien@irs.gov).

## 1.9.4 Treatment of Rehired Annuitants

For the most recent information on any related TRS requirements, refer to the [TRS website](#). There were changes made in 2007 by the 80<sup>th</sup> Legislature regarding rehired annuitants. In addition, there are a couple of Attorney General opinions in the Purchasing Module related to retired/rehired teachers (JC-0442 and GA-0018).

Advice has been requested on the treatment of rehired annuitants hired by school districts into part time positions. This article will not apply if the Independent School District has entered into a Section 218 Agreement with the Social Security Administration. It is recommended contact be made with the State Social Security Administrator at (512) 867-7373 for further details in these situations.

It has been the prior practice to simply subject the newly hired part time worker to FICA tax, since they are not contributing to a public retirement system (TRS). It would be prudent to inquire if the worker is receiving retirement benefits before subjecting them to FICA tax. The worker may in fact be considered a rehired annuitant.

Publication 963, Federal-State Reference Guide states in part, "A former participant in a retirement system who has retired from service or has reached normal retirement age, and

who is then rehired, is deemed a qualified participant in the retirement system. The individual does not have to continue to accrue benefits. Also the distribution of benefits may be suspended pending cessation of services.

These conditions must be met:

\_\_\_ The person is a former participant in a retirement system maintained by a state, political subdivision or instrumentality thereof, and

\_\_\_ The person previously retired from service with the state, political subdivision or instrumentality, and

\_\_\_ The person is either currently receiving retirement benefits or has reached normal retirement age.

This rule also applies in the case of an employee who has retired from service with one public employer and who is subsequently hired by another employer that maintains the same retirement system. The employee must have been a former participant in the system due to the employee's former employment. Thus, for example, if a teacher who retires from service with a school district that participated in a statewide teachers' retirement system begins to receive benefits from the system, and later becomes a substitute teacher in another school district that participates in the same statewide system, the employee is treated as a rehired annuitant. In other words, the teacher does not have to accrue additional benefits in the system. See Treasury Regulation Section 31.3121(b)(7)-2(d)(4)(ii)."

The key to this concept is the individual must have retired from the same retirement system (TRS) that the current school district has as their retirement system. If a worker retires from another retirement system also offered within the state (ERS), this would not qualify as the same retirement system, and FICA would apply. This would also apply to out-of-state teachers' retirement systems (CAL-PERS for instance), as it is not considered the same retirement system, and FICA would also be applicable to these workers. It also does not matter if the district in which the worker is retired from is a district that has previously entered in a Section 218 Agreement with the Social Security Administration. FICA would not be applicable in this instance.

For further details on this issue, please contact Steve C. O'Brien, IRS Internal Revenue Agent, currently assigned to Federal, State, Local Governments (FSLG) by telephone at (512) 464-3129 or by e-mail at [steve.c.obrien@irs.gov](mailto:steve.c.obrien@irs.gov).



## 1.9.5 Salary Reduction Agreements

[HB 2341](#), passed by the 80<sup>th</sup> Legislature, allows school districts to refuse to enter into a salary reduction agreement with an employee if the investment product vendor does not comply with the school's requirements; the school imposes administrative requirements uniformly on all vendors; and the requirements are necessary for the school to comply with the Internal Revenue Code.

## Acronyms Used In FAR

AICPA - American Institute of Certified Public Accountants

AcSEC - *AICPA Accounting Standards Executive Committee Practice Bulletins*

ADA - Average daily attendance

APB - Accounting Principles Bulletin

ASBO - Association of School Business Officials

ASLG - *AICPA Audit and Accounting Guide, Audits of State and Local Governments*

CAFR - Comprehensive Annual Financial Reports

CEI - *Cost of education index*

CMO - Collateralized mortgage obligations

CPTD - State Comptrollers Property Tax Division

DHS - United States Department of Human Services

EEOC - Equal Employment Opportunity Commission

ESEA - Elementary and Secondary Education Act

FASB - Financial Accounting Standards Board

FDIC - Federal Deposit Insurance Corporation

FFIEC - Federal Financial Institutions Examination Council

FICA - Federal Insurance Contributions Act

FIFO - First in - First out

FSP - Foundation School Program

FTE - Full-time equivalent

GAAP - Generally accepted accounting procedures

GASB - Governmental Accounting Standards Board

GCAF - General Capital Asset Fund

GFOA - Government Finance Officers Association

GLTDF - General Long Term Debt Fund

IBNR - Incurred but not reported

IDBs - Industrial development bonds

IOs - Interest Only

LEA - Local Education Agency

LIFO - Last in - First out

MBS - Mortgage backed securities

NCGA - National Council on Governmental Accounting

NCLB – No Child Left Behind

NSLP - National School Lunch Program

OMB - Office of Management and Budget

OPEB - Postemployment benefits other than pensions

PAC - Planned Amortization Class

PEIMS - Public Education Information Management System

POs - Principal Only

PU - Personnel unit

SAS - Standard Application System

SEC - Securities and Exchange Commission

SSAE - Statements on Standards for Attestation Engagements

TAC - Targeted Amortization Class

TEC - Texas Education Code

Telpak - Tie lines

TPPF - Texas Public Property Finance Act

TRS - Teacher Retirement System of Texas

USDA - United States Department of Agriculture

USEPA - United States Environmental Protection Agency

VTCS - Vernon's Texas Civil Statutes

WADA - Weighted average daily attendance

WAL - Weighted average life

WATS - Wide area telephone service

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